VOLKSBANK

ANNUAL REPORT

ASSOCIATION OF VOLKSBANKS

2015

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Business development

The most significant restructuring of the Austrian Association of Volksbanks to date took place in the 2015 business year. The Annual General Meeting of Volksbank Wien AG (VBW) on 29 May 2015 resolved that the company would assume the central organisation function from Österreichische Volksbanken-Aktiengesellschaft (VBAG), and also approved a capital increase and the spin-off and transfer agreement. Regarding the shares transferred to VBW within the framework of the 2015 restructuring agreement, please refer to details given in the Notes. Under a demerger which took place on 4 July 2015, with retroactive effect under company law to 1 January 2015, the former central organisation (CO) of VBAG was transferred to VBW, while the remainder of VBAG was continued as a wind-down entity under the name immigon portfolioabbau ag (immigon) pursuant to Section 162 of the Austrian Federal Act on the Recovery and Resolution of Banks (Bundesgesetz über die Sanierung und Abwicklung von Banken – BaSAG). The reorganisation took full legal effect upon its entry in the Commercial Register on 4 July 2015. All immigon bonds held within the Association were subject to a regulatory requirement to be secured with a financial guarantee. This financial guarantee was concluded with Deutsche Bank AG in June 2015. The costs arising from this, along with the profit or loss arising from any potential disposal, were distributed across the Association of Volksbanks on a pro-rata basis. As a consequence of the conversion of the remainder of VBAG into a wind-down entity, the previous Association was wound up and a new Association established. The members of this new Association of Volksbanks have joint, unlimited liability and have contractually agreed to bear the costs and risks of the CO on a pro rata basis. The ECB approved the Association of Volksbanks as a banking association pursuant to section 30a BWG with VBW as the CO. The approval was resolved on 2 July 2015 and is valid up to 30 June 2016. As yet, therefore, no new SREP ratio has been stipulated for the newly approved Association of Volksbanks. Since approval was granted by the ECB, VBW has been the central organisation of the new Austrian Association of Volksbanks pursuant to section 30a of the Austrian Banking Act (Bankwesengesetz – BWG) and has assumed far-reaching management and steering functions, one of which is responsibility for risk and liquidity management throughout the Association. The general meeting of Volksbank Marchfeld e.Gen. did not approve the new banking association agreements or the merger with VBW. It was therefore decided, in accordance with the existing banking association agreements, to exclude Volksbank Marchfeld e.Gen. from the Association of Volksbanks with effect from 24 May 2016. Following the changes and internal approval of the banking association agreements in line with regulatory requirements, the CO's management took the view that the criteria for further ECB approval of the Association of Volksbanks were met.

Under the Association-wide restructuring process, the Volksbanks are merging to form eight regional providers of banking services and two specialist banks (8+2 structure). As a result, nine mergers within the Association of Volksbanks were successfully completed during 2015.

Fitch downgraded its rating for the Association of Volksbanks in mid-May 2015. Alongside other Austrian banks, the rating for the Association of Volksbanks was also subject to a review looking at government support. The rating was subsequently downgraded from A to BB-. The downgrade had no significant negative impact on the Association’s liquidity situation.

The Association of Volksbanks was subject to another rating by Fitch at the end of August 2015 because of VBAG’s departure from the Association of Volksbanks and the restructuring of the Association. The rating was upgraded from BB- to BB+ with a positive outlook.

immigon implemented programmes to buy back issued debt during 2015. All senior unsecured issues in the Association of Volksbanks were sold back early, and the financial guarantee with Deutsche Bank AG was terminated.

Economic environment

2015 was marked by comparatively robust economic performance in industrialised countries, while growth was below average in many emerging countries and even negative in some cases.

Austrian gross domestic product (GDP) grew by 0.9% in 2015 according to recent calculations by the Austrian Institute of Economic Research (WIFO). All components increased, with private and public consumption gaining impetus over the course of the year, while exports and investment lost momentum toward the end of the year. Despite the slight economic recovery, Austria's unemployment rate remained high by historical standards. According to Eurostat, seasonally adjusted unemployment grew – bucking the trend in the euro zone – from 5.6% in January to 5.8% in December 2015, although it remained low compared with other European countries. According to the European Harmonised Index of Consumer Prices, the Austrian rate of inflation fluctuated between 0.5% and 1.1% during the year. Austria therefore recorded one of the highest levels of inflation in the euro zone.

Economic growth within Austria showed an east-west divide in the first nine months of 2015. Gross value added grew more strongly in Salzburg, Vorarlberg, Tyrol and Upper Austria than in Austria as a whole.

The Viennese economy suffered from weak performance in the information and communication, construction and retail sectors. On the other hand, public services, real estate and tourism showed positive growth. Despite above-average employment growth, the unemployment rate also rose more than average owing to a substantial increase in the labour supply and was far higher than anywhere else in the country.

In Lower Austria, manufacturing – a very important sector for the province – performed poorly, while performance in public services and real estate was robust, as in the rest of Austria. The labour market was in better shape than average compared with Austria as a whole, but unemployment rose.

Burgenland reported better than average figures, mainly thanks to the construction and manufacturing sectors, though tourism was weaker than in other provinces with only a slight increase over the summer season (May to October). Burgenland ranked second for employment growth.

Manufacturing in Styria suffered from the automotive industry's weak performance. On the other hand, gross value added grew strongly in the construction sector, and also the service sector in the third quarter, resulting in above-average employment growth.

As measured by the increase in gross value added, Carinthia recorded the weakest performance of all provinces, though construction and manufacturing stood out positively. The number of people in work stagnated and the province recorded the second highest unemployment rate after Vienna. In tourism, the provisional number of overnight stays increased by 3% in 2015, exceeding the national average.

Due to weaker performance in construction and business services, gross value added in Upper Austria grew only slightly faster than average. The labour market performed better than the Austrian average. Tourism also outperformed the Austrian average, with the provisional number of overnight stays increasing at an annual rate of 5.1%.

Salzburg recorded the highest increase in gross value added of all provinces, with only retail and business services remaining weak, while employment growth was average. Despite rising unemployment, Salzburg maintained its position as the state with the lowest unemployment rate, but by the end of the year was on a par with Vorarlberg. In tourism, the provisional number of overnight stays increased by 2.6% in 2015, just exceeding the national average. Good performance in the manufacturing sector meant that Tyrol recorded an above-average increase in gross value added. Tourism also contributed to the region's economic growth, though preliminary statistics show that overnight stays increased by slightly less than the Austrian average, rising at an annual rate of 2.2%. Employment growth was slightly below average, partly owing to a non-recurrent effect in the transport sector (Tyrolean).

Construction, trading and manufacturing were the main drivers of Vorarlberg's above-average economic performance. The province's retail sector also performed very well against the trend. Its favourable performance was reflected in the highest rate of employment growth of all the provinces. However, tourism growth was muted compared with the national trend (according to preliminary statistics, overnight stays rose by 1.5% compared with 2.5% in Austria as a whole).

Austrian residential real estate prices rose in the first nine months of the year, continuing their long-standing upward trend. In the third quarter, the National Bank of Austria's Residential Property Price Index was 4.0% higher than the prior-year level, with prices outside Vienna having increased somewhat more than in Vienna (+4.3% versus +3.4%).

Tourism performed very well, both in the past winter season and in the summer season. In the 2014/15 winter season, overnight stays increased by 2.1% (foreign visitors: +2.5%). In the summer season, overnight stays throughout Austria increased by 3.3% overall and by 3.5% for foreign guests. Vienna achieved the highest overall growth rates, with only Burgenland and Vorarlberg performing relatively weakly. The trends for different countries of origin partly reflected exchange rate movements against the euro: Countries with above-average increases in overnight stays for guests included Switzerland and Liechtenstein (5.8%), the United Kingdom (5.5%) and the US (12.3%), while overnight stays from Russia fell by 34%.

In the euro zone the real GDP growth rate for 2015 according to the European Commission's winter forecast was 1.6%, the highest figure since 2011. Most peripheral euro zone countries continued their recovery – only Greece (and Finland) did not grow over the past year. Average inflation in the euro zone was almost one percentage point lower than in Austria. It rose slightly (from -0.6% in January to +0.2% in December 2015), but remained well below the European Central Bank's target of just under 2%. One of the main reasons for the low rate of inflation was the 35% decline in the price of oil over the course of the year.

The European Central Bank (ECB) left its main refinancing rate unchanged at 0.05% throughout the year and also maintained a negative deposit rate, which was lowered further in December to -0.30% at year-end. In March, the ECB began the enhanced bond purchase programme it had agreed at the end of 2014 in order to boost inflation. Against this backdrop, yields on government bonds perceived as safe havens initially fell to historic lows before rising again to finish 2015 moderately higher than they had been at the start of the year. The yield on ten-year government bonds increased in Austria from 0.66% to 0.90% and in Germany from 0.50% to 0.63%. The three-month Euribor fell steadily throughout the year and was consistently negative from mid-April onwards. It declined from 0.08% at the start of the year to -0.13% by year-end.

The euro depreciated by around 10% against the US dollar over the year, in part because of the contrary monetary policies of the ECB and the US Federal Reserve (the Federal Reserve raised the federal funds rate for the first time in nine years in 2015). The euro also depreciated 10% overall against the Swiss franc after the Swiss National Bank discontinued its minimum exchange rate of 1.20 on 15 January 2015. The euro even fell below parity with the Swiss franc after the peg was discontinued. Stock markets again posted gains in 2015, despite a sharp decline in August. The ATX rose by 11% over the year and the EuroSTOXX50 by just under 4%.

Association result for the 2015 business year

Following its demerger from the Association, the remainder of VBAG represents a discontinued operation under IFRS 5. The comparative figures for the previous year have therefore been reclassified from individual income statement items to the result from discontinued operation. Comparability is nevertheless limited given the numerous changes in the scope of consolidation.

The Association result before taxes amounted to euro -106 million (2014: euro -240 million). The Association result after taxes and non-controlling interest was euro -69 million (2014: euro -320 million).

Net interest income for the 2015 business year amounted to euro 540 million, euro 74 million lower than in the previous year (2014: euro 614 million). There were essentially three reasons for the decline: first, receivables from customers were down on the previous year because of current demand for credit. Second, securities portfolios were reduced or converted into investments with lower risk content or risk weight, resulting in lower margins. Finally, margins were squeezed by declining interest rates.

Risk provisions for 2015 stood at euro -50 million, a deterioration of euro 22 million compared with the previous year (2014: euro -28 million). The decline in the level of write-downs required in Styria was more than offset by increases at other primary banks.

Net fee and commission income in the reporting period was euro 233 million, down euro 34 million on the prior-year period (2014: euro 266 million). This was mainly due to the deconsolidation of the remainder of VBAG.

Net trading income in the 2015 business year was euro 13 million, a decline of euro 11 million compared with the prior-year period (2014: euro 24 million). In the previous year, net trading income was boosted by income from restructuring of hedges to optimise the hedge accounting system.

At euro 671 million, administrative expenses were lower than in the previous year (2014: euro 703 million). The number of employees has declined by 1,110 from 6,104 at the end of 2014 to 4,994, of whom 65 are employed outside Austria. The reduction is largely attributable to the deconsolidation of the remainder of VBAG. For the regional merger groups, costs (after consolidation) were virtually unchanged, since the decline in current personnel expenses was offset by merger costs and additional regulatory costs (deposit insurance, resolution financing fund).

Planned restructuring efforts led to restructuring costs of euro 36 million in the 2014 business year. There was a slight increase in the restructuring provision in the reporting year, primarily for personnel measures.

Other operating result for the 2015 business year came to euro 27 million (2014: 43 million). The supplementary capital recognised in the Association for the first time in 2015 due to the deconsolidation of VB Regio Invest AG was measured at fair value. The resulting income of euro 7 million was recognised in other operating income. In the previous year, income of euro 49 million was recognised arising from the measurement of loss-bearing liabilities pursuant to IAS 39 AG 8. Income of euro 3 million (2014: euro -25 million) was achieved in the reporting period from the buyback of issues.

Income from financial investments stood at euro -5 million in the reporting period, up euro 19 million on the comparative period (2014: euro -24 million). Income of euro 4 million was achieved in the reporting period from the measurement and sale of securities. In the comparative period, a loss of euro 13 million was recorded. Negative valuations of derivatives were offset by positive measurement results on investment property assets.

Income from discontinued operation for the reporting period was euro -192 million (2014: euro -397 million). In addition to the result of the remainder of VBAG up to the time of its demerger from the Association on 4 July 2015 (euro -46 million), the effect on earnings resulting from debt securities and promissory note loans of VBAG to be recorded again for the first time after the demerger from VBAG in the individual Volksbanks was recognised in the amount of euro -135 million. In the comparative period, the reclassified result from VBAG's non-core areas was recognised in the sum of euro -122 million. This item also includes the deconsolidation of VB Romania S.A. (VBRO), measured at equity, the sale of which was closed on 7 April 2015. Reclassification of other comprehensive income to profit or loss for the period led to a result of euro -12 million in the 2015 business year (2014: euro -275 million).

As a result of tax planning activities covering the next four years, deferred tax assets were recognised in respect of some tax losses brought forward in 2015. As in the past, no deferred tax assets were recognised in respect of a further 523 million of tax losses brought forward. Deferred taxes were recognised in respect of the remaining measurement differences, primarily relating to the valuation of derivatives and securities.

Statement of financial position and own funds

Due to the demerger of the remainder of VBAG in the 2015 business year and the changes to the scope of consolidation, the figures for the reporting year are not entirely comparable with those for the previous year. Declines in individual balance sheet items are mainly due to the demerger of the remainder of VBAG from the Association and will therefore not be explained separately in such cases.

Total assets amounted to euro 27.8 billion as at 31 December 2015, a decline of euro 8.9 billion compared with the end of 2014 (euro 36.7 billion).

Loans and advances to credit institutions came to euro 0.6 billion, representing a fall of euro 0.7 billion compared with the end of the previous period (euro 1.4 billion).

Loans and advances to customers amounted to euro 22.6 billion as at 31 December 2015 and thus declined by euro 3.9 billion compared with the end of the previous year (euro 26.5 billion). The main changes arose from the demerger of the remainder of VBAG (euro -2.5 billion) and the deconsolidation of banks demerged from the Association in 2015 (euro -0.4 billion). The rest of the decline was due to lower demand for credit and the Association's deleveraging strategy.

Trading assets stood at euro 0.2 billion, a decline of euro 1.4 billion compared with the end of 2014 (euro 1.5 billion). At the same time, trading liabilities declined by euro 1.1 billion, from euro 1.4 billion to euro 0.4 billion as at 31 December 2015.

Financial investments fell by euro 1.7 billion compared with the end of 2014 (euro 4.1 billion) to euro 2.4 billion. This was due to sales and redemptions as well as the deconsolidation of the remainder of VBAG and banks which demerged from the Association in 2015.

Assets held for sale include loans whose sale had been contractually agreed or was highly likely as at 31 December 2015. At the balance sheet date this included customer receivables of the credit unions (Vorschusskassen) which were sold to the National Bank of Austria with effect from January 2016 as part of their planned liquidation. The assets previously presented here in 2014 were disposed of during the 2015 business year. This related mainly to the refinancing of VBRO and a non-performing loan portfolio.

Amounts owed to credit institutions fell by euro 1.6 billion compared with the end of 2014 (euro 2.1 billion), to euro 0.4 billion. Amounts owed to customers came to euro 22.3 billion, a decline of euro 1.8 billion compared with the end of 2014 (euro 24.1 billion). The demerger of the remainder of VBAG shrank the figure by euro 0.8 billion, while the deconsolidation of banks no longer belonging to the Association as of 2015 caused a reduction of euro 0.4 billion. The remaining volume was wound down in the course of business so as to reduce the Association's excess liquidity.

Debts evidenced by certificates stood at euro 1.7 billion as at 31 December 2015, a fall of euro 2.2 billion compared with 31 December 2014 (euro 3.9 billion), primarily due to the demerger of the remainder of VBAG. Subordinated capital declined by euro 0.4 billion from euro 0.8 billion at the end of the previous year to euro 0.4 billion at the end of the reporting year, largely owing to the deconsolidation of the remainder of VBAG.

Equity items (including shares and non-controlling interest) declined in the reporting year from euro 2.6 billion to euro 1.8 billion at the end of 2015. The greatest decrease was in subscribed capital and largely resulted from the deconsolidation of the remainder of VBAG.

Report on branch offices

The Association does not have any branches.

Financial and non-financial performance indicators

Financial performance indicators

The regulatory own funds of the banking association stood at euro 2.3 billion as at 31 December 2015 (2014: euro 3.4 billion). The total risk exposure as at 31 December 2015 was euro 15.1 billion (2014: euro 23.3 billion). The tier 1 ratio in relation to total risk was 12.1% (2014: 10.3%). The equity ratio in relation to total risk stood at 15.4% (2014: 14.7%).

The Association’s return on equity (ROE) before taxes was 3.9% in 2015 (2014: 1.3%). ROE before taxes is calculated as the result before taxes divided by the average of equity at the current and prior-year balance sheet dates. ROE after taxes for the 2015 business year was 5.2% (2014: -1.0%). ROE after taxes is calculated as the result after taxes divided by the average of equity at the current and prior-year balance sheet dates.

The Association's operating cost-income ratio for the reporting period was 85.4% (2014: 77.7%). The operating cost-income ratio is calculated as net interest income, net fee and commission income and net trading income as a proportion of general administrative expenses.

Non-financial performance indicators

Human Resources

The 2015 business year was dominated by the preparation and implementation of mergers within the Association, rigorously continuing down the path taken in 2014. Aside from the mergers of regional Volksbanks, the spin-off of the former VBAG to immigon and the merger with VBW presented particular challenges. The resulting process of change placed exceptionally heavy demands on employees and executives in the Volksbank sector.

As well as successfully integrating different employee groups and harmonising processes and employment terms, our main priority is to provide efficient support to our customers. The Volksbank sector also places great emphasis on extensive staff training and development. Suitable programmes are updated and developed on an ongoing basis. This ensures that the Association maintains its usual high quality standards, which are appreciated by employees and customers alike.

At the end of 2015, the Association of Volksbanks employed 4,994 people (full-time equivalents). There were 464 business locations at the reporting date.

Significant organisational and IT projects

From an organisational and IT perspective, 2015 was dominated by restructuring activities within the Association. In particular, ten mergers were completed, starting with the transfer of VBAG's central organisation to VBW. The success of this project was one of the prerequisites for the new Association, which in future will consist of eight strong provincial Volksbanks and two specialist institutions, under an "8+2" structure.

Central organisation functions were transferred to VBW in the middle of the year as part of the "Transformation" project. This covered legal, human resources, procedural and IT activities (supported by the Association's data centre operated by ARZ Allgemeines Rechenzentrum GmbH), and was carried out by both banks' organisational and IT areas. Following the merger, top-level functions (such as Association-wide liquidity management) and the service and processing tasks performed for the Association's banks through VB Services für Banken Ges.m.b.H. were transferred from VBAG to VBW.

The purpose of the "Model Client" project (Mustermandant) is to harmonise the parameters and system-supported processes of the core banking system in the Volksbank sector. This is facilitating mergers, creating synergies and saving costs. Uniform system parameters have already been rolled out, and a uniform product offering and pricing packages are currently being introduced. The central organisation has had its own technical client and support team set up for system support and maintenance. Parameters can now be changed centrally for the entire Volksbank sector. The migration of the retail banks to the model client simplifies work and was an obligatory prerequisite for the mergers above.

The aim of the Association-wide IT consolidation project begun in 2013 was to achieve a long-term reduction in the costs of IT infrastructure and associated IT processes within the Association's banks. The two most important elements of the project are the harmonisation of the data network (Network Cloud), which is to be implemented across the Association as early as the first half of 2016, and the centralisation of all servers at ARZ (CeBrA Cloud), which is to be completed by the end of 2017 with the Association's final merger. Alongside already tangible cost reductions, the measures implemented also entail a significant reduction in operational risks in the main institutions.

The “Electronic Banking Platform – Mobile Generation” project was initiated in 2015 with the aim of creating a modern online banking system. The new platform is being rolled out in the first half of 2016 and increasingly positioned as an information, communication and transaction channel between bank and customers. The application of agile methods enables continually evolving functions to be provided, allowing ongoing adaptation to market and customer requirements as well as reducing the burden on in-house support units.

In 2012, the Austrian banks agreed to establish a joint reporting platform (Gemeinsame Meldewesen-Plattform – GMP). The "securities cube" and "loans cube" went live in 2015, representing successful achievement of the first GMP milestones by the Volksbanks in collaboration with ARZ. The securities cube looked at the entire organisational, procedural and technological set-up, while the loans cube focussed on content-related and quality assurance measures necessitated by the sheer extent of the loan data. Despite significant upheavals in 2015 (“Transformation” project), the Association of Volksbanks defined and implemented a collaboration model governing the distribution of reporting responsibilities between the central organisation and the primary banks and realising maximum potential synergies between process steps performed on a centralised and decentralised basis. One demonstration of the success of this collaboration is that the Association has become the first banking group in Austria to submit a live securities cube to the National Bank of Austria.

Organisational and IT projects are planned and implemented with due consideration for environmental concerns.

Significant events after the balance sheet date

The General Meeting of 17 March 2016 resolved to amend the 2014 banking association agreements. Alongside amendments to the 2014 banking association agreement and collaboration agreement, one of the measures implemented was to set up a trust fund (Leistungsfonds) at the central organisation. The central organisation thereby bears sole responsibility for restructuring within the Association in future, and the common fund (Gemeinschaftsfonds) has been replaced by the trust fund.

With effect from 24 May 2016, Volksbank Marchfeld e.Gen. was excluded from the 2014 banking association agreement for a compelling reason. In view of the bank's small size, this will have no material impact on the Association of Volksbanks' liquidity, planned profitability or capital base.

The positive outlook for the long-term issuer rating of the Association of Volksbanks reflects the progress in consolidating the Association members and the high probability that the rating will be upgraded by up to two notches once the risk of implementing the consolidation has decreased sufficiently. On the other hand, there is a risk that the viability and long-term issuer ratings will be downgraded if the necessary cost reductions are not achieved from the restructuring, if there is a significant downturn in the Austrian economy or if the Association of Volksbanks is unable to repay the Republic of Austria in line with the repayment plan. However, these risks are not currently expected to materialise.

The new branch concept was authorised at the Supervisory Board meeting of 31 March 2016.

Report on the Association’s future development and risks

Future development of the Association

Economic environment

The first few weeks of the year were marked by growing concerns about the global economy. Weak economic data from China and the sharp decline in oil prices led to considerable losses on stock markets and declining yields on government bonds considered safe havens. In oil-importing countries, falling oil prices also increased the risk of general deflation, which can undermine demand through postponement effects on private consumption and investment. In addition, weak commodity prices – while advantageous for importers in principle – mean lower demand from commodity-exporting countries, which in turn affects the capital goods market. Other uncertainties include the geopolitical situation and its consequences (particularly migration), disagreement within the European Union on how to deal with such challenges, ongoing negotiations over new oil production quotas, the formation of new governments in many countries and the UK referendum on leaving the EU on 23 June.

As a result, economists have slightly reduced their growth forecasts for the current year. Inflation forecasts have been scaled back rather more significantly. In December, the European Central Bank predicted an average inflation rate of 1% for the euro zone. It lowered its average projection to just 0.1% in March and raised it only marginally in June to 0.2%.

In March, the ECB maintained its basic assumption of a moderate economic recovery in the euro zone, and this began to be reflected in the credit market data for January and February. However, it further reduced its key interest rates to ward off deflation, and decided on a further expansion of its unconventional monetary policy measures. The deposit rate was reduced by ten basis points to -0.40%, while the main refinancing rate and the marginal lending rate were each reduced by five basis points, to 0% and 0.25% respectively. In addition, the bond purchase programme was increased by euro 20 billion to euro 80 billion per month. Investment-grade corporate bonds – but not bank bonds – will now also be eligible for the purchase programme. There are to be four new targeted long-term refinancing operations (TLTRO II), taking place quarterly from June 2016 with a maturity of four years. Participants who increase their lending by at least 2.5% will be able to borrow at the deposit rate. Otherwise, interest up to but no higher than the main refinancing rate may be applied. In contrast to previous long-term refinancing operations, the interest rate is only tied to the base rate that applies at the time the transaction is concluded and is independent of later changes in base rates.

As a result of the new ECB measures, the expected level of interest rates has continued to shift downwards for the current year, especially at the short end of the interest rate curve. Interest rates should therefore remain low overall, although the tightening of monetary policy introduced at the end of 2015 in the US may lead to a certain upward trend. This should have a stronger impact on capital market interest rates than on the money market.

The low level of interest rates should help consolidate economic growth this year in Austria and the euro zone. For the euro zone, the ECB (macroeconomic projection published in June) and the European Commission (spring forecast) expect economic growth of 1.6%, while the International Monetary Fund's World Economic Outlook published in April anticipates that the zone will grow by1.5%. There are somewhat larger discrepancies between assessments of Austria's economic prospects in the current year. While the Austrian Institute of Economic Research (WIFO) expects real GDP growth of 1.6% and the European Commission 1.5%, the IMF is relatively sceptical with a forecast of 1.2%. Forecasters agree, however, that the current year should bring a noticeable increase in private consumption in Austria, partly thanks to the effects of the tax reform. Public sector consumption should also increase, driven partly by expenditure relating to the refugee crisis. Exports and investments depend more heavily on the international environment and should lose momentum only gradually. Setbacks arising from the above-mentioned risk factors would also weaken the economic outlook outlined here.

Outlook for planned mergers in 2016

Numerous other mergers are taking place within the Association of Volksbanks during 2016, in order to realise the envisaged 8+2 structure. Seven mergers are planned for the first half-year and ten for the second.

Future development of the Association

Following the successful demerger of immigon from the Association and VBW's assumption of the central organisation function in 2015, the Association's focus is now on increasing customer business. The planned mergers should also allow the Association of Volksbanks to realise potential cost-savings and grow by strengthening the lending and commission business. The new cooperation agreement with Union Investment Austria GmbH and Association-wide reorganisation of branches will also support commission business. It is anticipated that these measures will enable an annual profit in the low double-digit range once again.

Material risks and uncertainties

With respect to the disclosures required by law relating to the use of financial instruments, risk management objectives and methods and the existence of price, default, liquidity and cash-flow risks, please see the information presented in the notes to the financial statements (in particular the risk report in section 51).

Report on research and development

The Association does not carry out any research or development.

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

Control environment

The ultimate goal of the Association's financial reporting is to comply with all relevant legal requirements. To this end, the central organisation has also issued a General Accounting Directive as part of the IFRS reporting. The Managing Board of the central organisation is responsible for establishing and organising an appropriate internal control and risk management system with respect to the accounting process, and provides a Group-wide framework for implementing this in its Group guideline for internal control systems. The OPRISK group is responsible for implementing the system at Association level, while responsibility within VBW itself falls to the Risk Governance unit.

At each company included in the Association's financial statements, the respective Managing Board or management team are responsible for establishing and organising an appropriate system of internal controls and for ensuring compliance with Association-wide guidelines and regulations. To guarantee that data provided by Association companies is incorporated correctly, all supplied data is first checked for plausibility. Once this has been carried out, the data is processed further using Tagetik consolidation software. The controls are subject to the principle of dual control and an additional review by department managers.

Control measures are applied in day-to-day business processes to ensure that potential errors are prevented and that any discrepancies in financial reporting are identified and rectified. Control measures range from management reviews of results for different periods to specific account and balance reconciliation and analysis of ongoing Group accounting processes. As part of this process, a distinction is made between two different types of control:

– Operational controls comprise manual controls in the form of specific procedures carried out by employees, automated controls performed using IT systems and preventative controls whose purpose is the proactive avoidance of errors and risks through separation of functions, definition of responsibilities and access permissions.

– Management controls serve to ensure, on the basis of spot checks, that managers are complying with operational controls. The frequency of checks is determined by the manager concerned (head of division, head of department) based on the associated level of risk. Spot checks are documented in the control plan in a way that is comprehensible to third parties, and the results are presented every six months as part of management reporting.

Internal Audit also performs regular independent checks of compliance with internal regulations for accounting processes. As an administrative department, Internal Audit is assigned directly to the Managing Board. It reports directly to the Chairman of the Managing Board and submits a report to the Supervisory Board on a quarterly basis.

Risk assessment

Risks relating to the accounting process are recorded and monitored by the process managers, with a focus on materiality.

For the preparation of the financial statements, estimates must regularly be made in areas where there is an intrinsic risk that future developments may deviate from these estimates. This applies particularly to the following items and information in the Association's financial statements: impairment of financial assets, risks to the banking business, employee benefits and the outcome of legal disputes. In some cases, publicly available sources are used or external experts consulted in order to minimise the risk of inaccurate estimates.

Information and communication

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

Employees in Group accounting are also trained on an ongoing basis with regard to international accounting reforms, so that risks relating to unintentional errors in reporting can be identified at an early stage. Group accounting staff also communicate this information to employees at Association companies.

A management report is produced twice a year and contains information on the completeness, comprehensibility, active implementation and effectiveness of the control system with regard to the accounting process.

Monitoring

Senior management regularly receives condensed financial reporting such as quarterly reports on the performance of the various segments and key financial indicators. Financial statements that are to be published are subject to a final check by senior employees in accounting, divisional management and the Managing Board before they are forwarded to the relevant committees. The results of monitoring activities covering accounting processes are included in the management report. The report contains a risk assessment of the processes on a qualitative basis, and documents the number of controls being carried out in relation to the control guidelines.

Vienna, 15 June 2016

Gerald FLEISCHMANN
Chairman of the Managing Board
General Secretariat, Organisation / IT,
HR Management, Press Office, Risk Control, Banking Association Strategy

Josef PREISSL
Deputy Chairman of the Managing Board
Compliance Office, Property Subsidiaries, Integration/Operational Risk Governance,
Legal, Audit, Association Risk Management, Risk Retail/SME,
Reorganisation Management, VB Services for Banks

Wolfgang SCHAUER
Member of the Managing Board
Major Commercial, Marketing/Communication,
Regional Management/Branches, Treasury,
Sales Management, Front Office Service Center

Rainer BORNS
Member of the Managing Board
Finance

FINANCIAL STATEMENTS

Statement of comprehensive income

Income Statement	Note	1-12/2015 Euro thousand	restated 1-12/2014 Euro thousand	Changes Euro thousand	%
Interest receivable and similar income		691,484	926,660	-235,175	-25.38 %
Interest payable and similar expense		-151,665	-312,403	160,737	-51.45 %
Net interest income	4	539,819	614,257	-74,438	-12.12 %
Risk provisions	5	-50,208	-28,065	-22,143	78.90 %
Fee and commission income		271,972	312,325	-40,353	-12.92 %
Fee and commission expenses		-39,414	-45,886	6,472	-14.10 %
Net fee and commission income	6	232,559	266,440	-33,881	-12.72 %
Net trading income	7	13,460	24,176	-10,715	-44.32 %
General administrative expenses	8	-671,472	-703,306	31,835	-4.53 %
Restructuring cost		-321	-35,515	35,194	-99.10 %
Other operating result	9	27,122	42,645	-15,522	-36.40 %
Income from financial investments	10	-4,837	-23,617	18,780	-79.52 %
Income from companies measured at equity		0	-377	377	-100.00 %
Income from the discontinued operations	2	-191,900	-397,026	205,126	-51.67 %
Result before taxes		-105,777	-240,390	134,612	-56.00 %
Income taxes	11	27,371	-45,417	72,788	-160.27 %
Income taxes of the discontinued operations	11	11,225	-14,392	25,616	-178.00 %
Result after taxes		-67,182	-300,198	233,016	-77.62 %
Result attributable to shareholders of the parent company (Consolidated net result)		-68,806	-320,239	251,433	-78.51 %
thereof from the continued operation		113,368	110,576	2,792	2.52 %
thereof from the discontinued operation		-182,175	-430,815	248,641	-57.71 %
Result attributable to non-controlling interest		1,624	20,041	-18,417	-91.89 %
thereof from the continued operation		125	643	-518	-80.51 %
thereof from the discontinued operation		1,499	19,398	-17,899	-92.27 %

Other comprehensive income	1-12/2015 Euro thousand	restated 1-12/2014 Euro thousand	Changes Euro thousand	%
Result after taxes	**-67,182**	**-300,198**	**233,016**	**-77.62 %**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation obligation of defined benefit plans (IAS 19)	-1,333	-28,079	26,746	-95.25 %
Deferred taxes of revaluation IAS 19	227	7,061	-6,833	-96.78 %
Total items that will not be reclassified to profit or loss	-1,106	-21,019	19,913	-94.74 %
Items that may be reclassified to result				
Currency reserve	4,163	11,274	-7,111	-63.07 %
Available for sale reserve (including deferred taxes)				
Change in fair value	22,119	3,811	18,308	> 200.00 %
Net amount transferred to profit or loss	-35,405	-16,428	-18,977	115.51 %
Hedging reserve (including deferred taxes)				
Change in fair value (effective hedge)	122	-711	833	-117.16 %
Net amount transferred to profit or loss	0	578	-578	-100.00 %
Change in deferred taxes arising from untaxed reserve	4,408	998	3,410	> 200.00 %
Change from companies measured at equity	12,687	-20,277	32,964	-162.57 %
Total items that may be reclassified to profit or loss	**8,094**	**-20,754**	**28,849**	**-139.00 %**
Other comprehensive income total	**6,988**	**-41,773**	**48,762**	**-116.73 %**
Comprehensive income	**-60,194**	**-341,971**	**281,778**	**-82.40 %**
Comprehensive income attributable to shareholders of the parent company	-61,954	-367,989	306,035	-83.16 %
thereof from the continued operation	107,337	76,535	30,802	40.25 %
thereof from the discontinued operation	-169,291	-444,524	275,233	-61.92 %
Comprehensive income attributable to non-controlling interest	1,760	26,018	-24,258	-93.24 %
thereof from the continued operation	127	641	-514	-80.22 %
thereof from the discontinued operation	1,633	25,377	-23,744	-93.56 %

The comparative figures were restated according to IFRS 5.

Statement of financial position as at 31 December 2015

	Note	December 2015 Euro thousand	December 2014 Euro thousand	Changes Euro thousand	%
Assets					
Liquid funds	12	1,521,925	1,596,274	-74,349	-4.66 %
Loans and advances to credit institutions (gross)	13	619,223	1,365,464	-746,241	-54.65 %
Loans and advances to customers (gross)	14	22,619,294	26,540,816	-3,921,522	-14.78 %
Risk provisions (-)	15	-439,513	-886,719	447,206	-50.43 %
Trading assets	16	162,592	1,516,364	-1,353,771	-89.28 %
Financial investments	17	2,401,536	4,106,389	-1,704,853	-41.52 %
Investment property	18	90,557	257,483	-166,926	-64.83 %
Companies measured at equity	19	0	45,545	-45,545	-100.00 %
Participations	20	35,880	268,531	-232,651	-86.64 %
Intangible assets	21	6,930	13,124	-6,194	-47.20 %
Tangible fixed assets	22	479,716	549,061	-69,345	-12.63 %
Tax assets	23	73,211	54,635	18,576	34.00 %
Current taxes		18,419	28,252	-9,833	-34.81 %
Deferred taxes		54,792	26,383	28,409	107.68 %
Other assets	24	216,420	863,444	-647,024	-74.94 %
Assets held for sale	25	26,773	388,029	-361,256	-93.10 %
Total Assets		**27,814,543**	**36,678,439**	**-8,863,896**	**-24.17 %**
Liabilities and Equity					
Amounts owed to credit institutions	26	438,457	2,088,166	-1,649,709	-79.00 %
Amounts owed to customers	27	22,323,653	24,129,004	-1,805,351	-7.48 %
Debts evidenced by certificates	28	1,748,116	3,919,929	-2,171,813	-55.40 %
Trading liabilities	29	392,919	1,446,167	-1,053,248	-72.83 %
Provisions	30, 31	297,382	487,539	-190,157	-39.00 %
Tax liabilities	23	37,539	109,188	-71,649	-65.62 %
Current taxes		3,797	18,933	-15,136	-79.94 %
Deferred taxes		33,742	90,255	-56,513	-62.61 %
Other liabilities	32	373,497	1,098,398	-724,901	-66.00 %
Liabilities held for sale	33	0	5,509	-5,509	-100.00 %
Subordinated liabilities	34	384,930	831,568	-446,638	-53.71 %
Total nominal value cooperative capital shares		23,664	60,310	-36,646	-60.76 %
Subscribed capital		205,385	827,587	-622,202	-75.18 %
Reserves		1,588,857	1,549,629	39,227	2.53 %
Non-controlling interest		144	125,445	-125,301	-99.88 %
Total Liabilities and Equity		**27,814,543**	**36,678,439**	**-8,863,896**	**-24.17 %**

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 2014	**764,792**	**1,958,635**	**2,723,427**	**139,108**	**2,862,535**	**102,478**	**2,965,013**
Consolidated net income		-320,239	-320,239	20,041	-300,198		-300,198
Change in deferred taxes arising from untaxed reserve		998	998		998		998
Revaluation obligation of defined benefit plans (IAS 19 including deferred taxes)		-21,029	-21,029	11	-21,019		-21,019
Currency reserve		5,251	5,251	6,023	11,274		11,274
Available for sale reserve (including deferred taxes)		-12,617	-12,617	0	-12,617		-12,617
Hedging reserve (including deferred taxes)		-75	-75	-57	-133		-133
Change from companies measured at equity		-20,277	-20,277		-20,277		-20,277
Comprehensive income	0	-367,989	-367,989	26,018	-341,971	0	-341,971
Dividends paid		-10,897	-10,897	-9,054	-19,950		-19,950
Changes in base amount regulation	24,848	0	24,848		24,848	-24,848	0
Changes scope of consolidation	31,160	-31,269	-110		-110	-12,182	-12,292
Change in cooperative capital and participation capital	7,565	0	7,565		7,565	-6,142	1,423
Change in treasury stocks	-777	0	-777		-777	1,003	226
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation		1,149	1,149	-30,627	-29,477		-29,477
As at 31 Dec 2014	**827,587**	**1,549,629**	**2,377,216**	**125,445**	**2,502,662**	**60,310**	**2,562,972**
Consolidated net income		-68,806	-68,806	1,624	-67,182		-67,182
Change in deferred taxes arising from untaxed reserve		4,408	4,408	0	4,408		4,408
Revaluation obligation of defined benefit plans (IAS 19 including deferred taxes)		-1,108	-1,108	1	-1,106		-1,106
Currency reserve		4,090	4,090	73	4,163		4,163
Available for sale reserve (including deferred taxes)		-13,286	-13,286	0	-13,286		-13,286
Hedging reserve (including deferred taxes)		61	61	61	122		122
Change from companies measured at equity		12,687	12,687		12,687		12,687
Comprehensive income	0	-61,954	-61,954	1,760	-60,194	0	-60,194
Dividends paid		-8,247	-8,247	-65,108	-73,355		-73,355
Changes in base amount regulation	27,084	0	27,084		27,084	-27,084	0
Changes scope of consolidation	-667,674	103,898	-563,776	-62,028	-625,805	-15,479	-641,284
Change in cooperative capital and participation capital	18,388	0	18,388		18,388	5,777	24,165
Change in treasury stocks	0	0	0		0	140	140
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation		5,531	5,531	75	5,606		5,606
As at 31 Dec 2015	**205,385**	**1,588,857**	**1,794,242**	**144**	**1,794,386**	**23,664**	**1,818,050**

thereof obtained in reserves:

Euro thousand	31/12/2015	31/12/2014
Currency reserve	22,017	2,374
Available for sale reserve	-565	61,270
thereof deferred taxes	197	-19,390
Hedging reserve	0	-10,926
thereof deferred taxes	0	112

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.

Cash flow statement

In euro thousand	1-12/2015	1-12/2014
Annual result (before non-controlling interest)	**-67,182**	**-300,198**
Non-cash positions in annual result		
Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets	50,218	356,289
Allocation to and release of provisions, including risk provisions	7,865	79,552
Gains from the sale of financial investments and fixed assets	-9,542	-54,566
Non-cash changes in taxes	-65,573	41,091
Changes in assets and liabilities from operating activities		
Loans and advances to credit institutions	453,992	126,821
Loans and advances to customers	993,239	1,291,426
Trading assets	-87,323	19,233
Financial investments	1,261,854	14,113
Investment property	63,037	9,428
Other assets from operating activities	176,428	73,104
Amounts owed to credit institutions	-1,917,468	325,432
Amounts owed to customers	-548,749	-748,269
Debts evidenced by certificates	-88,320	-2,432,854
Derivatives	106,462	102,394
Other liabilities	-384,083	300,082
Cash flow from operating activities	**-55,145**	**-796,923**
Proceeds from the sale or redemption of		
Securities held to maturity	67,353	502,191
Participations	22,960	67,045
Fixed assets	19,881	25,248
Disposal of subsidiaries (net of cash disposed)	-4,534	250,027
Payments for the acquisition of		
Securities held to maturity	0	-24,933
Participations	-1,717	-353,585
Fixed assets	-35,092	-64,120
Acquisition of subsidiaries - liquid funds	1,545	1
Cash flow from investing activities	**70,396**	**401,875**
Change in cooperative capital and participation capital	3,381	1,649
Redemption of participation capital	0	-2,249
Dividends paid	-73,355	-19,950
Changes in subordinated liabilities	-23,721	-20,226
Redemption of participation rights	0	-6,724
Cash flow from financing activities	**-93,695**	**-47,501**
Cash and cash equivalents at the end of previous period (= liquid funds)	**1,596,274**	**2,018,299**
Cash flow from operating activities	-55,145	-796,923
Cash flow from investing activities	70,396	401,875
Cash flow from financing activities	-93,695	-47,501
Effect of currency translation	4,094	20,524
Cash and cash equivalents at the end of period (= liquid funds)	**1,521,924**	**1,596,274**
Payments of taxes, interest and dividends		
Income taxes paid	26,977	18,717
Interest received	619,812	1,157,009
Interest paid	-137,000	-499,675
Dividends received	2,717	8,876

Details of the calculation method of cash flow statement are shown in note 3) ii).
Details of the calculation of the disposal as well as the acquisition of subsidiaries are included in note 2).

NOTES

1) General information

VOLKSBANK WIEN AG (VBW), which has its registered office at Schottengasse 10, 1010 Vienna, Austria, is the central organisation (CO) of the Austrian Volksbank sector. Until 4 July 2015, Österreichische Volksbanken-Aktiengesellschaft (VBAG) was the CO of the Austrian Association of Volksbanks. The Annual General Meeting of VBAG held on 28 May 2015 passed a resolution providing for the separation by way of demerger of the VBAG business unit responsible for central organisation and central institution functions, as the transferor company, and its transfer to VBW as the transferee company. In its decision issued on 2 July 2015, the Austrian Financial Market Authority authorised the company to operate as a wind-down entity in accordance with section 162 of the Federal Act on the Recovery and Resolution of Banks (*Bundesgesetz über die Sanierung und Abwicklung von Banken* – BaSAG), subject to entry of the demerger in the Commercial Register. VBAG waived its right to appeal in a written statement dated 3 July 2015. The demerger thus took legal effect upon its entry in the Commercial Register on 4 July 2015. On that date, the CO function was transferred to VBW, and VBAG ceased to be part of the Association of Volksbanks. VBAG was renamed immigon portfolioabbau ag (immigon) and is now a wind-down entity in accordance with section 162 BaSAG.

VBW has concluded a banking association agreement with the primary banks (Volksbanks, VB) 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. 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.

Under section 30a (7) of the Austrian Banking Act (*Bankwesengesetz* – BWG), the CO is required to prepare consolidated financial statements pursuant to sections 59 and 59a BWG for the Association of Volksbanks. The association's financial statements are prepared according to IFRS rules. For full consolidation purposes, section 30a (8) BWG 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 central organisation has the right to issue instructions, but doesn't receive returns from the member credit institutions; therefore the association's central organisation has no control as defined by IFRS 10. The lack of an ultimate controlling parent company means that despite the central organisation's extensive powers to issue instructions, the consolidated accounts can only be drawn up by treating the Association of Volksbanks as a group of companies which are legally separate entities under unified control without a parent company. It was therefore necessary to define a set of rules for preparing the association's financial statements.

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

The present consolidated financial statements were signed by the Managing Board of VBW on 15 June 2016 and then subsequently submitted to the Supervisory Board for notice.

a) Accounting principles for the association

The financial statements for the association are prepared in accordance with all the latest valid versions of the IFRS/IAS as at the reporting date, as published by the International Accounting Standards Board (IASB). The financial statements also comply with all interpretations (IFRIC/SIC) of the International Financial Reporting Interpretation Committee and Standing Interpretations Committee, provided these have also been adopted by the European Union in its endorsement process.

The following exceptions to the application of individual IFRS apply to the 2015 association financial statements:

Exceptions affecting the overall scope of consolidation

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

IFRS 8 Operating Segments: IFRS 8 is not applied. The reporting structure implemented for the association is described in the Notes in the section on segment reporting.

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

IAS 39 AG 33 Financial instruments: Embedded derivatives are not reported separately in the case of credit and loan agreements which already have an intrinsic value at the time of concluding the underlying transaction. This has been the case since the 2015 business year, as banks have embedded a zero percent floor at negative interest rates.

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

The key management personnel are:

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

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

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

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

IAS 40 Investment property: Information about sensitivities of properties measured at fair value is not shown due to lack of data.

IFRS 7 Financial Instruments Disclosure:
Due to a lack of data, the following IFRS 7 disclosures are not provided:

- Undiscounted maturity analyses in accordance with IFRS 7.39a and 7.39b

Exceptions affecting the member institutions

IAS 18 Revenue: Commission payments for the award of loans are not recorded by the member institutions over the term of the loan in accordance with IAS 18 using the effective interest method, but instead immediately recognised as revenues when the commission payable is specified.

Accounting principles in the comparative period

Due to a lack of data, the following IFRS 7 disclosures were not provided in the previous year:

- Quantitative disclosures in relation to credit risks
- Quantitative disclosures in relation to market risks
- Undiscounted maturity analyses in accordance with IFRS 7.39a and 7.39b

IAS 24 Related Party Disclosure: In the comparative period the key management personnel were:

1. Members of the Council of Delegates
2. Members of the VBAG Supervisory Board
3. Members of the VBAG Managing Board
4. Members of the VB Holding eGen Managing Board
5. The Managing Board members and managing directors of the individual Volksbanks

Concerning IAS 40 Investment property Information about sensitivities of properties measured at fair value is not shown due to lack of data.

b) Going concern

The primary banks of the Austrian Volksbank sector created a banking association pursuant to section 30a BWG in 2012 with the conclusion of the 2012 banking association agreement, to better meet both the economic challenges of a changing market environment and increasing regulatory requirements.

The primary banks of the Austrian Volksbank sector adopted a resolution in autumn 2014 to strategically restructure the Association of Volksbanks, in order to ensure a sustainable Association of Volksbanks retaining its core competency as a regionally rooted financial services provider.

The core element of the restructuring was, firstly, the splitting up of Österreichische Volksbanken-Aktiengesellschaft (VBAG) into a wind-down entity and the transfer of its central organisation duties to VBW, as well as the conclusion of the 2014 banking association agreement. The CO function was assumed when the demerger was entered in the Commercial Register on 4 July 2015.

A further core element of the restructuring is the binding creation of a target structure made up of eight regional banks and two specialist banks, to be implemented mainly through mergers of primary banks by 31 December 2017. This structure is intended to enable the Association of Volksbanks to operate on capital markets over the medium term.

The third core element is the contractual leveraging of maximum potential synergies within the Association of Volksbanks. In particular, previously identified functions within the Association of Volksbanks will now only be performed at a single point for the whole association (and no longer decentrally). Structures and processes within the Association of Volksbanks are also to be simplified. The overall aim is to create sustainable, high-performance regional Volksbanks across the association, to ensure greater success regionally and greater efficiency within the Association of Volksbanks.

The members of the Association of Volksbanks have joint, unlimited liability and have contractually agreed to bear the costs and risks of the CO on a pro rata basis. The ECB approved the Association of Volksbanks as a banking association pursuant to section 30a BWG with VBW as the CO. The approval was resolved on 2 July 2015 and is valid up to 30 June 2016. As yet, therefore, no new SREP ratio has been stipulated for the newly approved Association of Volksbanks. The general meeting of Volksbank Marchfeld e.Gen. did not approve the new banking association agreements or the merger with VBW. It was therefore decided, in accordance with the existing banking association agreements, to exclude Volksbank Marchfeld e.Gen. from the Association of Volksbanks with effect from 24 May 2016. Following the changes and internal approval of the agreements in line with supervisory requirements, the CO's management took the view that the criteria for further ECB approval of the Association of Volksbanks were met.

Numerous other mergers are taking place within the Association of Volksbanks during 2016, in order to realise the envisaged 8+2 structure. Seven mergers are planned for the first half-year and ten for the second.

VBW as the central organisation in accordance with section 30a BWG is part of the banking association (joint liability and liquidity association). The Association of Volksbanks is required to comply with the regulatory provisions of Parts Two to Eight of Regulation (EU) No 575/2013 and section 39a BWG, on the basis of the consolidated financial position (section 30a (7) BWG). VBW must continue to comply with all applicable regulatory provisions on a single-entity basis and at group level.

Fitch downgraded its rating for the Association of Volksbanks in mid-May 2015. Alongside other Austrian banks, the rating for the Association of Volksbanks was also subject to a review looking at government support. The rating was subsequently downgraded from A to BB-. The downgrade has no significant negative impact on the association's liquidity situation.

The Association of Volksbanks was subject to another rating by Fitch at the end of August 2015, because of the departure of VBAG from the Association of Volksbanks and the restructuring of the association. The rating was upgraded from BB- to BB+ with a positive outlook.

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

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

In line with its contractual obligations towards the Austrian government, every year VBW must submit a proposal to the Volksbanks by 30 November for the total payments to be made by VB RZG in respect of the government's participation right and the necessary contributions to be made by the primary banks towards the total amount (with VBW’s contributions being paid directly to VB RZG and the Volksbanks’ contributions being paid indirectly through VBW). The cost borne by VBW is based on the share of its retail segment in the Association of Volksbanks (total assets according to UGB/BWG).

2) Presentation and changes in the scope of consolidation

From the 2015 business year onwards, the scope of consolidation is determined according to supervisory regulations pursuant to section 30a (8) BWG in conjunction with Art. 18 (3) CRR. The following entities are therefore included in the Association's financial statements:

- Credit institutions that have signed the banking association agreement; these are VBW and the associated banks
- Transferring entities as defined in section 92 (9) BWG under the conditions defined in section 30a (8) BWG
- Subordinate credit institutions, financial institutions, providers of ancillary services and asset management companies
- Higher-level financial holding companies and mixed financial holding companies.

Additions to the scope of consolidation

Eleven subordinate companies were included in the association's financial statements for the first time as a result of this change. The main asset additions were: loans and advances to customers in the amount of euro 79 million, investment property assets in the amount of euro 39 million and real estate properties for own use in the amount of euro 14 million. These assets are partially refinanced by the association or through equity. Earnings from previous years are recognised directly in equity. Six holding companies were also included for the first time. Their principal assets are investments in fully consolidated companies, which were eliminated in the course of capital consolidation.

The savings and credit cooperatives in liquidation "Spar- und Vorschuss-Verein der Beamtenschaft der Oesterreichischen Nationalbank registrierte Genossenschaft mit beschränkter Haftung in Liqu." and "Spar- und Vorschussverein "Graphik" registrierte Genossenschaft mit beschränkter Haftung in Liqu." were also included for the first time. These companies had previously been omitted from the scope of consolidation for lack of materiality. The process of liquidating both companies was initiated in December 2015. Loans and advances to customers in the amount of euro 27 million were sold to the National Bank of Austria (OeNB) with effect from January 2016, and are therefore recognised in the association's 2015 financial statements under the heading 'Assets held for sale'. These assets are refinanced by third parties in the amount of euro 27 million. Until liquidation is completed, both companies' equity will continue to be recognised in the association's equity, with euro 207 thousand in shares, euro 436 thousand in subscribed capital and euro 5,761 thousand in retained earnings.

Additions from holding companies and associated institutions are recognised directly in equity under changes in the scope of consolidation.

The company VB Rückzahlungsgesellschaft mbH was founded in June 2015. It issued a participation right (*Genussrecht*) to the Republic of Austria in fulfilment of commitments made to the Austrian government in order to obtain approval for restructuring from the European Commission under state aid law. Further information can be found in section 1) b) Going concern.

A subsidiary not previously included in the association's financial statements was merged with Volksbank Tirol Innsbruck-Schwaz AG in the 2015 business year. This resulted in the addition of real estate properties for own use in the amount of euro 6 million. Earnings from previous years of euro 3 million are recognised directly in equity.

The process of merging Volksbanks to form eight regional banks and two specialist institutions continued in the 2015 business year. These mergers had no impact on the association's financial statements.

Removals from the scope of consolidation

Following approval of the demerger of VBAG and of the new banking association agreement, the remainder of VBAG with its subsidiaries (remainder of VBAG), the company Volksbanken Holding eGen and its subsidiary VB Regio Invest AG ceased to belong to the association. Furthermore, Volksbank Almtal e. Gen., DolomitenBank Osttirol-Westkärnten eG and Volksbank Gmünd eingetragene Genossenschaft did not sign the new banking association agreement, and thus also left the association with effect from 4 July 2015. Since these companies are associated institutions and no control relationship exists in the association, no gain on disposal is recognised in the income statement. The disposal of equity is recognised under changes in the scope of consolidation with no effect on profit or loss.

The remainder of VBAG represents a discontinued operation under IFRS 5. The result up to 4 July 2015 has therefore been reclassified from individual income statement items to the result from discontinued operation. VBAG's non-core segments were used to reclassify the previous year's figures in the income statement.

Income statement of the discontinued operation 'remainder of VBAG'

Euro thousand	2015	2014
Net interest income	42,145	131,598
Risk provisions	-1,756	-37,387
Net fee and commission income	5,439	-8,601
Net trading income	8	1,104
General administrative expenses	-62,700	-105,113
Restructuring cost	-364	0
Other operating result	-140,673	-98,555
Income from financial investments	-26,453	-6,488
Income from companies measured at equity	4,092	1,605
Result before taxes	**-180,262**	**-121,837**
Income taxes	11,225	-14,392
Result after taxes	**-169,037**	**-136,229**
Result attributable to shareholders	**-170,536**	**-155,627**
Comprehensive income attributable to non-controlling interest	1,499	19,398

The result from discontinued operation in the amount of euro -191,900 thousand is composed of the above-mentioned annual result before tax from the remainder of VBAG amounting to euro -180,262 thousand and the result of VB Romania S.A., already classified in the previous year as a discontinued operation and measured at equity in the amount of euro -11,639 thousand.

Four companies within the remainder of VBAG were sold during the first half of 2015. The deconsolidation result of VB Real Estate Leasing Dike GmbH, VB Real Estate Leasing Ziel GmbH, ATIUMCO LIMITED and Markovo Tepe Mall EOOD comes to euro EUR 4,239 thousand and is recognised as income from discontinued operation.

Calculation of deconsolidation result of VB Real Estate Group

Euro thousand	2015
Assets proportional	20,030
Liabilities proportional	67,170
Disposal of net assets propotional	**47,140**
Revenues proportional	-42,901
Deconsolidation result	**4,239**

JML Holding AG and JML AG, both based in Switzerland, were liquidated in the 2015 business year. The currency reserve attributable to these companies in the amount of euro 2,110 thousand was reclassified to the income statement. In the course of liquidation, receivables amounting to euro 170 thousand were transferred to VOLKSBANK VORARLBERG e. Gen. as parent company.

Companies measured at equity

On 10 December 2014, shareholders in VB Romania S.A. (VBRO) signed a contract to sell 100% of shares in VBRO to Banca Transilvania S.A. The association owned a 51% stake through VBI Beteiligungs GmbH. The contract of sale also regulated refinancing amounting to euro 317 million (Group share). The deal was closed at 7 April 2015. The capital increase of euro 227 million (Group share) to be carried out by existing shareholders before the deal is closed in 2015 was capitalised within its carrying amount in the 2014 business year. Sales result together with the disposal of the other income is shown in the income from discontinued operations. The result is entirely attributable to the parent company's shareholders. A result of euro -11,639 thousand (2014: euro -275,189 thousand) was therefore recognised on the participation in the reporting period.

The interest in Marangi Immobiliare S.r.l., measured at equity, was sold under a contract of sale dated 11 June 2015. The proceeds amounting to euro 2,959 thousand are reported under income from discontinued operation, as they represent a holding of the remainder of VBAG.

Number of consolidated companies

	31 Dec 2015			31 Dec 2014		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Fully consolidated companies						
Credit institutions	37	2	39	52	2	54
Financial institutions	6	0	6	20	14	34
Other enterprises	30	0	30	37	39	76
Total	**73**	**2**	**75**	**109**	**55**	**164**
Companies measured at equity						
Credit institutions	0	0	0	1	1	2
Other enterprises	0	0	0	3	2	5
Total	**0**	**0**	**0**	**4**	**3**	**7**

Number of unconsolidated companies

	31 Dec 2015			31 Dec 2014		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Affiliates	56	1	57	67	25	92
Associated companies	19	1	20	24	11	35
Companies total	**75**	**2**	**77**	**91**	**36**	**127**

The unconsolidated companies in their entirety were deemed immaterial to the presentation of a true and fair view of the net assets, liabilities, financial position and profit or loss of the association. Beside quantitative criteria like total assets and result after taxes also the effect of consolidation on specific positions as well as on the true and fair view of the consolidated financial statements for the association is taking into account for the assessment of materiality. The calculation of the quantitative characteristics was based on the latest available financial statements of the companies and the association's consolidated financial statements for 2015.

The list of companies included in the association's consolidated financial statements, as well as the unconsolidated companies including detailed information, is shown at the end of the notes (see note 52), 53), 54)).

3) Accounting principles

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

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

- Derivative financial instruments – measured at fair value
- Financial instruments in the category at fair value through profit or loss and available for sale – measured at fair value
- Investment property assets – measured at fair value
- Financial assets and liabilities which constitute underlying instruments for fair value hedges – amortised costs are adjusted for changes in fair value, which are to be allocated to hedged risks
- Employee benefit provisions – recognised at net present value less the net present value of plan assets

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

a) Changes to accounting standards

Changes to accounting rules adopted by the EU

Amendments have been made to four standards as part of the annual improvement project. Changes to the wording of individual IFRSs are designed to clarify the existing rules. The changes concern IFRS 1, IFRS 3, IFRS 13 and IAS 40. These amendments were adopted by the EU on 18 December 2014 with publication in the Official Journal of the European Union. They are applicable to financial years beginning on or after 1 January 2015.

IFRS 1 – First-time Adoption of International Financial Reporting Standards: An amendment to the basis for conclusions clarifies the significance of the date of effectiveness in connection with IFRS 1. If, at the time when an entity first adopts IFRSs, two published versions of an IFRS exist – i.e. an existing IFRS and a new or revised IFRS that is not yet mandatory but is eligible for voluntary early application – the entity shall be free to choose which version it applies. However, the chosen standard version must then be applied to all periods covered by those first IFRS financial statements, except where IFRS 1 provides otherwise. The standard will not be applied early. This amendment does not have any significant impact.

IFRS 3 – Business Combinations: The amendments reword the existing exception of joint ventures from the scope of IFRS 3. This clarifies that the exception applies to all joint arrangements within the meaning of IFRS 11. It is also clarified that the exception only applies to the financial statements of the joint arrangement or joint activity itself, not to the accounting of the parties involved in the joint activity. The amendment is to be applied prospectively; the standard will not be applied early. This amendment does not have any significant impact.

IFRS 13 – Fair Value Measurement: IFRS 13.48 permits an entity managing a group of financial assets and financial liabilities on the basis of its net exposure to market risk or default risk to calculate the fair value of this group in accordance with the net risk exposure as measured by market participants as at the reporting date (“portfolio exception”). The proposed change clarifies that this exception for determining fair value applies to all contracts accounted for within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities in IAS 32 (e.g. certain contracts for purchase or sale of non-financial items that can be settled in cash or other financial instruments). The change applies prospectively from the beginning of the financial year in which IFRS 13 was first applied; the standard will not be applied early. This amendment does not have any significant impact.

IAS 40 – Investment Property: The amendment clarifies that IAS 40 and IFRS 3 are to be applied independently of each other, i.e. that they are never mutually exclusive. All acquisitions of investment property must therefore be examined on the basis of IFRS 3 criteria to establish whether the acquisition of a single asset, group of assets or business falls within the scope of IFRS 3. The criteria set out in IAS 40.7ff. must also be applied to establish whether property is investment property or owner-occupied property. The change applies prospectively for all acquisitions of investment property from the period when the amendment is first applied onward. No adjustment of previous years’ figures is required. The change may be applied individually to previous acquisitions on a voluntary basis provided the necessary information is available; the standard will not be applied early. This amendment does not have any significant impact.

Changes to accounting rules not yet adopted by the EU

Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures by the IASB: The IASB has amended the rules for the sale or contribution of assets between an investor and its associate or joint venture. The amendments were originally to be applied from 1 January 2016. The IASB has postponed the deadline for initial application indefinitely. However, the option for early application remains. These amendments will not have any significant impact.

Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment Entities: The standard serves to clarify issues relating to application of the consolidation exception under IFRS 10 if the parent company meets the definition of an investment entity. Companies are also exempted from the consolidation obligation if the higher-level parent company measures its subsidiaries at fair value in accordance with IFRS 10. If a subsidiary itself meets the definition of an investment entity and provides services related to the parent company's investment activities, it is not to be consolidated. When applying the equity method to an associate or joint venture, an investor that does not meet the definition of an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in its subsidiaries. In the amended standard, the IASB also states that an investment entity measuring all of its subsidiaries at fair value must provide the disclosures relating to investment entities required by IFRS 12. Subject to adoption by the EU, the amendments will apply for reporting periods beginning on or after 1 January 2016. The standards are not being applied early. These amendments will not have any significant impact.

Amendments to IFRS 11 – Joint Arrangements: Acquisition of an interest in a joint operation. The amendment clarifies that the acquisition of initial and additional interests in joint operations that constitute a business as defined in IFRS 3 should be accounted for in accordance with the principles for business combinations accounting in IFRS 3 and other applicable IFRSs, provided these do not conflict with the provisions of IFRS 11. The new rules are to be applied prospectively for all acquisitions in reporting periods beginning on or after 1 January 2016; the standard is not being applied early. These amendments will not have any significant impact.

Amendments to IAS 1 – Presentation of Financial Statements: The amendments are intended to give entities greater discretion to adapt their financial statements to their specific circumstances. They largely consist of clarification that information only has to be disclosed in the notes if its content is material. This explicitly applies even if an IFRS specifies a list of minimum disclosures. A model structure for the notes is no longer prescribed. This facilitates more entity-specific presentation. The amendments clarify that entities are free to decide where to explain accounting and valuation methods in the notes. The amendments also include explanations of the aggregation and disaggregation of items in the statement of financial position and statement of comprehensive income as well as clarification that items of other comprehensive income of companies measured at equity are to be grouped and presented separately based on whether they will subsequently be reclassified to profit or loss. The amendments are applicable to financial years beginning on or after 1 January 2016. Earlier application is permitted, but is subject to EU endorsement; the standard is not being applied early. These amendments will not have any significant impact.

Amendments to IAS 7 – Statement of Cash Flows: The objective of the amendments is to improve information on changes in the entity's liabilities. Disclosures have to be made on changes in financial liabilities whose cash inflows and outflows are shown under cash flows from financing activities on the statement of cash flows. The necessary disclosures can be made in the form of a reconciliation between balance sheet items. The amendments are applicable to business years beginning on or after 1 January 2017. These amendments will have no significant impact.

Amendments to IAS 12 – Income Taxes: The amendments clarify that unrealised losses related to debt instruments measured at fair value but reported at amortised cost for tax purposes may lead to a deferred tax asset. The amendments also clarify that the tax value as opposed to the carrying value of an asset is the relevant amount for estimating future taxable profits and that the carrying value does not constitute an upper limit for the calculation. The effect from the change in the deferred tax position due to reversal of these temporary differences may not be taken into account in estimating future taxable profits for impairment testing of deferred tax assets. The amendments are applicable to business years beginning on or after 1 January 2017. These amendments will have no significant impact.

Amendments to IAS 16 – Property Plant and Equipment and IAS 38 – Intangible Assets: Clarification of acceptable methods of depreciation and amortisation. The amendment clarifies the choice of methods used for depreciation and amortisation of property, plant and equipment and intangible assets. In principle, depreciation and amortisation of property, plant and equipment and intangible assets must reflect consumption of the expected future economic benefits embodied in the asset. The IASB has now clarified that depreciation of property, plant and equipment based on sales revenues from the goods produced by these assets does not reflect such consumption and is therefore not an appropriate method. Revenues are determined not only by consumption of the assets concerned, but also by other factors such as sales volume, price and inflation. This clarification is also adopted in principle by IAS 38 for the amortisation of finite-lived intangible assets. In this case, however, the IASB has also introduced a rebuttable presumption. This allows for revenue-based amortisation of finite-lived intangible assets in the following two exceptional cases. Firstly, if the value of the asset is directly expressed as a measure of revenue, or, secondly, if it can be demonstrated that revenue and the consumption of economic benefits of the intangible asset are highly correlated. It is explained that the basis for determining an appropriate method of amortisation for intangible assets is always to identify the predominant factor limiting use. The IASB has also indicated that an alternative basis for amortisation should be used if this better illustrates the consumption of the intangible asset. The standards will not be applied early. These amendments will not have any significant impact.

Amendments to IAS 27 – Separate Financial Statements: Equity method in separate financial statements: The changes will enable investments in subsidiaries, joint ventures and associates to be measured using the equity method in single-entity IFRS financial statements in future. This reinstates all previously available options for inclusion of such companies in the separate financial statements: measurement at (amortised) cost, recognition as financial instruments available for sale under IAS 39 and IAS 9, and measurement using the equity method. The standard will not be applied early. These amendments will not have any impacts.

Annual Improvements to IFRSs (2012-2014 cycle)

Amendments have been made to four standards as part of the annual improvement project. Changes to the wording of individual IFRSs are designed to clarify the existing rules. The amendments concern IFRS 5, IFRS 7, IAS 19 and IAS 34. The new rules must be applied – either prospectively or retrospectively depending on the amendment concerned – for reporting periods beginning on or after 1 January 2016; the standards are not being applied early. These amendments will not have any significant impact.

b) New accounting standards

New accounting standards already endorsed by the European Union

IFRIC 21 – Levies is an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets: It primarily clarifies when a present obligation to pay levies imposed by governments arises and when a provision or liability should be recognised. The interpretation does not cover fines or levies resulting from public law contracts or that fall under another IFRS, e.g. IAS 12 Income Taxes. Under IFRIC 21, a liability must be recognised when the event triggering the levy occurs. This trigger event giving rise to the obligation to pay a levy is determined by the wording of the applicable legislation. This wording is thus pivotal to the accounting treatment. Earlier voluntary application of the interpretation is permitted. Adoption by the EU was on 13 June 2014 with publication in the Official Journal of the European Union. The amendments are effective for financial years beginning on or after 1 July 2014 and must be applied retrospectively.

New accounting standards not yet adopted by the European Union

New standards and interpretations

IFRS 9 – Financial Instruments: The final version of IFRS 9 was published in July 2014.

Classification and measurement of financial instruments

Financial assets will be separated into just two groups for classification and measurement in future: amortised cost and fair value. The group of financial assets measured at amortised cost consists of those financial assets that give rise on specified dates to cash flows that are solely payments of principal and interest and that are held in the context of a business model where the objective is to hold assets in order to collect contractual cash flows. All other financial assets are allocated to the group measured at fair value. Under certain circumstances, an entity may continue to designate financial assets that fall under the first category to the fair value category instead (fair value option). Changes in value of the financial assets in the fair value category are generally to be recognised in profit or loss. In the case of certain equity instruments, however, there is an option to recognise changes in value in other comprehensive income, although dividends arising from these assets are to be recognised in profit or loss. The rules for financial liabilities have generally been taken from IAS 39. The main difference concerns the recognition of changes in value of financial liabilities measured at fair value. These are to be separated in future: the change in value attributable to an entity's own credit risk is to be recognised in other comprehensive income, and the remaining change in value in profit or loss.

Accounting for impairments of financial assets

The new rules require recognition not only of actual losses but also of expected losses. The scope of expected losses recorded is also differentiated according to whether or not the default risk of financial assets has materially worsened since the time of acquisition. If the default risk has increased and, at the reporting date, is not categorised as low, all lifetime expected credit losses should be recognised from this time onwards. Otherwise, the entity should only recognise the expected losses over the lifetime of the instrument that result from potential future loss events within the next 12 months. Exceptions apply to trade receivables and lease receivables. For these assets, entities must (in the case of receivables that do not contain a significant financing component) or may (in the case of receivables that contain a significant financing component and in the case of lease receivables) recognise all expected losses upon acquisition.

Hedge accounting

The objective of the new rules is to more closely align hedge accounting with an entity's economic risk management. As in the past, entities must document the relevant risk management strategy and risk management objectives at the beginning of each hedging relationship. In future, however, the ratio between the hedged item and the hedging instrument must, as a rule, be in line with the requirements of the risk management strategy. If, during the term of a hedging relationship, there is a change in this hedge ratio but not in the risk management objective, the quantities of the hedged item and hedging instrument involved in the hedging relationship must be adjusted without discontinuing the hedging relationship. Unlike in IAS 39, it is no longer possible under IFRS 9 to discontinue hedge accounting at any time without reason. A hedging relationship must be continued for accounting purposes for as long as the risk management objective documented for this hedging relationship remains unchanged and the other requirements for hedge accounting are met. In certain circumstances, entities may still designate individual risk components under IFRS 9, including for non-financial items. The requirements for demonstrating hedge effectiveness have changed. Under IAS 39, hedging relationships could only be included in hedge accounting if they were demonstrated to be highly effective (within a range of 80 % to 125 % effectiveness) by an assessment performed both retrospectively and prospectively. IFRS 9 abolishes both the retrospective assessment and the effectiveness range. Instead, entities must demonstrate, without being bound to any specific quantitative thresholds, that an economic relationship exists between the hedged item and the hedging instrument and that the values of the hedged item and the hedging instrument would move in the opposite direction as a result of the common underlying or hedged risk. This demonstration may be based on a qualitative assessment alone. However, credit risk is not permitted to dominate the value changes resulting from the economic relationship. Subject to EU adoption, which is still outstanding, IFRS 9 is to be applied to reporting periods beginning on or after 1 January 2018. In principle, the standard is to be applied retrospectively. Various options for simplification are provided, however. Earlier, voluntary application is permitted. Given the Group's business activities, this standard will have a substantial impact on the consolidated financial statements.

IFRS 14 – Regulatory Deferral Accounts: has been published as an interim standard to provide a temporary solution until the relevant IASB project has reached agreement on the accounting of rate-regulated activities. The provisions of this standard will allow an entity that is a first-time adopter of IFRSs within the meaning of IFRS 1 to retain regulatory deferral account balances recognised under its previous national GAAP in its IFRS financial statements and to continue to account for these balances in accordance with its previous accounting methods. The aim is to facilitate the transition to IFRSs for such companies. Application of this standard is explicitly intended for IFRS first-time adopters only; entities that already use IFRSs are excluded. If an entity elects to apply the provisions of IFRS 14 (option), it must meet mandatory presentation and disclosure requirements. For example, regulatory deferral account balances must be presented separately in the statement of financial position, divided into assets and liabilities. The same applies to presentation in the statement of comprehensive income. Disclosures are also required on the nature of the rate regulation that establishes prices and on the risks associated with this. IFRS 14 limits the options for amending the accounting methods previously applied to regulatory deferral accounts. It does not permit first-time recognition of items that did not qualify as regulatory deferral account balances in the entity's previous national GAAP. Earlier voluntary application of the rules is permitted. The European Commission has decided not to begin the endorsement process for this interim standard, but instead to await the final standard. The new standard will not have any impact.

IFRS 15 – Revenue from Contracts with Customers: The aim of the revised standard is to harmonise the existing, less detailed provisions in the IFRSs with the highly detailed and, in some cases, industry-specific provisions of US GAAP so as to improve the transparency and comparability of financial information. Under IFRS 15, sales revenues are to be recognised when the customer gains control of the agreed goods and services and can draw benefit from them. Unlike in the old rules under IAS 18, the decisive factor is no longer the transfer of significant risks and rewards. Revenues are to be recognised at the amount of the consideration that the entity expects to receive. The new model features a five-step framework, which first identifies the contract with a customer and the separate performance obligations contained therein. The transaction price of the customer contract is then determined and allocated to the individual performance obligations. Finally, when the agreed service is provided and control passes to the customer, revenue is recognised for the relevant performance obligation in the amount of the proportionate transaction price allocated to that obligation. In accordance with specified criteria, a distinction is to be made here between performance obligations satisfied at a point in time and those satisfied over a period of time. The new standard does not distinguish between different types of orders and services, but establishes standard criteria determining when a performance obligation should be recognised at a point in time or over a period of time. The rules and definitions of IFRS 15 will replace the content of IAS 18 and IAS 11 in future. The new standard will not have any significant impact.

IFRS 16 - Leases: IFRS 16 specifies how leases are reported in financial statements. Compared with the previous standard IAS 17, significant changes have been made to the reporting of operating lease contracts by the lessee. With some exceptions for materiality reasons (short-term leases and leases for low-value assets), right-of-use assets are to be recognised on the assets side and corresponding lease liabilities on the liabilities side of the balance sheet. The accounting rules for the lessor have not changed significantly compared with IAS 17. The notes will be more extensive than under the previous IAS 17. The amendments are applicable to financial years beginning on or after 1 January 2019. The amendments will not have any significant impact.

c) Application of estimates and assumptions

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

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

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

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

d) Consolidation principles / Principles of aggregation

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

The financial statements of the fully consolidated companies and the companies consolidated using the equity method were prepared on the basis of the group's balance sheet date of 31 December 2015.

Owing to the lack of an ultimate controlling parent company, the equity components reported in the financial statements, which were converted in accordance with the relevant principles of the credit institutions, included, as stated in the list of companies in section 53), are aggregated. When aggregating the included companies' investments in Volksbanks and VBW, the aggregated carrying amounts of the investments are deducted from the aggregated equity components. Consolidation as a group of companies which are legally separate entities, but under unified control without a parent company means that the capital consolidation does not result in any minority interests. Cooperative shares of the member credit institutions are reported under total nominal value of members' shares.

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

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

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

e) Currency translation

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

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

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

f) Net interest income

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

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

Net interest income consists of:

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

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

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

g) Risk provisions

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

h) Net fee and commission income

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

i) Net trading income

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

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

j) General administrative expenses

General administrative expenses contain all expenditure incurred in connection with the group’s operations.

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

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

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

k) Other operating result

In addition to the result from measurement or repurchasing of financial liabilities, impairment of goodwill, measurement of IFRS 5 disposal groups, and the deconsolidation result from the disposal of subsidiaries, this item contains all results from the association's other operating activities. This item also includes income from the recovery funding (*Besserungs-geld*) issued to some Volksbanks from the common fund, less the discounted repayment obligations.

l) Income from financial investments

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

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

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

m) Financial assets and liabilities

Recognition

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

Derecognition

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

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

Offsetting

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

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

Amortised cost

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

Fair value measurement

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

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

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

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

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

The group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Impairment

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

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

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

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

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

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

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

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

Financial instruments designated at fair value through profit or loss

The association makes use of the option to irrevocably designate financial instruments at fair value through profit or loss. Allocation to this category is performed if one of the three following criteria is met:

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

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

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

Derivatives

Derivatives are always recognised in income at their fair value.

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

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

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

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

Own equity and debt instruments

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

n) Loans and advances to credit institutions and customers

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

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

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

Finance lease

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

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

o) Risk provisions

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

p) Trading assets and liabilities

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

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

q) Financial investments

Financial investments comprise all securitised debt and equity instruments not classified as participations. Financial investments are initially recognised at fair values plus incremental direct transaction cost. Subsequent measurement depends on whether the financial assets are allocated to the at fair value through profit or loss, available for sale, loans & receivables or held to maturity categories.

At fair value through profit or loss

The group allocates some securities to this category and records changes in the fair value of such securities directly in the income statement as described in section 3) m) Financial assets and liabilities.

Available for sale

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

Loans & receivables

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

Held to maturity

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

These financial instruments are recognised at amortised cost in accordance with the effective interest method. Any sale or reallocation of a substantial part of these financial instruments which does not occur on a date that is close to the redemption date or is attributable to a non-recurring isolated event that is beyond the group's control and that could not have been reasonably anticipated, results in the reallocation of all held to maturity financial investments to the available for sale category for the two subsequent fiscal years. In 2015 no such reallocations took place.

r) Investment property

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

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

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

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

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

s) Participations

The group establishes subsidiaries and acquires participations for strategic reasons and as financial investments. Strategic participations relate to companies operating in the group's lines of business or companies supporting the group's business activities.

Companies over which the group exercises a significant influence are measured using the equity method. All other participations are recognised at their respective fair values. Fair values are determined by reference to quoted market prices on active markets, or by using a valuation method if there is no active market. Valuation methods include using discounted cash flow techniques and valuations using multiples. If discounted cash flow procedures are used, the discount rates applied are based on the current recommendations of the Expert Committee of the Austrian Chamber of Public Accountants and Tax Advisers and international financial information service companies. In 2015 it was at 9.0 % (2014: 5.6 % -8.1 %). Market risk premium used in these calculations in 2015 was at 6.75 % (2014: 5.75 %) beta values were at 1.1 (2014: 0.66 - 1.1), while discounts of up to 20 % are applied to illiquidity and for other price risks up to 32 %. Additional sovereign risks were not observed. Procedures are also used where fair values are determined by adapting available market data for similar financial instruments. Participations whose fair value cannot be reliably determined are carried at cost. Impairment is recorded for losses in value. If the reason for impairment ceases to exist, the impairment loss is reversed and recognised directly in equity with due consideration of deferred taxes.

t) Intangible and tangible fixed assets

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

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

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

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

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

Lease contracts for operating lease assets have an average maturity of four years and are basically for vehicles. The lessee has the right of premature cancellation of the contract. A takeover of the leasing object by the lessee after the end of the contract (also in case of premature cancellation) is excluded.

Leasing income from operating lease assets is recognized on a straight-line basis over the term of the contract through profit and loss and presented with depreciation in interest and similar income.

u) Tax assets and liabilities

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

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

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

v) Other assets

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

w) Assets held for sale

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

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

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

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

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

Discontinued operations are reportable segments at the association. A major line of business or geographical area of operations that is reported to the Managing Board and has a significant impact on the association´s financial situation is presented as a discontinued operation if all the requirements are met. If the association discontinues business activities in a particular country, this only constitutes a discontinued operation if certain size-related criteria are exceeded. If the association discontinues business activities in an entire region, this always constitutes a discontinued operation regardless of the above-mentioned size criteria. A region is any area presented separately in the annual report in the regional allocation of total receivables to the strategic business fields.

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

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

In the case of a discontinued operation, the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups constituting the discontinued operation are reported on the statement of comprehensive income.

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

x) Liabilities

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

y) Employee benefits

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

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

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

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

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

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

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

Principal actuarial assumptions

	2015	2014	2013
Expected return on provisions for pensions	1.50 %	1.60 %	3.00 %
Expected return on provisions for severance payments	2.00 %	2.00 %	3.00 %
Expected return on anniversary pensions	2.00 %	1.80 %	3.00 %
Expected return on plan assets	1.50 %	1.60 %	3.00 %
Future salary increase	3.00 %	3.00 % – 3.50 %	3.50 %
Future pension increase	2.00 %	2.00 %	2.00 %
Fluctuation rate	none	none	none

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

The current retirement age limits are generally taken into account in these calculations. It is assumed that, as a rule, men will retire at the age of 65 years and women at the age of 60 years. Any transitional arrangements are disregarded. For staff not employed in Austria, the standard retirement age stipulated in the respective country is applied.

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

z) Other provisions

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

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

aa) Other liabilities

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

bb) Subordinated Liabilities

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

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

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

cc) Equity

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

Capital management is done on the basis of the supervisory capital. For further details see chapter ee) Own funds and chapter 51) c) Risk strategy and internal capital adequacy assessment process.

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

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

dd) Reserves

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

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

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

ee) Own funds

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

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

Regulatory own funds can be broken down into three elements:

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

The first two components comprise the Tier I capital.

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

T2 includes non-current subordinated liabilities.

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

From 2016, banks must also build up a capital conservation buffer step by step each year to reach 2.5 percentage points in 2019. This must consist of CET1 capital. In 2016 the required capital conservation buffer is 0.625 %.

The Austrian Financial Market Authority (FMA) has stipulated an additional systemic risk buffer for some Austrian banks on an individual basis based on the Capital Buffer Regulation (*Kapitalpuffer-Verordnung*) effective from 1 January 2016. The capital buffer is intended to absorb the risks arising from the large degree of interdependence between banks. This requirement does not apply to the banking association of austrian Volksbanks.

Alongside the systemic risk buffer, the Capital Buffer Regulation also governs the FMA's countercyclical capital buffer. This buffer is intended to counteract any credit bubbles that emerge and is currently set at 0.0 percentage points for claims in Austria. The suitability of this buffer will in future be evaluated on a quarterly basis by the Financial Market Stability Board.

The JRAD process – a periodic process used by the supervisory authorities to assess banks' capital adequacy – may give rise to higher regulatory ratios. As the ECB approved the new banking association pursuant to section 30a BWG with VBW as the CO by a resolution of 2 July 2015, no new SREP ratio has yet been stipulated for the newly approved association.

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

ff) Trustee transaction

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

gg) Repurchase transactions

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

hh) Contingent liabilities

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

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

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

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

ii) Cash flow statement

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

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

4) Net interest income

Euro thousand	2015	2014
Interest and similar income	691,484	926,660
Interest and similar income from	669,335	904,421
liquid funds	-1,936	354
credit and money market transactions with credit institutions	9,179	26,284
credit and money market transactions with customers	569,393	671,087
debt securities	54,221	77,565
derivatives in the investment book	38,479	129,131
Current income from	16,494	19,627
equities and other variable-yield securities	13,017	11,891
other affiliates	1,575	3,178
investments in other companies	1,902	4,559
Income from operating lease and investment property	5,655	2,612
rental income investment property	3,490	2,390
income from operating lease contracts	2,165	222
rental income	2,165	1,229
depreciations	0	-1,008
Interest and similar expenses of	-151,665	-312,403
deposits from credit institutions (including central banks)	-7,945	2,592
deposits from customers	-105,524	-187,071
debts evidenced by certificates	-14,169	-86,857
subordinated liabilities	-9,000	-28,157
derivatives in the investment book	-15,027	-12,910
Net interest income	**539,819**	**614,257**

Net interest income according to IAS 39 categories:

Euro thousand	2015	2014
Interest and similar income	691,484	926,660
Interest and similar income from	669,335	904,421
financial investments at fair value through profit or loss	0	818
derivatives in the investment book	38,479	129,131
financial investments not at fair value through profit or loss	630,856	774,472
financial investments available for sale	50,566	56,563
financial investments at amortised cost	576,644	701,091
of which financial lease	4,367	28,718
of which unwinding of risk provisions	5,909	3,147
financial investments held to maturity	3,646	16,819
Current income from	16,494	19,627
financial investments at fair value through profit or loss	0	525
financial investments available for sale	16,494	19,102
Operating lease operations and investment property	5,655	2,612
Interest and similar expenses of	-151,665	-312,403
derivatives in the investment book	-15,027	-12,910
financial investments at amortised cost	-136,638	-299,493
Net interest income	**539,819**	**614,257**

Due to the trend of money market interest rates towards negative reference rates, interest income of euro 18,880.00 thousand and interest expenses of euro -3,801 thousand were realised in the 2015 business year. Negative interest income is reported in the cash reserve in interest income. All other results from negative interest rates are reported gross rather than as reductions of the relevant interest item.

The main reasons for the negative interest rates are, firstly, the reduction in the ECB's deposit rate (penalty rate), the negative effect of which is euro -1,936 thousand and otherwise primarily involve CHF/EUR swaps.

5) Risk provisions

Euro thousand	2015	2014
Allocation to risk provisions	-158,540	-236,661
Release of risk provisions	158,035	248,794
Allocation to provisions for risks	-24,860	-34,473
Release of provisions for risks	25,977	3,409
Direct write-offs of loans and advances	-58,171	-12,674
Income from loans and receivables previously written off	7,351	3,540
Risk provisions	**-50,208**	**-28,065**

6) Net fee and commission income

Euro thousand	2015	2014
Fee and commission income from	271,972	312,325
lending operations	36,656	43,556
securities businesses	86,299	112,218
payment transactions	105,504	105,643
from foreign exchange, foreign notes and coins and precious metals transactions	9,631	13,160
other banking services	33,882	37,748
Fee and commission expenses from	-39,414	-45,886
lending operations	-5,932	-9,222
securities businesses	-16,758	-20,582
payment transactions	-10,262	-8,994
from foreign exchange, foreign notes and coins and precious metals transactions	-941	-792
other banking services	-5,520	-6,296
Net fee and commision income	**232,559**	**266,440**

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

Management fees for trust agreements were recognised in fee and commission income in the amount of euro 3 thousand (2014: euro 3 thousand).

7) Net trading income

Euro thousand	2015	2014
Equity related transactions	58	7,643
Exchange rate related transactions	2,665	2,085
Interest rate related transactions	10,737	14,446
from others	1	1
Net trading income	**13,460**	**24,176**

8) General administrative expenses

Euro thousand	2015	2014
Staff expenses	-387,187	-434,101
Wages and salaries	-280,531	-317,975
Expenses for statutory social security	-75,843	-82,394
Fringe benefits	-5,373	-5,647
Expenses for retirement benefits	-6,789	-10,547
Allocation to provision for severance payments and pensions	-18,651	-17,539
Other administrative expenses	-242,535	-226,547
Depreciation of fixed tangible and intangible assets	-41,749	-42,659
Scheduled depreciation (-)	-40,434	-41,165
Impairment (-)	-1,315	-1,494
General administrative expenses	**-671,472**	**-703,306**

Staff expenses include payments for defined contribution plans totalling euro 8,262 thousand (2014: euro 9,746 thousand).

Other administrative expenses include expenses for managing contracts for investment properties to the amount of euro 676 thousand (2014: euro 3,484 thousand).

For the business year, expenses for the auditor KPMG Austria GmbH Wirtschaftsprüfung und Steuerberatungsgesellschaft and Österreichischer Genossenschaftsverband (Schulze-Delitzsch) amounted to euro 6,654 thousand (2014: euro 3,275 thousand). Thereof euro 5,842 thousand (2014: euro 2,137 thousand) fall upon the audit of the consolidated financial statements including financial statements of fully consolidated companies and joint enterprises, euro 27 thousand (2014: euro 424 thousand) upon advisory services, euro 37 thousand (2014: euro 20 thousand) upon tax advisory services and euro 748 thousand (2014: euro 693 thousand) upon other audit services. In business year 2014 only expenses for the auditor KPMG Austria GmbH Wirtschaftsprüfung und Steuerberatungsgesellschaft are contained.

Information on compensation to board members

Euro thousand	2015	2014
Total compensation		
Member of the council of delegates	0	2,534
Supervisory board VBW (2014: VBAG)	958	1,682
Managing board VBW (2014: VBAG)	1,342	1,948
Member of the managing board / Managing directors Volksbanks	15,626	17,744
Expenses for severance payments and pensions		
Member of the council of delegates	0	183
Supervisory board VBW (2014: VBAG)	60	181
Managing board VBW (2014: VBAG)	902	820
Member of the managing board / Managing directors Volksbanks	3,694	2,595

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

Number of staff employed, including disposal group

	Number of staff at year end	
	31 Dec 2015	31 Dec 2014
Domestic	4,929	5,756
Abroad	65	348
Total number of staff	4,994	6,104

The headcount was reduced by 868 employees due to the demerger of the remainder of VBAG.

9) Other operating result

Euro thousand	2015	2014
Other operating income	61,853	85,028
Proceeds from deconsolidation of subsidiaries	-421	0
Other operating expenses	-28,157	-12,546
Other taxes	-6,095	-29,780
Impairment of goodwill	-58	-58
Other operating result	**27,122**	**42,645**

Other operating income includes euro 2,898 thousand from the repurchase of issues (2014: other operating expenses in the amount of euro -25,197 thousand). In the previous year, income resulting from adjustment to the carrying amounts of PS 2008 and VBAG's supplementary capital bonds in accordance with IAS 39 AG 8 was recognised in the amount of euro 49,078 thousand. In the 2014 business year, income from recovery funding (*Besserungsgeld*) granted to VB Steiermark in the amount of euro 30,800 thousand was reported in other operating income.

Due to the departure of VB Regio Invest AG (VB Regio), supplementary capital subscribed by VB Regio was recognised in the association for the first time. Income from fair value measurement amounting to euro 7,346 thousand was reported under the deconsolidation result. Following the demerger of the remainder of VBAG, this item also includes an expense of euro 9,877 thousand arising from interim results now to be recognised on sales of equity investments. Due to the liquidation of JML Holding AG and JML AG, a sum of euro 2,110 thousand was reclassified from the existing currency reserve to the deconsolidation result.

Other taxes mainly comprise the banking levy.

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

10) Income from financial investments

Euro thousand	2015	2014
Result from financial investments at fair value through profit or loss	**0**	**-56**
Result from financial investments at fair value through profit or loss	0	-56
Debt securities	0	-175
Equity and other variable-yield securities	0	119
Result from fair value hedges	**-2,337**	**12,427**
Result from revaluation of underlying instruments	-30,622	9,517
Loans and advances to credit institutions and customers	-1,124	4,653
Debt securities	-47,530	148,949
Amounts owed to credit institutions and customers	-19	-49,435
Debts evidenced by certificates	19,753	-93,834
Subordinated liabilities	-1,702	-816
Result from revaluation of derivatives	28,285	2,910
Result from valuation of other derivatives in the investment book	**-8,409**	**-15,764**
Exchange rate related transactions	5,803	-5,619
Interest rate related transactions	-8,680	-6,162
Credit related transactions	-5,031	631
Other transactions	-501	-4,615
Result from available for sale financial investments (including participations)	**1,978**	**-12,085**
Realised gains / losses	35,057	8,116
Income from revaluation	187	218
Impairments	-33,266	-20,418
Result from loans & receivables financial investments	**6**	**-908**
Realised gains / losses	6	-448
Impairments	0	-460
Result from held to maturity financial investments	**0**	**354**
Realised gains / losses	0	354
Result from assets for operating lease and investment property assets as well as other financial investments	**3,924**	**-7,585**
Realised gains / losses	46	-5,155
Change in value investment property	3,878	-2,431
Income from financial investments	**-4,837**	**-23,617**

In 2015, an amount of euro 35,405 thousand (2014: euro 16,428 thousand) previously recognised in the available for sale reserve was reclassified and shown in the income statement. The result affects the financial investments item.

Euro thousand	2015	2014
Result from financial investments, which are measured at fair value through profit or loss	**-6,867**	**-5,824**
Financial instruments at fair value through profit or loss	0	-56
Fair value hedges	-2,337	12,427
Other derivatives in the investment book	-8,409	-15,764
Investment property assets	3,878	-2,431
Result from financial investments, which are not measured at fair value through profit or loss	**2,030**	**-17,794**
Realised gains / losses	35,109	2,868
Available for sale financial investments	35,057	8,116
Loans & reveivables financial investments	6	-448
Held to maturity financial investments	0	354
Operating lease assets and other financial investments	46	-5,155
Income from revaluation	187	218
Available for sale financial investments	187	218
Impairments	-33,266	-20,879
Available for sale financial investments	-33,266	-20,418
Loans & receivables financial investments	0	-460
Income from financial investments	**-4,837**	**-23,617**

11) Income taxes

Euro thousand	2015	2014
Current income taxes	-5,889	-21,921
Deferred income taxes	34,253	-25,706
Income taxes discounted operation	11,225	-14,392
Current income taxes	-2,984	-11,234
Deferred income taxes	14,208	-3,157
Income taxes for the current fiscal year	**39,589**	**-62,018**
Income taxes from previous periods continued operation	-994	2,209
Income taxes from previous periods	-994	2,209
Income taxes	**38,595**	**-59,809**

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

Euro thousand	2015	2014
Annual result before taxes - continued operation	86,123	156,636
Annual result before taxes - discontinued operation	-191,900	-397,026
Annual result before taxes - total	**-105,777**	**-240,390**
imputed income tax 25 %	-26,444	-60,097
Tax relief resulting from		
tax-exempt investment income	-7,286	-34,557
investment allowances	-29	923
other tax-exempt earnings	-657	-6,239
release of untaxed reserve	4,433	0
cancellation of measurement of participation	0	-82,683
measurement of participation	962	29,714
non-taxable valuation results	0	1,724
adjustment of deferred tax assets	-328	-987
non-inclusion of deferred tax assets	169	282,934
re-inclusion of deferred tax assets	-11,631	-67,340
changes in tax rates	0	-4
different foreign tax rates	-711	-3,377
other differences	1,933	2,008
Reported income taxes	**-39,589**	**62,018**
Effective tax rate - continued operations	**-45.97 %**	**39.59 %**
Effective tax rate - including discontinued operations	37.43 %	-25.80 %

Due to re-recognition of deferred tax assets and, in the previous year, non-recognition of deferred tax assets particularly on tax loss carryforwards, the effective tax rates in 2015 and 2014 differ significantly from the statutory tax rate applicable in Austria.

Euro thousand	2015 Result before tax	2015 Income taxes	2015 Result after tax	2014 Result before tax	2014 Income taxes	2014 Result after tax
Revaluation obligation of defined benefit plans (IAS 19)	-1,484	378	-1,106	-28,079	7,061	-21,019
Currency reserve	4,163	0	4,163	11,274	0	11,274
Available for slae reserve	-17,812	4,527	-13,286	-11,208	-1,408	-12,617
Hedging reserve	156	-34	122	-177	44	-133
Change in deferred taxes of untaxed reserve	0	4,408	4,408	0	998	998
Change from companies measured at equity	12,250	437	12,687	-20,740	464	-20,277
Other comprehensive income total	**-2,728**	**9,716**	**6,988**	**-48,931**	**7,158**	**-41,773**

Notes to the consolidated statement of financial positions

12) Liquid funds

Euro thousand	31 Dec 2015	31 Dec 2014
Cash in hand	228,986	238,297
Balances with central banks	1,292,939	1,357,976
Liquid funds	**1,521,925**	**1,596,274**

13) Loans and advances to credit institutions

Loans and advances to credit institutions amounting to euro 619,223 thousand (2014: euro 1,365,464 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2015	31 Dec 2014
on demand	220,664	582,596
up to 3 months	217,401	485,535
up to 1 year	31,572	2,283
up to 5 years	109,532	460
more than 5 years	40,054	294,589
Loans and advances to credit institutions	**619,223**	**1,365,464**

Further information on maturities are included in note 51) d) Credit risk.

14) Loans and advances to customers

Loans and advances to customers amounting to euro 22,619,294 thousand (2014: euro 26,540,816 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2015	31 Dec 2014
on demand	992,558	1,822,498
up to 3 months	922,091	1,248,802
up to 1 year	2,165,152	2,609,947
up to 5 years	6,587,164	8,275,305
more than 5 years	11,952,329	12,584,264
Loans and advances to customers	**22,619,294**	**26,540,816**

Further information on maturities are included in note 51) d) Credit risk.

Finance lease disclosures

Euro thousand	until 1 year	until 5 years	more than 5 years	Total
2015				
Total gross investment	6,539	54,428	5,042	66,009
Less paid non-interest-bearing deposits	0	-1,540	0	-1,540
Less unearned financial income	0	0	0	0
Present value of minimum lease payments	**6,539**	**52,888**	**5,042**	**64,469**
Total unguaranteed residual value				**7,035**
2014				
Total gross investment	545,361	985,330	121,702	1,652,393
Less paid non-interest-bearing deposits	-515	-3,943	-1,167	-5,625
Less unearned financial income	-95,418	-163,570	-19,081	-278,070
Present value of minimum lease payments	**449,427**	**817,817**	**101,453**	**1,368,698**
Total unguaranteed residual value				**5,081**

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

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

15) Risk provisions

Euro thousand	Individual impairment credit institutions	Individual impairment customers	Portfolio based allowance	Total
As at 1 Jan 2014	**703**	**1,336,844**	**141,181**	**1,478,728**
Changes in the scope of consolidation	0	-95,778	-4,748	-100,526
Currency translation	0	-4,952	-64	-5,016
Reclassification	0	-21,747	0	-21,747
Unwinding	0	-3,147	0	-3,147
Utilisation	0	-450,991	0	-450,991
Release	0	-275,374	-75,187	-350,561
Addition	0	334,043	5,937	339,980
As at 31 Dec 2014	**703**	**818,897**	**67,119**	**886,719**
Changes in the scope of consolidation	-703	-279,099	-7,088	-286,889
Currency translation	0	3,808	501	4,309
Reclassification	0	35,432	-393	35,039
Unwinding	0	-5,909	0	-5,909
Utilisation	0	-193,612	0	-193,612
Release	0	-171,926	-7,651	-179,577
Addition	0	162,926	16,508	179,434
As at 31 Dec 2015	**0**	**370,517**	**68,996**	**439,513**

Loans and advances to customers include non-interest-bearing receivables amounting to euro 386,390 thousand (2014: euro 807,814 thousand). The additions include an amount of euro 2,679 thousand (2014: euro 5,482 thousand), which is caused by allocation due to interest past-due. The line reclassification includes beside reclassifications from provisions also a reclassification to the position assets held for sale. Portfolio based allowances related to loans and advances to customers.

16) Trading assets

Euro thousand	31 Dec 2015	31 Dec 2014
Debt securities	611	32,984
Equity and other variable-yield securities	0	14,809
Positive fair value from derivatives	161,981	1,468,571
equity related transactions	0	26,886
exchange rate related transactions	5,527	5,023
interest rate related transactions	154,422	1,436,662
Trading assets	**162,592**	**1,516,364**

Breakdown by residual term

Euro thousand	31 Dec 2015	31 Dec 2014
up to 3 months	0	13,999
up to 5 years	611	4,053
more than 5 years	0	14,932
Debt securities	**611**	**32,984**

VBW as the CO maintains a trading book. The volume of the trading book as at 31 December 2015 amounts to euro 5,682,617 thousand.

17) Financial investments

Euro thousand	31 Dec 2015	31 Dec 2014
Financial investments at fair value through profit or loss	0	20,542
Debt securities	0	11,571
Equity and other variable-yield securities	0	8,970
Financial investments available for sale	2,330,406	3,532,092
Debt securities	2,031,659	3,148,341
Equity and other variable-yield securities	298,747	383,751
Financial investments loans & receivables	414	187,182
Financial investments held to maturity	70,716	366,574
Financial investments	**2,401,536**	**4,106,389**

Financial investments held to maturity also include deferred interest of euro 1,383 thousand (2014: euro 4,417 thousand).

Breakdown by residual term

Euro thousand	31 Dec 2015	31 Dec 2014
up to 3 months	35,292	139,163
up to 1 year	80,493	313,212
up to 5 years	809,344	1,432,081
more than 5 years	1,177,660	1,829,211
Debt securities	**2,102,789**	**3,713,667**

Breakdown of debt securities in accordance with the Austrian Banking Act

Euro thousand	31 Dec 2015	31 Dec 2014
Listed securities	2,131,967	3,685,565
Debt securities	2,077,332	3,612,082
Equity and other variable-yield securities	54,635	73,483
Securities allocated to fixed assets	2,195,289	3,557,711
Securities eligible for rediscounting	1,937,942	3,008,945

Financial investments measured at fair value through profit or loss

Financial investments have been designated at fair value through profit or loss as the group manages these investments on a fair value basis in accordance with its investment strategy. Internal reporting and performance measurement for these investments are conducted on a fair value basis.

Reclassification from available for sale to loans & receivables

In accordance with the amendments to IAS 39 and IFRS 7, available for sale financial investments were reclassified to the loans & receivables category in 2008. On initial recognition, these securities met the definition for the loans & receivables category but were instead designated as available for sale. The reclassification to the loans & receivables category was performed on 1 July 2008. The fair value at the reclassification date was applied as the new carrying amount of these securities.

Portfolios are allocated to the remainder of VBAG and deconsolidated with effect from 4 July 2015.

Euro thousand	31 Dec 2015	31 Dec 2014	01 Jul 2008
Carrying amount	0	27,120	1,140,363
Fair value	0	28,002	1,140,363
Available for sale reserve with reclassification	0	-76	-79,177
Available for sale reserve without reclassification	0	-861	-79,177

Average effective interest rate - classified by currency

	EUR	USD	GBP	JPY	Total
Average effective interest rate 2014	1.50 %	1.21 %	2.59 %	0.00 %	1.21 %

18) Investment property

Euro thousand	Investment properties
Cost as at 1 Jan 2014	417,743
Changes in the scope of consolidation	15,132
Currency translation	-480
Additions, including transfers	8,660
Disposals, including transfers	-95,173
Cost as at 31 Dec 2014	345,883
Changes in the scope of consolidation	-176,610
Currency translation	133
Additions, including transfers	14,269
Disposals, including transfers	-82,958
Cost as at 31 Dec 2015	**100,717**

Euro thousand	Investment properties
2014	
Cost as at 31 Dec 2014	345,883
Cumulative write-downs and write-ups	-88,400
Carrying amount as at 31 Dec 2014	**257,483**
Impairments of fiscal year	-33,380
Revaluations of fiscal year	8,656
Carrying amount as at 01 Jan 2014	305,506
2015	
Cost as at 31 Dec 2015	100,717
Cumulative write-downs and write-ups	-10,159
Carrying amount as at 31 Dec 2015	**90,557**
Impairment of fiscal year	-10,891
Revaluations of fiscal year	11,097

The valuations shown in the table above are included within the income from financial investments item. These valuations include holdings of investment property assets to the amount of euro -1,146 thousand (2014: euro -2,315 thousand) at the reporting date.

In 2015, carrying amount of investment property assets to the amount of euro 71,563 thousand (2014: euro 16,841 thousand) was disposed of.

Investment properties contain 110 completed properties (2014: 118) with a carrying amount of euro 90,557 thousand (2014: euro 225,356 thousand), as well as undeveloped land with a carrying amount of euro 0 thousand (2014: euro 26,877 thousand). These properties are located in Austria (2014: as well in countries of Central and Eastern Europe). In 2015 there was no property under construction (2014: one property under construction with a carrying amount of euro 5.250 thousand). At balance sheet date, the properties under construction and the undeveloped land are measured at fair value.

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

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

19) Companies measured at equity

Euro thousand	Joint venture	Associates
Carrying amount as at 1 Jan 2014	0	5,626
Changes in the scope of consolidation	19,854	19,938
Additions	328,660	0
Disposals	0	0
Comprehensive income proportional	-226,480	-851
Received dividend	-187	-349
Recognition of prior year losses	-44,955	0
Impairment	-78,929	0
Reversal of impairment	56,979	0
Transfer IFRS 5 held for sale	-33,760	0
Carrying amount as at 31 Dec 2014	21,181	24,363
Changes in the scope of consolidation	-46,532	-24,749
Additions	5,000	0
Disposals	-14,760	0
Comprehensive income proportional	1,628	996
Received dividend	-277	-611
Recognition of prior year losses	0	0
Impairment	0	0
Reversal of impairment	0	0
Transfer IFRS 5 held for sale	33,760	0
Carrying amount as at 31 Dec 2015	**0**	**0**

Joint ventures

The association held shares in the following joint ventures: VBI Beteiligungs GmbH (VBI Bet), which held 100 % of the shares in Volksbank Romania S.A. (VBRO) in Bucharest. The association also held shares in Marangi Immobiliare s.r.l (Marangi), Viktoria-Volksbanken Vorsorgekasse Aktiengesellschaft (VVBVK) and Viktoria-Volksbanken Pensionskassen Aktiengesellschaft (VVBPK). Shares in Volksbank Romania S.A. (VBRO) have been sold at 7 April 2015. Also the shares in Marangi Immobiliare s.r.l (Marangi) have been sold at 11 June 2015. Shares in VBI Bet, VVBVK and VVBPK were disposed of upon the demerger of the remainder of VBAG from the association.

None of these companies were listed.

The portion of the carrying amount (measured at equity) attributed to VBRO was reclassified to assets held for sale at year-end 2014. As the stake in VBRO was held through a holding company that was not sold with VBRO, assets held for sale were reclassified back as a result of the holding company’s capital gain arising from the sale. The valuation in the 2014 business year also included expenses of euro 5 million that were incurred by immigon as a result of early redemption of refinancing in relation to the shareholding in VBRO and taken into account in the estimated purchase price. As the actual purchase price in 2015 was higher, a corresponding addition has now resulted. Proportional comprehensive income includes the result from ongoing business operations at VBI Bet as well as income from a lower than expected purchase price discount (compared to 2014 figures).

In addition to the proportionate comprehensive income of the joint ventures sold, the result from the sale of Marangi euro 3,159 is reported under income from discontinued operations.

In the following, the financial information of VBI Bet together with VBRO is reported separately and that of the other three immaterial companies in aggregated form.

The carrying amounts for 2015 no longer include joint ventures sold or disposed of in the 2015 business year; the statement of comprehensive income for 2015 reports the results of these companies up to the time of sale and the holdings disposed of with the remainder of VBAG up to 4 July 2015.

Additional information regarding joint ventures

Euro thousand	VBI Bet + VBRO 2015	VBI Bet + VBRO 2014	Other companies 2015	Other companies 2014
Assets				
Liquid funds	0	533,833	0	1
Loans and advances to credit institutions (gross)	0	116,464	0	3,486
Loans and advances to customers (gross)	0	1,930,989	0	1,423
Risk provisions	0	-218,399	0	0
Financial investments	0	333,878	0	27,980
Other assets	0	63,902	0	81,797
Total assets	0	2,760,667	0	114,687
Liabilities and Equity				
Amounts owed to credit institutions	0	907,803	0	36,769
Amounts owed to customers	0	1,047,549	0	8,925
Subordinated liabilities	0	161,088	0	0
Other liabiliites	0	483,172	0	17,793
Equity	0	161,055	0	51,200
Total liabilities and equity	0	2,760,667	0	114,687
Statement of comprehensive income				
Interest and similar income	29,700	147,576	2,496	7,553
Interest and similar expense	-12,095	-64,549	-581	-809
Net interest income	17,605	83,027	1,914	6,744
Risk provisions	-4,558	-45,836	0	0
Result before taxes	-32,149	-428,660	1,222	3,179
Income taxes	-103	980	-278	-303
Result after taxes	-32,252	-427,681	944	2,876
Other comprehensive income	61,012	-17,051	0	0
Comprehensive income	28,761	-444,732	944	2,876

Not recognised proportional loss

Euro thousand	2015	2014	2015	2014
Loss of the period proportional	0	0	0	0
Change in other comprehensive income of the period proportional	0	0	0	0
Cumulative loss	0	0	0	0
Cumulative other comprehensive income	0	0	0	0

Reconciliation

Euro thousand	2015	2014	2015	2014
Equity	0	161,055	0	51,200
Equity interest	0 %	51.00 %	n.a.	n.a.
Equity proportional	0	82,138	0	25,194
Cumulative impairment and reversals	0	-21,950	0	0
Valuation previous years	0	-252,196	0	-5,194
Transfer carrying amount	0	226,950	0	0
Carrying amount as at 31 Dec	0	34,942	0	20,000
of which assets held for sale		33,760		

In the reconciliation, the proportionate equity is reconciled with the carrying amount. As the other companies are aggregated, it is not possible to state the shareholding. The line for valuations from previous years shows the results from previous years for companies included for the first time in the 2014 business year. Valuations for previous years have not been obtained subsequently. Reclassifications to the carrying amount recognise capital increases promised for subsequent years.

Associates

In 2014 the association held shares in the following associated companies. 40 % shares of VBV delta Anlagen Vermietung Gesellschaft m. b.H (VBV delta) with head office in Vienna and 30 % shares of TPK-24 Sp.z.o.o. (TPK-24) with head office in Warsaw. Both companies are active in the property development business.

All shares in associated companies were disposed of upon the demerger of the remainder of VBAG from the association.

In the following, the financial information is presented for all companies in aggregated form as none of the companies are deemed material in terms of the proportion of the financial information relevant to association's reporting. Since the companies were demerged from the association on 4 July 2015, no balance sheet figures are given for 2015. The result up to the date of demerger is reported in the statement of comprehensive income.

Additional information regarding associates

Euro thousand	2015	2014
Assets		
Loans and advances to credit institutions (gross)	0	2,720
Financial investments	0	65,795
Other assets	0	22,137
Total assets	0	90,652
Liabilities and Equity		
Amounts owed to credit institutions	0	6,058
Other liabiliites	0	7,114
Equity	0	77,481
Total liabilities and equity	0	90,652
Statement of comprehensive income		
Interest and similar income	2,216	4,406
Interest and similar expense	-84	-192
Net interest income	2,132	4,214
Result before taxes	2,038	3,815
Income taxes	-314	-3,718
Result after taxes	1,724	98
Other comprehensive income	1,291	-1,885
Comprehensive income	3,016	-1,787

Not recognised proportional loss

Euro thousand	2015	2014
Loss of the period proportional	0	0
Change in other comprehensive income of the period proportional	0	0
Cumulative loss	0	0
Cumulative other comprehensive income	0	0

Reconciliation

Euro thousand	2015	2014
Equity	0	77,481
Equity interest	n.a.	n.a.
Equity proportional	0	24,363
Cumulative impairment and reversals	0	0
Not recognised proportional loss	0	0
Valuation previous years	0	0
Transfer carrying amount	0	0
Carrying amount as at 31 Dec 2015	0	24,363

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

20) Participations

Euro thousand	31 Dec 2015	31 Dec 2014
Investments in unconsolidated affiliates	16,370	56,304
Participating interests	1,509	30,052
Investments in other companies	18,000	182,175
Participations	**35,880**	**268,531**

A list of non-consolidated affiliates can be found in note 54) Participations with a carrying amount of euro 5.855 Tsd. (2014: EUR 56.007 Tsd.) were disposed of during the business year. Profit from these sales amounted to euro 66 Tsd. (2014: EUR 14.837 Tsd.) and is shown under income from financial investments.

Participations in companies whose fair value cannot be reliably determined are carried at cost net of any impairment. Participations with a carrying amount of euro 5,528 thousand (2014: euro 208,171 thousand) were measured at market value.

21) Intangible assets

Euro thousand	Software	Goodwill	Other	Total
Cost as at 1 Jan 2014	68,089	5,501	4,587	78,176
Changes in the scope of consolidation	-4,625	-3,258	-78	-7,961
Currency translation	-15	29	31	44
Additions including transfers	4,249	0	95	4,344
Disposals including transfers	-4,803	0	-292	-5,095
Cost as at 31 Dec 2014	62,895	2,271	4,342	69,508
Changes in the scope of consolidation	-14,657	0	402	-14,255
Currency translation	188	0	0	189
Additions including transfers	3,581	0	14	3,595
Disposals including transfers	-7,425	-1,406	-2,008	-10,838
Cost as at 31 Dec 2015	**44,583**	**866**	**2,750**	**48,198**

Euro thousand	Software	Goodwill	Other	Total
2014				
Cost as at 31 Dec 2014	62,895	2,271	4,342	69,508
Cumulative write-downs and write-ups	-50,515	-2,040	-3,828	-56,384
Carrying amount as at 31 Dec 2014	**12,380**	**231**	**513**	**13,124**
of which unlimited useful life	0	231	0	231
of which limited useful life	12,380	0	513	12,893
Amortisation in fiscal year	-6,257	0	-249	-6,506
Impairments in fiscal year	-752	-58	-1	-811
Carrying amount as at 1 Jan 2014	15,516	709	782	17,006
2015				
Cost as at 31 Dec 2015	44,583	866	2,750	48,198
Cumulative write-downs and write-ups	-38,528	-693	-2,049	-41,269
Carrying amount as at 31 Dec 2015	**6,055**	**173**	**702**	**6,930**
of which unlimited useful life	0	173	0	173
of which limited useful life	6,055	0	702	6,757
Amortisation in fiscal year	-5,300	0	-164	-5,464
Impairment in fiscal year	-1,624	-58	0	-1,682

Composition of goodwill

Euro thousand	Carrying amount 31 Dec 2015	Impairment 2015	Carrying amount 31 Dec 2014	Impairment 2014
VB Real Estate Group	0	0	0	0
Total	**0**	**0**	**0**	**0**

22) Tangible fixed assets

Euro thousand	Land and buildings	EDP-equipment	Office furniture and equipment	Other operating lease assets	Other	Total
Cost as at 1 Jan 2014	625,924	55,639	280,221	99,310	65,126	1,126,220
Changes in the scope of consolidation	-3,885	-2,443	-1,726	-15,557	-3,074	-26,685
Currency translation	301	-25	19	-664	-58	-428
Additions, including transfers	43,867	5,513	11,737	19,559	3,910	84,586
Disposals, including transfers	-11,565	-12,824	-18,073	-26,641	-29,188	-98,291
Cost as at 31 Dec 2014	654,642	45,860	272,177	76,008	36,716	1,085,402
Changes in the scope of consolidation	1,331	-2,419	-10,504	-72,307	-4,192	-88,092
Currency translation	1,865	95	279	445	29	2,713
Additions, including transfers	31,212	2,499	10,187	7,487	1,712	53,097
Disposals, including transfers	-14,593	-6,408	-33,534	-11,633	-7,013	-73,181
Cost as at 31 Dec 2015	**674,457**	**39,626**	**238,605**	**0**	**27,251**	**979,939**

Euro thousand	Land and buildings	EDP-equipment	Office furniture and equipment	Other operating lease assets	Other	Total
2014						
Cost as at 31 Dec 2014	654,642	45,860	272,177	76,008	36,716	1,085,402
Cumulative write-downs and write-ups	-254,092	-37,941	-200,932	-29,315	-14,062	-536,342
Carrying amount as at 31 Dec 2014	**400,550**	**7,919**	**71,245**	**46,693**	**22,654**	**549,061**
Depreciation in fiscal year	-16,081	-4,947	-14,613	-14,604	-2,302	-52,547
Impairments in fiscal year	-321	-28	-429	-95	0	-873
Carrying amount as at 1 Jan 2014	388,488	7,883	76,357	59,730	41,074	573,532
2015						
Cost as at 31 Dec 2015	674,457	39,626	238,605	0	27,251	979,939
Cumulative write-downs and write-ups	-271,227	-33,845	-185,110	0	-10,041	-500,224
Carrying amount as at 31 Dec 2015	**403,230**	**5,781**	**53,494**	**0**	**17,210**	**479,716**
Depreciation of fiscal year	-17,514	-3,879	-12,986	-5,740	-1,386	-41,505
Impairment of fiscal year	-475	0	0	0	-1	-476

The future minimum lease payments under non-cancellable operating leases

Euro thousand	31 Dec 2015	31 Dec 2014
up to 3 months	29	5,465
up to 1 year	87	14,738
up to 5 years	151	35,707
more than 5 years	0	12,785
Future minimum lease payments	**266**	**68,695**

23) Tax assets and liabilities

	31 Dec 2015		31 Dec 2014	
Euro thousand	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Current tax	18,419	3,797	28,252	18,933
Deferred tax	54,792	33,742	26,383	90,255
Tax total	**73,211**	**37,539**	**54,635**	**109,188**

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

	2015		2014		Net deviation 2015		
Euro thousand	Tax assets	Tax liabilities	Tax assets	Tax liabilities	Total	In income statement	In other Comprehensive income
Loans and advances to credit institutions	1,421	0	3,088	107	-1,560	-1,926	0
Loans and advances to customers, including risk provisions	68	64,055	10,130	157,457	83,340	11,030	0
Trading assets	233	1,685	3,966	2,213	-3,205	-1,168	0
Financial investments	47	79,258	3,523	116,047	33,313	-61,164	5,535
Investment property	0	14,412	13	19,351	4,925	-3,394	0
Participations	16,871	3,372	91,708	14,440	-63,769	-9,271	-1,008
Intangible and tangible fixed assets	39,607	723	28,656	145	10,373	30,986	0
Amounts owed to credit institutions	96	207	18,348	896	-17,562	-9,966	0
Amounts owed to customers	0	0	33,737	7	-33,730	-5,339	0
Debts evidenced by certificates and subordinated liabilities	33,751	564	81,774	27,399	-21,188	21,661	0
Trading liabilities	1,684	349	2,204	129	-741	744	0
Provisions for pensions, severance payments and other provisions	36,781	12,662	51,310	77,147	49,956	42,586	378
Other assets and liabilities	102,618	50,083	238,190	188,626	2,971	11,850	-34
Other balance sheet items	0	44,679	0	63,492	18,813	-4,608	4,408
Tax loss carryforwards	59,921	0	36,936	0	22,986	26,440	0
Deferred taxes before netting	293,100	272,050	603,582	667,454	84,922	48,461	9,279
Offset between deferred tax asset and deferred tax liabilities	-238,308	-238,308	-577,199	-577,199	0	0	0
Reported deferred taxes	**54,792**	**33,742**	**26,383**	**90,255**	**84,922**	**48,461**	**9,279**

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

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

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

In 2015, tax loss carryforwards and deferred tax assets to the amount of euro -1,312 thousand (tax base) (2014: euro -3,946 thousand) were impaired. Furthermore, no deferred taxes were recognised for taxable loss carryforwards and for deferred tax assets to the amount of euro 677 thousand (2014: euro 1,131,734 thousand) as, in the opinion of the management, the realisation of these tax loss carryforwards and deferred tax assets does not appear to be probable over an adequate period of time (up to 4 years). Therefore no deferred taxes were recognised for tax loss carryforwards to the amount of euro 523,371 thousand (2014: euro 3,491,784 thousand). Of these taxable loss carryforwards euro 523,371 thousand (2014: euro 3,455,851 thousand) are without limitation, and are mainly attributable to the association itself (2014: VBAG).

24) Other assets

Euro thousand	31 Dec 2015	31 Dec 2014
Deferred items	18,531	24,930
Other receivables and assets	109,229	385,043
Positive fair value from derivatives in the investment book	88,660	453,472
Other assets	**216,420**	**863,444**

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

Euro thousand	31 Dec 2015 Fair value hedge	31 Dec 2015 Cash flow hedge	31 Dec 2014 Fair value hedge	31 Dec 2014 Cash flow hedge
Interest rate related transactions	68,076	0	253,839	0
Positive fair value from derivatives	**68,076**	**0**	**253,839**	**0**

25) Assets held for sale

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

Euro thousand	31 Dec 2015	31 Dec 2014
Loans and advances to credit institutions (gross)	0	317,369
Loans and advances to customers (gross)	26,773	96,030
Risk provisions (-)	0	-64,597
Investment property	0	5,434
Companies measured at equity	0	33,760
Other assets	0	33
Assets held for sale	**26,773**	**388,029**

26) Amounts owed to credit institutions

Euro thousand	31 Dec 2015	31 Dec 2014
Central banks	78,054	99,521
Other credit institutions	360,403	1,988,645
Amounts owed to credit institutions	**438,457**	**2,088,166**

Amounts owed to credit institutions are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2015	31 Dec 2014
on demand	338,141	557,801
up to 3 months	68,919	695,915
up to 1 year	9,097	76,929
up to 5 years	4,239	587,874
more than 5 years	18,060	169,647
Amounts owed to credit institutions	**438,457**	**2,088,166**

27) Amounts owed to customers

Euro thousand	31 Dec 2015	31 Dec 2014
Measured at amortised cost	22,323,653	24,129,004
Saving deposits	11,867,138	12,630,611
Other deposits	10,456,515	11,498,393
Amounts owed to customers	**22,323,653**	**24,129,004**

Amounts owed to customers are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2015	31 Dec 2014
on demand	12,183,774	11,453,473
up to 3 months	1,810,224	2,267,524
up to 1 year	3,938,030	4,348,497
up to 5 years	3,612,104	4,562,684
more than 5 years	779,521	1,496,827
Amounts owed to customers	**22,323,653**	**24,129,004**

28) Debts evidenced by certificates

Euro thousand	31 Dec 2015	31 Dec 2014
Bonds	1,485,908	3,431,055
Medium-term notes	262,208	488,874
Debts evidenced by certificates	**1,748,116**	**3,919,929**

Debts evidenced by certificates are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2015	31 Dec 2014
on demand	233	0
up to 3 months	91,876	227,448
up to 1 year	84,336	284,030
up to 5 years	609,020	2,121,508
more than 5 years	962,650	1,286,943
Debts evidenced by certificates	**1,748,116**	**3,919,929**

29) Trading liabilities

Euro thousand	31 Dec 2015	31 Dec 2014
Negative fair values from derivatives		
Equity related transactions	0	36,516
Exchange rate related transactions	19,243	16,115
Interest rate related transactions	371,644	1,392,601
others	2,032	935
Trading liabilities	**392,919**	**1,446,167**

30) Provisions

Euro thousand	Provisions for risk	Other provisions	Total
As at 1 Jan 2014	25,511	103,547	129,058
Changes in the scope of consolidation	0	-199	-199
Currency translation	165	47	212
Reclassification	4,081	-2,531	1,550
Utilisation	-5,635	-33,112	-38,747
Release	-5,086	-14,624	-19,710
Addition	34,473	61,752	96,225
As at 31 Dec 2014	53,508	114,880	168,388
Change in the scope of consolidation	-8,128	-73,194	-81,322
Currency translation	77	19	96
Reclassification	500	453	953
Utilisation	-10,967	-15,038	-26,006
Release	-28,343	-6,061	-34,404
Addition	24,860	11,586	36,445
As at 31 Dec 2015	**31,505**	**32,644**	**64,150**

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

The other provisions item provides for liabilities that are likely to lead to an outflow of funds in the future. The restructuring provision fulfils the criteria given under IAS 37.10 and totals euro 13,082 thousand (2014: euro 62,262 thousand) as at the reporting date. As most restructuring measures are to be implemented by the end of 2017 the provision is classified as a long-term provision. Other long-term provisions were recognised for pending litigation amounting to euro 8,678 thousand (2014: euro 20,006 thousand).

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

31) Long-term employee provisions

Euro thousand	Provisions for pensions	Provisions for severance payments	Provisions for anniversary bonuses	Total
Net present value as of 1 Jan 2014	151,021	159,940	22,448	333,409
Changes in the scope of consolidation	31	-239	-54	-262
Current service costs	3,746	5,586	1,566	10,899
Interest costs	4,191	4,588	635	9,414
Payments	-7,949	-11,130	-1,192	-20,271
Actuarial gains or losses	20,568	9,730	604	30,902
Net present value as of 31 Dec 2014	171,609	168,476	24,007	364,091
Changes in the scope of consolidation	-101,136	-17,953	-2,571	-121,660
Current service costs	916	5,003	1,577	7,496
Interest costs	1,074	3,058	385	4,517
Payments	-3,913	-10,906	-1,034	-15,853
Actuarial gains or losses	4,194	-224	-674	3,295
Net present value as of 31 Dec 2015	**72,743**	**147,455**	**21,690**	**241,888**

Net present value of plan assets

Euro thousand	Provisions for pensions
Net present value of plan assets as of 1 Jan 2014	41,980
Changes in the scope of consolidation	0
Return on plan assets	4,889
Contributions to plan assets	473
Payments	-2,402
Net present value of plan assets as of 31 Dec 2014	44,940
Changes in the scope of consolidation	-39,432
Return on plan assets	1,621
Contributions to plan assets	916
Payments	609
Net present value of plan assets as of 31 Dec 2015	**8,655**

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

Contribution payments to plan assets are expected in the amount of euro 0 thousand in 2016.

Euro thousand	Provisions for pensions	Provisions for severance payments	Provisions for anniversary bonuses	Total
31 Dec 2014				
Long-term employee provisions	171,609	168,476	24,007	364,091
Net present value of plan assets	-44,940	0	0	-44,940
Net liability recognised in balance sheet	**126,668**	**168,476**	**24,007**	**319,151**
31 Dec 2015				
Long-term employee provisions	72,743	147,455	21,690	241,888
Net present value of plan assets	-8,655	0	0	-8,655
Net liability recognised in balance sheet	**64,088**	**147,455**	**21,690**	**233,233**

Historical information

Euro thousand	2015	2014	2013	2012	2011
Net present value of obligation	241,888	364,091	333,409	335,524	313,628
Net present value of plan assets	8,655	44,940	41,980	38,413	35,769

Composition of plan assets

	31 Dec 2015			31 Dec 2014		
Euro thousand	Plan assets - quoted	Plan assets - non-quoted	Plan assets - total	Plan assets - quoted	Plan assets - non-quoted	Plan assets - total
Bond issues regional administration bodies	399	4	402	16,080	469	16,550
Bond issues credit institutions	76	4	80	2,684	207	2,891
Other bond issues	3,858	26	3,883	5,949	849	6,798
Shares european countries	1,351	126	1,476	6,138	0	6,138
Shares USA and Japan	65	0	65	3,820	0	3,820
Other shares	527	719	1,245	3,999	22	4,021
Derivatives	0	60	60	623	1,213	1,836
Real estate	291	769	1,060	0	1,341	1,341
Fixed deposit	0	0	0	0	14	14
Cash in hand	349	35	384	0	1,531	1,531
Total	**6,914**	**1,741**	**8,655**	**39,294**	**5,646**	**44,940**

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

Sensitivity analyses

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

	Change in the present value	
Euro thousand	increase of assumption	decrease of assumption
31 Dec 2014		
Discount rate (0.75 % modification)	-31,745	37,052
Future wage and salary increases (0.50 % modification)	13,993	-12,199
Future pension increase (0.25 % modification)	3,953	-5,950
Future mortality (1 year modification)	12,298	-7,606
31 Dec 2015		
Discount rate (0.75 % modification)	-17,924	21,397
Future wage and salary increases (0.50 % modification)	11,137	-9,499
Future pension increase (0.25 % modification)	2,702	-694
Future mortality (1 year modification)	3,621	-2,612

As of 31 December 2015, the weighted average term of defined-benefit obligations for pensions was 13.4 years (2014: 13.9 years) and for severance payments 12.1 years.

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

32) Other liabilities

Euro thousand	31 Dec 2015	31 Dec 2014
Deferred items	2,688	15,660
Other liabilities	197,333	753,668
Negative fair values from derivatives in the investment book	173,476	329,070
Other liabilities	**373,497**	**1,098,398**

The table below shows the fair values of derivatives used in hedge accounting in accordance with IFRS.

	31 Dec 2015		31 Dec 2014	
Euro thousand	Fair value hedge	Cash flow hedge	Fair value hedge	Cash flow hedge
Exchange rate related transactions	31,355	0	47,225	0
Interest rate related transactions	29,127	0	47,973	41
Negative fair value from derivatives	**60,482**	**0**	**95,198**	**41**

33) Liabilities held for sale

This item summarises liabilities that are intended for sale in accordance with IFRS 5. The amounts shown break down as follows.

Euro thousand	31 Dec 2015	31 Dec 2014
Amounts owed to customers	0	3,405
Provisions	0	1,150
Tax liabilities	0	6
Other liabilities	0	948
Liabilities held for sale	**0**	**5,509**

Liabilities held for sale are measured at amortised cost.

34) Subordinated liabilities

Euro thousand	31 Dec 2015	31 Dec 2014
Subordinated liabilities	147,381	578,466
Supplementary capital	237,549	253,102
Subordinated liabilities	**384,930**	**831,568**

Subordinated liabilities are measured at amortised cost. In business year 2014 the carrying amount of supplementary capital was re-calculated in accordance with IAS 39 AG 8. Here, the present value was determined by discounting estimated future cash flows using the original effective interest rate. The participation capital subscribed by VB Regio Invest AG (VB Regio) in the Volksbanks was recognised for the first time due to VB Regio's demerger from the association in the 2015 business year. This item was recognised at fair value in the amount of euro 71,984 thousand.

In 2014 subordinated liabilities comprise hybrid tier I capital in the amount of euro 57,698 thousand. Portfolios are allocated to the remainder of VBAG and deconsolidated with effect from 4 July 2015.

Breakdown by residual term

Euro thousand	31 Dec 2015	31 Dec 2014
up to 3 months	2,262	111
up to 1 year	21,151	31,840
up to 5 years	248,887	441,356
more than 5 years	112,630	358,262
Subordinated liabilities	**384,930**	**831,568**

The issued open amount of every subordianted emission is less than 10 % of the total volume of the subordinated liabilities. In the subordinated liabilities with a residual term of more than five years a volume of euro 44.777 thousand (2014: euro 249,657 thousand) is included without a determined residual term. The participation capital subscribed by VB Regio likewise has no specific term. Since the intention is to repay this capital in 2017, it is reported in the term category of up to 5 years. Every subordinated emission has the possibility of termination or repayment at any time after the end of five years with the prior consent of the FMA in accordance with article 77 CRR.

35) Equity

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

Return on capital employed

The return on capital employed for the business year 2015 was -0.24 % (2014: -0.82 %) and was calculated as the ratio of the result after taxes to total assets as at the reporting date.

Non-controlling interest

	Minority interest		
Company name	**2015**	**2014**	**Subgroup**
"VBL POSREDNIK" d.o.o.; Sarajevo	0 %	50.00 %	VBLI
ACP IT-Finanzierungs GmbH; Wien	0 %	25.00 %	Other companies
VB LEASING d.o.o.; Zagreb	0 %	50.00 %	VBLI
VB Leasing doo Beograd; Novi Beograd	0 %	50.00 %	VBLI
VB LEASING SK, spol. s.r.o.; Bratislava	0 %	50.00 %	VBLI
VB LEASING Sprostredkovatelská s.r.o.; Bratislava	0 %	50.00 %	VBLI
VB Services für Banken Ges.m.b.H.; Wien	1.11 %	1.11 %	Other companies
VBL SERVICES DOO BEOGRAD; Beograd	0 %	50.00 %	VBLI
VB-Leasing International Holding GmbH; Wien	0 %	50.00 %	VBLI
VB-NEPREMICNINE podjetje za promet z nepremicninami, d.o.o.; Ljubljana	0 %	40.00 %	Other companies
VBS HISA d.o.o.; Ljubljana	0 %	50.00 %	VBLI
VBS Leasing d.o.o.; Ljubljana	0 %	50.00 %	VBLI
Verwaltungsgenossenschaft der IMMO-BANK eG; Wien	0 %	11.15 %	Other companies
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	1.00 %	0 %	Other companies
Volksbank Leasing BH d.o.o.; Sarajevo	0 %	50.00 %	VBLI
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Wien	0 %	0 %	Other companies

The following table presents the financial information for the companies of the VB Leasing International Group (VBLI) separately and all other companies in aggregated form as the latter are immaterial.

Additional information non-controlling interest

	VBLI subgroup		Other companies	
Euro thousand	**2015**	**2014**	**2015**	**2014**
Assets				
Liquid funds	0	4	0	0
Loans and advances to credit institutions (gross)	0	170,390	17,549	15,702
Loans and advances to customers (gross)	0	582,645	15	39,017
Risk provisions (-)	0	-42,053	0	-293
Financial investments	0	0	680	701
Other assets	0	59,851	11,500	20,453
Total assets	0	770,837	29,744	75,580
Liabilities and Equity				
Amounts owed to credit institutions	0	504,053	4	5,349
Amounts owed to customers	0	1,594	0	115
Other liabilities	0	23,926	14,374	47,765
Equity	0	241,264	15,366	22,350
Total liabilities and equity	0	770,837	29,744	75,580
Statement of comprehensive income				
Interest and similar income	0	102,603	531	1,591
Interest and similar expense	0	-29,566	0	-655
Net interest income	0	73,038	531	936
Risk provisions	0	-5,725	-1	-42
Result before taxes	0	24,867	1,903	4,056
Income taxes	0	-9,940	-54	-392
Result after taxes	0	14,927	1,849	3,664
Other comprehensive income	0	10,522	3	-154
Comprehensive income	0	25,449	1,852	3,511

36) Own funds

The own funds of the Association of Volksbanks which were calculated pursuant to the Capital Requirement Regulations (CRR) can be broken down as follows:

Euro thousand	31 Dec 2015	31 Dec 2014
Paid-up capital instruments (less own CET1 instruments)	228,811	453,583
Reserves	1,503,468	1,256,035
Transitional adjustments due to grandfathered CET1 Capital instruments	88,518	475,173
Minority interest	86	225,256
Deductions and adjustments	-28,792	-396,531
Transitional adjustments to CET1 Capital	31,572	382,285
Common Equity Tier 1 Capital (CET1)	1,823,663	2,395,800
AT1 capital and qualifying AT1 instruments issued by subsidiaries	17,003	48,234
Deductions and adjustments	18,588	368,949
Transitional adjustments to AT1 Capital	-35,591	-417,182
Additional Tier 1 Capital (AT1)	0	0
Tier 1 Capital (T1=CET1+AT1)	1,823,663	2,395,800
T2 capital and qualifying T2 instruments issued by subsidiaries	489,222	1,036,997
Deductions and adjustments	0	0
Transitional adjustments to T2 Capital	0	0
Tier 2 Capital (T2)	489,222	1,036,997
Own funds	**2,312,884**	**3,432,797**
Common equity Tier 1 capital ratio (Tier 1) [1)]	12.12 %	10.27 %
Tier 1 capital ratio [1)]	12.12 %	10.27 %
Equity ratio [1)]	15.37 %	14.72 %

[1)] in relation to total risk exposure amount

In 2014 subordinated liabilities comprised hybrid Tier I capital in the amount of euro 57,698 thousand. Portfolios are allocated to the remainder of VBAG and deconsolidated with effect from 4 July 2015.

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

Euro thousand	31 Dec 2015	31 Dec 2014
Risk weighted exposure amount - credit risk	13,195,004	19,794,618
Total risk exposure amount for position, foreign exchange and commodities risks	180,345	635,192
Total risk exposure amount for operational risk	1,582,622	2,035,884
Total risk for credit valuation adjustment (cva)	93,343	854,165
Total risk exposure amount	**15,051,313**	**23,319,860**

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. 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 are also added and holdings 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 helds a majority of shares either direct or indirect, are fully consolidated. The carrying amount of institutions, financial institutions and subsidiaries providing bankingrelated auxiliary services that are controlled by the parent but that are not significant for the presentation of the group of credit institutions according to section 19 (1) of CRR is deducted from own funds.

Subsidiaries which are managed jointly with non-Group companies are proportionately consolidated. Investments in companies in the financial sector with a share of between 10 % and 50 % that are not jointly managed are also deducted from own funds unless they are voluntarily consolidated on a pro rata basis. Investments in companies in the financial sector of less than 10 % are deducted from own funds considering the eligibility according to section 46 CRR. All other participating interests are included in the assessment base at their carrying amounts.

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

In 2015, no substantial, practical or legal obstacles existed which would have prevented the transfer of equity or the repayment of liabilities between the parent institution and institutions subordinated to the former.

37) Financial assets and liabilities

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

Euro thousand	Held for trading	At fair value through profit or loss	Held to maturity	Available for sale	Amortised cost	Carrying amount - total	Fair value
31 Dec 2015							
Liquid funds	0	0	0	0	1,521,925	1,521,925	1,521,925
Loans and advances to credit institutions	0	0	0	0	619,223	619,223	0
Individual impairment credit institutions	0	0	0	0	0	0	0
Loans credit institutions less individual impairments	0	0	0	0	619,223	619,223	617,302
Loans and advances to customers	0	0	0	0	22,619,294	22,619,294	0
Individual impairment customers	0	0	0	0	-370,517	-370,517	0
Loans customers less individual impairments	0	0	0	0	22,248,777	22,248,777	20,871,645
Trading assets	162,592	0	0	0	0	162,592	162,592
Financial investments	0	0	70,716	2,330,406	414	2,401,536	2,410,935
Participations	0	0	0	35,880	0	35,880	35,880
Derivatives - investment book	88,660	0	0	0	0	88,660	88,660
Assets disposal group	0	0	0	0	26,773	26,773	26,773
Financial assets total	**251,252**	**0**	**70,716**	**2,366,286**	**24,417,112**	**27,105,366**	**25,735,712**
Amounts owed to credit institutions	0	0	0	0	438,457	438,457	429,016
Amounts owed to customers	0	0	0	0	22,323,653	22,323,653	22,331,033
Debts evidenced by certificates	0	0	0	0	1,748,116	1,748,116	1,755,923
Trading liabilities	392,919	0	0	0	0	392,919	392,919
Derivatives - investment book	173,476	0	0	0	0	173,476	173,476
Subordinated liabilities	0	0	0	0	384,930	384,930	391,524
Liabilities disposal group	0	0	0	0	0	0	0
Financial liabilities total	**566,395**	**0**	**0**	**0**	**24,895,156**	**25,461,551**	**25,473,891**

Euro thousand	Held for trading	At fair value through profit or loss	Held to maturity	Available for sale	Amortised cost	Carrying amount - total	Fair value
31 Dec 2014							
Liquid funds	0	0	0	0	1,596,274	1,596,274	1,596,274
Loans and advances to credit institutions	0	0	0	0	1,365,464	1,365,464	
Individual impairment to credit institutions	0	0	0	0	-703	-703	
Loans credit institutions less individual impairments	0	0	0	0	1,364,761	1,364,761	1,344,400
Loans and advances to customers	0	0	0	0	26,540,816	26,540,816	
Individual impairment customers	0	0	0	0	-818,897	-818,897	
Loans customers less individual impairments	0	0	0	0	25,721,918	25,721,918	24,505,024
Trading assets	1,516,364	0	0	0	0	1,516,364	1,516,364
Financial investments	0	20,542	366,574	3,532,092	187,182	4,106,389	4,114,480
Participations	0	0	0	268,531	0	268,531	268,531
Derivatives - investment book	453,472	0	0	0	0	453,472	453,472
Assets disposal group	0	0	0	0	348,802	348,802	345,598
Financial assets total	**1,969,836**	**20,542**	**366,574**	**3,800,623**	**29,218,937**	**35,376,511**	**34,144,142**
Amounts owed to credit institutions	0	0	0	0	2,088,166	2,088,166	2,008,665
Amounts owed to customers	0	0	0	0	24,129,004	24,129,004	24,078,148
Debts evidenced by certificates	0	0	0	0	3,919,929	3,919,929	3,913,316
Trading liabilities	1,446,167	0	0	0	0	1,446,167	1,446,167
Derivatives - investment book	329,070	0	0	0	0	329,070	329,070
Subordinated liabilities	0	0	0	0	831,568	831,568	737,766
Liabilities disposal group	0	0	0	0	3,405	3,405	155
Financial liabilities total	**1,775,237**	**0**	**0**	**0**	**30,972,071**	**32,747,309**	**32,513,288**

Financial investments contain securities classified as held to maturity and loans & receivables with a carrying amount of euro 0 thousand (2014: euro 299,750 thousand), a total of euro 0 thousand (2014: euro 13,348 thousand) above their fair value, as there is no objective evidence of impairment.

Financial investments available for sale in the amount of euro 31,733 thousand (2014: euro 14,907 thousand) and participations in the amount of euro 30,352 thousand (2014: euro 60,360 thousand) are measured at cost as their fair value cannot be reliably determined. Instruments measured at cost with a carrying amount of euro 3,720 thousand (2014: euro 9,645 thousand) were sold in the business year. A result of euro 66 thousand (2014: euro 925 thousand) was realised. The fair value cannot reliably be determined as there is no active market for these securities and it is not possible to make a reasonable assessment of the probabilities of different fair value estimates. Financial investments available for sale primarily comprise shares in the participation capital of VB Regio, which is to be repaid in 2017. The shares and participations are primarily strategic participations. The market for these is limited to co-shareholders.

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

Carrying amounts of underlyings of fair value hedges

	Interest rate risk		Foreign currency risk	
Euro thousand	**Available for sale**	**Amortised costs**	**Available for sale**	**Amortised costs**
31 Dec 2015				
Loans and advances to credit institutions	0	0	0	0
Loans and advances to customers	0	27,112	0	80,199
Financial investments	1,177,846	0	45,360	0
Financial assets	**1,177,846**	**27,112**	**45,360**	**80,199**
Amounts owed to credit institutions	0	17,386	0	0
Amounts owed to customers	0	0	0	0
Debts evidenced by certificates	0	746,780	0	0
Subordinated liabilities	0	64,286	0	0
Financial liabilities	**0**	**828,452**	**0**	**0**
31 Dec 2014				
Loans and advances to credit institutions	0	393,985	0	0
Loans and advances to customers	0	67,596	0	73,549
Financial investments	1,535,081	32,266	105,500	0
Financial assets	**1,535,081**	**493,848**	**105,500**	**73,549**
Amounts owed to credit institutions	0	497,224	0	0
Amounts owed to customers	0	697,418	0	0
Debts evidenced by certificates	0	2,083,252	0	46,898
Subordinated liabilities	0	0	0	0
Financial liabilities	**0**	**3,277,894**	**0**	**46,898**

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

Euro thousand	Level 1	Level 2	Level 3	Total
31 Dec 2015				
Trading assets	0	162,592	0	162,592
Financial investments	2,003,517	295,156	0	2,298,673
at fair value through profit or loss	0	0	0	0
available for sale	2,003,517	295,156	0	2,298,673
Participations	0	0	5,528	5,528
Derivatives - investment book	0	88,660	0	88,660
Assets held for sale	0	0	0	0
Total	**2,003,517**	**546,408**	**5,528**	**2,555,453**
Trading liabilities	0	392,919	0	392,919
Derivatives - investment book	0	173,476	0	173,476
Total	**0**	**566,395**	**0**	**566,395**
31 Dec 2014				
Trading assets	31,956	1,484,408	0	1,516,364
Financial investments	2,894,510	631,646	11,571	3,537,727
at fair value through profit or loss	5	13,466	7,071	20,542
available for sale	2,894,505	618,181	4,500	3,517,185
Participations	0	0	208,171	208,171
Derivatives - investment book	0	453,472	0	453,472
Total	**2,926,466**	**2,569,526**	**219,741**	**5,715,733**
Trading liabilities	0	1,446,167	0	1,446,167
Derivatives - investment book	0	329,070	0	329,070
Total	**0**	**1,775,237**	**0**	**1,775,237**

Available for sale financial investments totalling euro 31,733 thousand (2014: euro 14,907 thousand) and participations totalling euro 30,352 thousand (2014: euro 60,360 thousand) are measured at amortised cost because their fair value cannot be reliably determined.

Financial investments carried at fair value through profit and loss include some illiquid fund holdings in private equity companies amounting to euro 0 thousand (2014: euro 7,071 thousand) and in participations amountin to euro 0 thousand (2014: euro 3,579 thousand). External fund managers determine market prices based on industry-standard EVCA valuation criteria for these financial instruments. These are made available regularly. Asset Management performs internal price monitoring. No significant deviations in value were noted in the past which would suggest major uncertainties in determining fair values.

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

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

In 2015, financial instruments with a carrying amount of euro 17 thousand (2014: euro 94,753 thousand), which were still measured at Level 2 market value as at 31 December 2014, were reclassified as Level 1 financial instruments due to an increase in trading activity of these instruments. On the other hand, Level 1 financial instruments in the amount of euro 15,477 thousand (2014: euro 60,919 thousand) were reclassified into Level 2 due to a decrease in market trading activity.

Development of Level 3 fair values financial assets

Euro thousand	Financial Investments at fair value through profit and loss	Participations	Available for sale	Assets held for sale	Total
As at 1 Jan 2014	132	310,322	0	68,222	378,677
Changes in the scope of consolidation	0	-45,974	0	0	-45,974
Currency translation	0	0	0	0	0
Reallocation in Level 3	0	0	7,772	0	7,772
Additions	0	30,336	0	0	30,336
Disposals	0	-12,582	0	-59,855	-72,437
Valuation					
through profit and loss	-114	-3,816	-15,587	-3,401	-22,917
through other comprehensive income	0	-70,208	12,315	2,179	-55,715
Reclassification	7,053	93	0	-7,146	0
As at 31 Dec 2014	7,071	208,171	4,500	0	219,741
Changes in the scope of consolidation	-7,071	-205,081	0	0	-212,152
Currency translation	0	0	0	0	0
Reallocation in Level 3	0	0	0	0	0
Additions	0	974	0	0	974
Disposals	0	-1,849	-4,500	0	-6,349
Valuation					
through profit and loss	0	-873	0	0	-873
through other comprehensive income	0	4,186	0	0	4,186
Reclassification	0	0	0	0	0
As at 31 Dec 2015	**0**	**5,528**	**0**	**0**	**5,528**

The valuations shown in the table above are included in the item income from financial investments (income statement) or available for sale reserve (other comprehensive income). The valuations recorded in the income statement include holdings of financial assets to the amount of euro -1,849 thousand (2014: euro -18,455 thousand) at the reporting date.

In terms of sensitivity analyses for level 3 market values under participations, factors that increase or decrease value are determined in alternative valuation scenarios by varying income estimates and income-based parameters within a range to 20 % (2014: of 5 % to 20 %). In the event of an increase of estimation, market value changes by euro 979 thousand (2014: euro 19,964 thousand), while a decrease of estimation leads to a change of euro -979 thousand (2014: euro -19,913 thousand).

For financial instruments not measured at fair value, the fair value is only calculated for disclosure purposes in the notes and has no influence on the consolidated statement of financial position or the consolidated statement of comprehensive income. The following table assigns all financial assets and liabilities not measured at fair value to various fair value hierarchies.

Euro thousand	Level 1	Level 2	Level 3	Fair value total	Carrying amount 31 Dec 2015
31 Dec 2015					
Liquid Funds	0	1,521,925	0	1,521,925	1,521,925
Loans and advances to credit institutions (gross)					619,223
Individual impairment to credit institutions					0
Loans to credit institutions less individual impairments	0	0	617,302	617,302	619,223
Loans and advances to customers (gross)					22,619,294
Individual impairment to customers					-370,517
Loans to customers less individual impairments	0	0	20,871,645	20,871,645	22,248,777
Debt investments loans & receivables	0	414	0	414	414
Debt investments held to maturity	80,115	0	0	80,115	70,716
Financial investments	80,115	414	0	80,529	71,130
Financial assets held for sale	0	0	26,773	26,773	26,773
Financial assets total	**80,115**	**1,522,339**	**21,515,720**	**23,118,174**	**24,487,827**
Amounts owed to credit institutions	0	0	429,016	429,016	438,457
Amounts owed to customers	0	0	22,331,033	22,331,033	22,323,653
Debts evidenced by certificates	0	0	1,755,923	1,755,923	1,748,116
Subordinated liabilities	0	0	391,524	391,524	384,930
Financial liabilities held for sale	0	0	0	0	0
Financial liabilities total	**0**	**0**	**24,907,496**	**24,907,496**	**24,895,156**

31 Dec 2014	Level 1	Level 2	Level 3	Fair value total	Carrying amount 31 Dec 2014
Liquid Funds	0	1,596,274	0	1,596,274	1,596,274
Loans and advances to credit institutions (gross)					1,365,464
Individual impairment to credit institutions					-703
Loans to credit institutions less individual impairments	0	1,430	1,342,970	1,344,400	1,364,761
Loans and advances to customers (gross)					26,540,816
Individual impairment to customers					-818,897
Loans to customers less individual impairments	0	0	24,505,024	24,505,024	25,721,918
Debt investments loans & receivables	0	182,220	0	182,220	187,182
Debt investments held to maturity	132,247	247,379	0	379,626	366,574
Financial investments	132,247	429,599	0	561,846	553,756
Financial assets held for sale	0	41	345,557	345,598	348,802
Financial assets total	**132,247**	**2,027,344**	**26,193,551**	**28,353,142**	**29,585,511**
Amounts owed to credit institutions	0	0	2,008,665	2,008,665	2,088,166
Amounts owed to customers	0	0	24,078,148	24,078,148	24,129,004
Debts evidenced by certificates	0	12,185	3,901,130	3,913,316	3,919,929
Subordinated liabilities	0	0	737,766	737,766	831,568
Financial liabilities held for sale	0	0	155	155	3,405
Financial liabilities total	**0**	**12,185**	**30,725,866**	**30,738,051**	**30,972,071**

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

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

Fair value hierarchy

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

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

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

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

38) Cash flow hedges

In cash flow hedge accounting, interest rate swaps and caps & floors are used with a view to hedging the interest rate risk of variable-interest financial investments and liabilities.

Periods in which cash flows can be expected to occur

	Interest related transactions	
Euro thousand	**31 Dec 2015**	**31 Dec 2014**
up to 3 months	0	-523
up to 1 year	0	-1,364
up to 5 years	0	-1,578
more than 5 years	0	0
Total	**0**	**-3,466**

Periods in which cash flows are expected to affect the consolidated income statement

	Interest related transactions	
Euro thousand	**31 Dec 2015**	**31 Dec 2014**
up to 3 months	0	-523
up to 1 year	0	-1,364
up to 5 years	0	-1,578
more than 5 years	0	0
Total	**0**	**-3,466**

Changes in value in the cash flow hedge reserve in the amount of euro 0 thousand (2014: euro -578 thousand) were recognised in income during the reporting period. No material inefficiencies were recorded for these cash flow hedges.

39) Derivatives

Derivative financial instruments

2015 Euro thousand	up to 1 year	Face value 1 to 5 years	more than 5 years	Total	Fair value 31 Dec 2015
Interest related transactions	478,920	1,151,176	2,394,751	4,024,847	-176,939
Caps & Floors	347,417	386,320	550,121	1,283,858	8
Futures - interest related	0	0	0	0	0
Interest rate swaps	121,503	709,157	1,824,630	2,655,290	-172,447
Swaptions	10,000	55,700	20,000	85,700	-4,500
Currency related transactions	1,153,893	1,681,399	236,599	3,071,891	-128,476
Cross currency swaps	276,295	1,673,899	236,599	2,186,793	-129,826
Foreign exchange options	0	0	0	0	0
FX Swaps	287,149	5,571	0	292,720	165
Forward exchange transactions	590,450	1,929	0	592,378	1,185
Credit related transactions	20,000	9,185	0	29,185	48
Other transactions	291,963	19,607	260,073	571,644	-10,387
Futures - index related	0	0	0	0	0
Options	291,963	19,607	260,073	571,644	-10,387
Total	**1,944,776**	**2,861,368**	**2,891,424**	**7,697,568**	**-315,754**

2014 Euro thousand	up to 1 year	Face value 1 to 5 years	more than 5 years	Total	Fair value 31 Dec 2014
Interest related transactions	3,442,592	15,717,848	8,610,923	27,771,363	284,826
Caps & Floors	256,767	1,015,813	741,815	2,014,396	3,692
Futures - interest related	99,400	0	0	99,400	0
Interest rate swaps	3,023,925	14,458,335	7,784,108	25,266,367	287,214
Swaptions	62,500	243,700	85,000	391,200	-6,079
Currency related transactions	1,386,579	1,734,199	640,488	3,761,266	-115,483
Cross currency swaps	139,384	1,684,385	632,540	2,456,309	-116,706
Foreign exchange options	41,377	45,651	0	87,028	156
FX Swaps	980,091	0	7,714	987,804	-599
Forward exchange transactions	225,727	4,163	235	230,125	1,667
Credit related transactions	198,946	964,204	-481	1,162,669	-302
Other transactions	495,973	578,138	136,943	1,211,053	-22,235
Futures - index related	14,415	0	0	14,415	0
Options	481,557	587,138	136,943	1,196,638	-22,235
Total	**5,524,089**	**18,994,389**	**9,387,873**	**33,906,352**	**146,806**

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

40) Assets and liabilities denominated in foreign currencies

On the balance sheet date, assets denominated in foreign currencies totalled euro 3,180,703 thousand (2014: euro 4,229,959 thousand), whereas liabilities denominated in foreign currencies stood at euro 1,988,793 thousand (2014: euro 2,238,874 thousand).

41) Trust transactions

Euro thousand	31 Dec 2015	31 Dec 2014
Assets from trust transactions		
Loans and advances to customers	115,262	175,796
Financial investments	8,149	10,907
Other assets	65	0
Mutual funds	0	2,707,750
Liabilities arising from trust transactions		
Amounts owed to credit institutions	4,228	3,587
Amounts owed to customers	119,182	182,389
Debts evidenced by certificates	0	727
Other liabilities	65	0
Mutual funds	0	2,707,750

42) Subordinated assets

Euro thousand	31 Dec 2015	31 Dec 2014
Loans and advances to credit institutions	76	743
Loans and advances to customers	4,226	3,737
Financial investments	1,888	22,714

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

Euro thousand	31 Dec 2015	31 Dec 2014
Assets pledged as collateral		
Loans and advances to customers	78,479	342,138
Financial investments	2,500	93,960
Liabilities for which assets have been pledged as collateral		
Amounts owed to credit institutions	80,979	355,050
Amounts owed to customers	0	5,115
Contingent liabilities	0	2,484

In the context of corporate funding via Oesterreichische Kontrollbank (OeKB), loans and advances to customers in the amount of euro 78 million (2014: euro 95 million) have been provided as collateral. These loans and advances are guaranteed by means of Austrian government default guarantees, private insurance policies and draft guarantees. OeKB may not repledge or sell these loans and advances to customers if the group performs in accordance with the contract.

Furthermore in 2014, financial investments in the amount of euro 54 million have been assigned as collateral for global loans from the European Investment Bank (EIB). The EIB also does not have the option to sell or repledge this collateral if the group performs in accordance with the contract.

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

44) Contingent liabilities and credit risks

Euro thousand	31 Dec 2015	31 Dec 2014
Contingent liabilities		
Acceptances and endorsement liabilities on negotiated bills	0	865
Liabilities arising from guarantees	1,459,274	1,454,049
Liabilities arising from assets pledged as collateral	27,420	368,312
Others (amount guaranteed)	51,953	14,124
Commitments		
Obligations from pension business	110	560
Unutilised loan commitments	9,521,655	7,245,107
Others	1,170	143

If the management estimates a cash out flow for financial guarantees, a provision was built for off-balance risks to the amount of the probable cash out flow under consideration of possible available collaterals. Therefore the provision amounts to euro 31,505 thousand (2014: euro 53,508 thousand).

45) Repurchase transactions and other transferred assets

As at 31 December 2015, as well as at 31 December 2014 the association as pledgor had none buy-back commitments under genuine repurchase agreements.

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

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

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

46) Related party disclosures

Euro thousand	Unconsolidated affiliates	Companies in which the group has a participating interest	Associated companies	Companies which exercise a significant influence on the parent as shareholders
31 Dec 2015				
Loans and advances to credit institutions	0	0	0	0
Loans and advances to customers	60,653	13,744	0	0
Risk provisions (-)	-1,596	0	0	0
Debt securities	0	0	0	975,944
Assets held for sale	0	0	0	0
Amounts owed to credit institutions	214	0	0	0
Amounts owed to customers	9,061	14,440	0	0
Liabilities arising from guarantees	5,779	684	0	0
Transactions	141,114	53,516	93,277	0
31 Dec 2014				
Loans and advances to credit institutions	0	0	229,281	0
Loans and advances to customers	135,694	53,235	40,463	0
Risk provisions (-)	-5,892	-30,756	0	0
Debt securities	0	0	0	1,069,166
Assets held for sale	0	0	317,328	0
Amounts owed to credit institutions	0	0	26,327	0
Amounts owed to customers	42,181	15,616	26,395	0
Liabilities arising from guarantees	4,215	0	0	427
Transactions	170,771	136,513	643,756	3,475

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

Transfer prices between the association and its associated companies are geared to usual market conditions. As in 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 central organisation. Only limited information on related parties is provided for securities issued by the Republic of Austria that are held by companies included in the financial statements.

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

Euro thousand	31 Dec 2015	31 Dec 2014
Outstanding loans and advances	7,864	11,441
Redemptions	2,229	1,451
Interest payments	8	39

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

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

Euro thousand	Covering loans	Coverage requirements debts evidenced by certificates	Surplus cover
31 Dec 2015			
Covered bonds	1,708,421	1,466,250	242,171
Total	**1,708,421**	**1,466,250**	**242,171**
31 Dec 2014			
Covered bonds	1,814,244	1,507,050	307,194
Total	**1,814,244**	**1,507,050**	**307,194**

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

48) Branches

	31 Dec 2015	31 Dec 2014
Domestic	462	492
Abroad	2	2
Total Number of branches	**464**	**494**

49) Events after the balance sheet date

The General Meeting of 17 March 2016 resolved to amend the 2014 banking association agreements. Alongside amendments to the 2014 banking association agreement and collaboration agreement, one of the measures implemented was to set up a trust fund (*Leistungsfonds*) at the central organisation. The central organisation thereby bears sole responsibility for restructuring within the association in future, and the common fund (*Gemeinschaftsfonds*) has been replaced by the trust fund.

With effect from 24 May 2016, Volksbank Marchfeld e.Gen. was excluded from the 2014 banking association agreement for a compelling reason. In view of the bank's small size, this will have no material impact on the Association of Volksbanks' liquidity, planned profitability or capital base.

The positive outlook for the long-term issuer rating of the Association of Volksbanks reflects the progress in consolidating the association members and the high probability that the rating will be upgraded by up to two notches once the risk of implementing the consolidation has decreased sufficiently. On the other hand, there is a risk that the viability and long-term issuer ratings will be downgraded if the necessary cost reductions are not achieved from the restructuring, if there is a significant downturn in the Austrian economy or if the Association of Volksbanks is unable to repay the Republic of Austria in line with the repayment plan. However, these risks are not currently expected to materialise.

The new branch concept was authorised at the Supervisory Board meeting of 31 March 2016.

50) Segment reporting

Segment reporting changed in the 2015 business year to take account of the association's future strategy. In line with the association's future structure – consisting of eight merger groups and two specialist institutions – the association now has twelve segments corresponding to the strategic business fields. The merger groups are to be formed by 2017 through amalgamation of institutions into provincial Volksbanks (regional banks). In addition to the eight regional banks and two specialist institutions, the CO function of VBW and start:gruppe, which is to be sold, are reported separately. These divisions reflect the different regions and services of the association and are controlled in varying ways in accordance with the internal management and reporting structure. Control is based on the individual merger groups/regional banks and their higher-level holding companies and subordinate entities. In the case of VBW, reporting is based on allocation to the CO or Retail profit centres, which means that all results of VBW, its subordinate entities and higher-level holding companies are allocated to these two profit centres. The previous year's figures have been adjusted accordingly.

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

CO

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

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

Finally, all other activities are reported that are undertaken in managing the Association of Volksbanks and performed by VBW as the central organisation within the meaning of the CRR and BWG.

All activities from the remainder of VBAG and all companies demerged from the association have also been allocated to the CO segment if they could not be allocated to a regional bank.

Regional banks

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

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

start:group

The company start:bausparkasse e.Gen. and its subsidiary IMMO-Bank Aktiengesellschaft are reported in this segment. VBAG initiated a sale process for this group in 2014, which is still ongoing.

Specialist institutions

The two segments Sparda and Doctors/Pharmacies comprise the specialist institutions SPARDA-BANK AUSTRIA Süd eGen, SPARDA-BANK AUSTRIA Nord eGen, Bank für Ärzte und Freie Berufe Aktiengesellschaft and Österreichische Apothekerbank eG, which provide Association of Volksbanks services to their specific customer groups.

Consolidation

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

Euro thousand	CO	Vienna	Lower Austria	Styria	Carinthia	Upper Austria
Net interest income						
1-12/2015	**51,153**	**92,798**	**61,073**	**57,313**	**27,082**	**39,232**
1-12/2014	83,597	107,273	60,763	63,154	31,127	46,237
Risk provisions						
1-12/2015	**4,593**	**1,772**	**-470**	**-12,640**	**-23,191**	**-12,435**
1-12/2014	-471	19,436	7,109	-86,724	2,763	9,473
Net fee and comission income						
1-12/2015	**1,656**	**48,124**	**30,155**	**22,864**	**13,572**	**22,233**
1-12/2014	32,565	53,913	30,298	23,216	13,202	22,503
Net trading income						
1-12/2015	**16,103**	**1,015**	**-218**	**-1,082**	**-27**	**-30**
1-12/2014	25,610	4	8	-47	7	0
General administrative expenses						
1-12/2015	**-118,168**	**-126,417**	**-81,839**	**-62,875**	**-35,621**	**-60,564**
1-12/2014	-154,721	-124,234	-70,966	-62,369	-32,728	-61,548
Restructuring cost						
1-12/2015	**-321**	**0**	**0**	**0**	**0**	**0**
1-12/2014	-35,515	0	0	0	0	0
Other operating result						
1-12/2015	**82,676**	**-23,618**	**-12,624**	**-12,077**	**25,711**	**-8,121**
1-12/2014	70,494	2,612	-3,458	17,293	-2,087	1,698
Income from financial investments						
1-12/2015	**-5,375**	**7,187**	**2,635**	**-2,480**	**-10,956**	**-4,099**
1-12/2014	-61,243	8,767	1,717	-150	833	6,493
Income from companies measured at equity						
1-12/2015	**0**	**0**	**0**	**0**	**0**	**0**
1-12/2014	-377	0	0	0	0	0
Income from discontinued operation						
1-12/2015	**-57,309**	**0**	**0**	**0**	**0**	**0**
1-12/2014	-397,026	0	0	0	0	0
Annual result before taxes						
1-12/2015	**-24,992**	**862**	**-1,288**	**-10,977**	**-3,429**	**-23,785**
1-12/2014	-437,087	67,771	25,471	-45,627	13,117	24,856
Income taxes						
1-12/2015	**8,866**	**15,076**	**97**	**2,312**	**-1,078**	**5,108**
1-12/2014	-7,274	-11,363	-7,235	-2,322	-2,452	-6,697
Annual result after taxes						
1-12/2015	**-16,126**	**15,938**	**-1,191**	**-8,666**	**-4,507**	**-18,677**
1-12/2014	-444,361	56,408	18,236	-47,949	10,665	18,159
Total assets						
31 Dec 2015	**7,194,476**	**5,159,093**	**3,268,585**	**2,799,778**	**1,300,191**	**2,256,065**
31 Dec 2014	15,574,223	5,689,322	3,207,517	3,103,268	1,451,367	2,434,853
Loans and advances to customers						
31 Dec 2015	**795,034**	**4,062,268**	**2,563,681**	**2,491,609**	**1,006,944**	**1,516,916**
31 Dec 2014	4,561,823	4,007,156	2,373,920	2,693,200	948,533	1,560,029
Companies measured at equity						
31 Dec 2015	**0**	**0**	**0**	**0**	**0**	**0**
31 Dec 2014	45,545	0	0	0	0	0
Amounts owed to customers						
31 Dec 2015	**757,443**	**4,372,509**	**2,719,785**	**1,741,868**	**1,105,363**	**1,926,218**
31 Dec 2014	2,268,777	4,806,731	2,502,664	1,766,855	1,087,926	1,912,260
Debts evidenced by certificates, including subordinated liabilities						
31 Dec 2015	**1,667,974**	**30,761**	**34,578**	**42,717**	**52,578**	**55,322**
31 Dec 2014	3,798,565	61,176	45,197	49,817	78,776	88,122

Salzburg	Tyrol	Vorarlberg	start:group	Sparda	Physicians / Pharmacists	Consolidation	Total
51,826	**50,537**	**33,690**	**51,787**	**13,753**	**13,848**	**-4,273**	**539,819**
57,078	52,973	30,852	53,321	15,806	18,448	-6,371	614,257
-14,599	**-2,559**	**-13,010**	**2,701**	**-2,228**	**-6,750**	**28,607**	**-50,208**
1,018	3,425	2,802	7,433	3,210	2,461	0	-28,065
22,630	**30,893**	**27,584**	**-2,403**	**9,639**	**5,590**	**19**	**232,559**
21,917	29,077	28,753	-3,113	8,619	5,518	-29	266,440
-29	**-146**	**1,054**	**-45**	**-2**	**-34**	**-3,099**	**13,460**
0	0	197	0	0	0	-1,603	24,176
-60,001	**-59,390**	**-50,486**	**-34,335**	**-24,458**	**-20,943**	**63,628**	**-671,472**
-56,774	-59,580	-45,731	-31,546	-23,830	-19,450	40,171	-703,306
0	**0**	**0**	**0**	**0**	**0**	**0**	**-321**
0	0	0	0	0	0	0	-35,515
-10,668	**-14,292**	**-5,795**	**57,153**	**4,959**	**5,501**	**-61,683**	**27,122**
-11,344	-3,003	-1,942	-453	2,469	-151	-29,482	42,645
479	**-2,388**	**-752**	**-86,450**	**-7,217**	**-1,386**	**105,965**	**-4,837**
2,831	-1,452	-1,434	21,290	1,014	2,661	-4,946	-23,617
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	-377
0	**0**	**0**	**0**	**0**	**0**	**-134,591**	**-191,900**
0	0	0	0	0	0	0	-397,026
-10,363	**2,656**	**-7,714**	**-11,592**	**-5,554**	**-4,173**	**-5,428**	**-105,777**
14,726	21,440	13,498	46,932	7,288	9,486	-2,260	-240,390
1,094	**535**	**1,871**	**2,480**	**1,311**	**890**	**34**	**38,595**
-2,509	-1,507	-830	-14,108	-1,575	-1,937	0	-59,809
-9,269	**3,190**	**-5,843**	**-9,112**	**-4,242**	**-3,283**	**-5,394**	**-67,182**
12,217	19,933	12,668	32,824	5,713	7,548	-2,260	-300,198
2,688,002	**3,040,134**	**2,437,923**	**3,378,869**	**872,819**	**883,820**	**-7,465,211**	**27,814,543**
3,005,974	3,216,344	2,309,340	3,660,706	831,303	1,137,089	-8,942,866	36,678,439
2,152,746	**2,505,375**	**1,801,197**	**2,740,628**	**329,416**	**715,139**	**-61,660**	**22,619,294**
2,254,560	2,524,803	1,771,906	2,751,407	350,331	755,224	-12,077	26,540,816
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	45,545
1,946,530	**2,375,453**	**1,672,140**	**2,221,129**	**830,958**	**681,940**	**-27,682**	**22,323,653**
1,942,957	2,341,008	1,616,820	2,343,530	770,396	774,393	-5,314	24,129,004
61,893	**126,201**	**165,247**	**653,956**	**6,000**	**63,529**	**-827,709**	**2,133,046**
70,982	197,215	258,446	744,321	6,000	114,213	-761,333	4,751,497

51) Risk report

General

Assuming and professionally managing the risks connected with business activities is a core function of every bank. As the central organisation of the banking association in accordance with section 30a of the Austrian Banking Act, consisting of Volksbank Wien AG and the primary institutions of the Volksbank sector, VBW performs the key tasks of implementing and supporting processes and methods for identifying, managing, measuring and monitoring all risks relating to banking operations, both at VBW Group level and as the central organisation of the banking association (Kreditinstitute-Verbund) pursuant to section 30a of the Austrian Banking Act with the primary institutions. Focus of control and therefore also the reporting is placed on the Association of Volksbanks including VBW as part of it.

To this end, the following risks are addressed in the context of the risk strategy specified annually by the managing Board on the basis of risk policy principles in force across the association:

- Credit risks (default, counterparty, concentration, repayment vehicle, transfer, migration, macroeconomic and foreign currency loan risks)
- Market risk (trading book market risk, foreign exchange risk of open currency positions, interest-rate risk and credit spread risk)
- Investment risk (default, impairment and foreign exchange risk)
- Operational risk
- Structural liquidity risk
- Other risks (strategic risk, reputational risk, equity risk and business risk)

In its new role as the central organisation of the Association of Volksbanks, VBW must ensure that the banking association has administration, accounting and control procedures in place to record, assess, manage and monitor business and operational banking risks as well as compensation policies and practices (section 39 (2) of the Austrian Banking Act). The necessary instruction rights are implemented based on the General Instructions. Harmonising and refocusing the risk management methods, processes and systems previously employed by VBAG and the Volksbanks represented the start of a new chapter in 2012 based on the motto of “One association – one system”.

Current developments

In the process of restructuring the Association of Volksbanks and converting VBAG into a wind-down entity, the division of VBAG enabling VBW to assume and fulfil the central organisation and central institution function in the new Association of Volksbanks created by the 2014 banking association agreement was spun off and transferred on 4 July 2015. VBW has acted as central organisation since 4 July 2015 and is responsible for ensuring the Association of Volksbanks complies with regulatory requirements. Risk management and control particularly entails implementation and support of processes and methods for identifying, managing, measuring and monitoring all risks related to banking operations.

a) Risk management structure and basic principles of risk policy

Risik management structure

The Association of Volksbanks in accordance with section 30a of the Austrian Banking Act of the local credit co-operatives has implemented all organisational precautions necessary to meet the requirements of a modern risk management system as formulated, for example, in the minimum standards for lending business and in the credit institutions-risk management regulation - CI-RMR. There is clear separation of market and risk assessment, measurement and control. In order to prevent conflicts of interest, these tasks are performed by different organisational units.

All centrally managed and regulated strategic risk management activities in the Association of Volksbanks are concentrated in the Risk Control department within the General Management division headed by Gerald Fleischmann. Alongside Risk Control, this division also encompasses Association Strategy, Organisation & IT and HR Management. Operational risk management activities are concentrated in the Back Office division headed by Josef Preissl. The division includes the Retail / SME Risk, Association Risk Management and Reorganisation Management departments.

Basic principles of risk policy

The basic risk policy principles encompass the standards applicable within the Association of Volksbanks for dealing with risks and are determined together with the risk appetite by the central organisation's Managing Board. A broadly shared understanding of risk management throughout the association is the foundation for developing risk awareness and a risk culture within the company.

General Instructions on Risk Management

As part of performing its management function, the central organisation has issued general instructions to the banks belonging to the Association of Volksbanks. The General Instructions on Risk Management and related manuals provide binding regulations on risk management across the association. They comprise the processes and methods that have been put in place for managing, measuring and monitoring risks in the association.

The aim of the General Instructions is to provide clear and comprehensible documentation on general frameworks and principles for measuring and managing risks to be applied consistently across the association and on the design of appropriate processes and organisational structures. The General Instructions lay the foundation for implementing the risk strategy in operations and set the basic risk targets and limits that are to guide business decisions in line with the main areas of business focus. The General Instructions on Risk Management apply to all members of the Association of Volksbanks as defined in section 30a of the Austrian Banking Act.

As part of their general duty of care in the interest of the companies, the Managing Boards and senior management of all association members must ensure, without exception or limitation, that the General Instructions on Risk Management are applied in their respective companies on both a formal and a de facto basis. The General Instructions on Risk Management are applied either through full implementation at the entity or through their content being included in the entity's own risk manual. Any deviations from or special provisions relating to the General Instructions on Risk Management are permitted only in exceptional cases and must be agreed in advance with the OPRISK and Risk Governance organisational unit (OE 632) within VBW as the CO.

Clear organisational structures: Particular attention is paid to the separation of risk-taking on the one hand and calculating risk and specifying risk standards on the other (risk controlling/risk management). Separation of functions within the association ensures that conflicts of interest are avoided.

Systems and methods: Uniform risk measurement methods form the basis for comparing and aggregating risks within the association. They are also an important element in developing effective internal limit structures for the association and calculating utilisation of limits. Major focus is placed on standardised risk management systems, including with regard to cost-effectiveness and conserving resources. Contingency plans ensure that the necessary system availability is maintained.

Limit system: All measurable and controllable risks in the association are subject to a limit structure that is in turn subject to ongoing operational monitoring. The "no risk without limit" principle applies. Risks for which current theory does not provide sufficiently exact measurement methods or instruments are considered either on the basis of regulatory equity requirements or conservative calculation methods, taking stress assumptions into consideration, or in the form of safety buffers. The prudence principle is applied in such cases.

Risk reporting: Prompt, regular and comprehensive risk reporting is implemented in various forms, including an association risk report. This is an important element for identifying, measuring, managing and monitoring risks within the association. It is produced on a quarterly basis and covers all relevant types of risk. The risk report periodically informs the central organisation's Managing Board of the development of risk-bearing ability and the risk situation of the association and focuses on a quantitative presentation of management-related information on the risk categories addressed, which is supplemented by brief assessments of the situation and further qualitative information where appropriate. During preparation of the report, particular emphasis is placed on data quality in order to ensure the findings are meaningful.

Processes: Functioning processes form the basis of risk management. Developing these processes and integrating them into day-to-day business procedures is thus a key risk management task in the association.

New product launches: For the implementation of new products a uniform approach has been established within the association. In addition to the proper recording of all risks and their correct entry in controlling and accounting systems, the emphasis is on mapping them in the centralised systems of the association, thus ensuring meaningful standardised risk reports and correct external reporting.

An efficient, system-supported approval process for treasury products has been implemented and is improved and developed on an ongoing basis. A focus here is on correctly mapping all risks in the risk management systems. Particular attention is paid to ensuring that it is possible to carry out an independent assessment. This also applies to closed positions. This ensures that the legal requirements for presenting counterparty default risk and collateral management requirements are met.

Backtesting: As estimations of parameters such as probability of default (PD), loss given default (LGD), exposure at default (EAD), credit conversion factor (CCF) and value at risk (VaR) are always based on past values, their accuracy must be validated periodically by way of backtesting. Backtesting reports are prepared for credit and market risk in all cases. Although the frequency of reporting depends on the type of risk, the reports are produced at least once a year. The central organistation's Managing Board is promptly informed of the findings. Any findings giving cause for concern (e.g. the number of outliers is too high from a statistical perspective) lead to an immediate analysis of the calculation methods or the models.

Stresstesting: Credit, market and liquidity risks undergo regular risk-type specific stress tests. The crisis scenarios in such tests are designed in such a way that the occurrence of very unlikely but not impossible events is simulated. Based on this approach, atypical tail losses (extreme losses), among other things, can be identified and analysed. This method is a useful supplement to the VaR method, particularly in relation to fat tails.

As well as these stress tests and sensitivity analyses for specific risk types, stress tests are regularly carried out across multiple risk types. This process initially involves defining economic crisis scenarios and deriving the changed risk parameters for the individual risk categories and segments from this. In addition to the risk side, the effects of crisis scenarios on the risk-covering equity are identified. Finally, the various effects of the crisis scenarios on the risk-bearing ability are compiled and analysed in a stressed risk sustainability account. Reverse stress tests and portfolio-specific stress tests are also performed.

b) Regulatory requirements

Regulatory requirements are split into three pillars within association in accordance with Basel II/ III. Pillar 1, minimum capital requirements, regulates the calculation of the minimum capital requirements for credit risks, market risks and operational risks. Pillar 2, supervisory review, defines minimum requirements of banks' risk management systems as part of the ICAAP (internal capital adequacy assessment process – see also point c)). Pillar 3, disclosure, regulates disclosure for market participants.

Pillar 1 minimum capital requirements

In accordance with the central organisation's Managing Board resolution, the implementation of pillar 1 in the association not only fulfils minimum requirements but also provides for efficient implementation of internal models, in order to improve the risk management systems for all risk types on an ongoing basis.

The relevant standard regulatory approaches are used to determine the minimum capital requirements both for credit risk and for market and operational risks.

Pillar 2 Internal capital adequacy assessment process

The internal capital adequacy assessment process (ICAAP) requires banks to take all necessary measures to guarantee at all times that there are sufficient capital resources for current business activities and those planned for the future as well as the associated risks. Internal methods and procedures developed by banks may be used for this purpose. The size and complexity of the business activities plays a key role in the design of the strategies, methods and systems required for implementing the ICAAP (proportionality principle). The implementation of the ICAAP is explained in more detail in point c).

Pillar 3 disclosure

The requirements of pillar 3 are met through publication of the qualitative and quantitative disclosure requirements defined under the Austrian Financial Market Authority (FMA) regulation on implementation of the Austrian Banking Act as it relates to the disclosure obligations of banks (EU regulation No. 575 / 2013 Part VIII disclosure), on the Bank's website under Association of Volksbanks/Association-disclosure.

c) Risk strategy and internal capital adequacy assessment process

The Association of Volksbanks is subject to the association's risk strategy. This is re-evaluated and redefined annually by the managing Board, taking into account results from the internal capital adequacy assessment process (ICAAP). It forms the basis for a uniform approach to dealing with risks throughout the association. The risk strategy sets out and documents the general framework and principles for risk management to be applied consistently across the association and the design of appropriate processes and organisational structures in a clear and comprehensible manner. Enhancements of the methods applied for measuring and managing risks are integrated into the risk strategy via the annual update process.

The ICAAP is established as a revolving management circuit in accordance with international best practice. This starts by defining a risk strategy, then goes through the process of identifying, quantifying and aggregating risks, and finishes by determining risk-bearing ability, allocating capital and establishing limits, leading to ongoing risk monitoring. The individual elements of the circuit are performed with varying regularity (daily for measurement of trading book market risk, monthly for creation of the risk sustainability account and annually for risk inventory and risk strategy). All the activities described in the circuit are examined at least once a year to ensure that they are up to date and adequate and are adjusted to current underlying conditions if necessary.

The association defines a risk strategy on the basis of the association business strategy, in order to create consistent conditions and policies for uniform risk management across the association. The association risk strategy applies for the entire association. Each member of the Association of Volksbanks derives its own risk strategy from the association risk strategy. The core elements of the risk strategy are an integrated limit system and the risk appetite statement (RAS), which are intended to ensure that the risk, capital and performance targets are properly aligned. The limit system – broken down to sub-risk types – and the RAS provide the framework for the maximum risk which the association is prepared to incur in order to achieve its strategic goals. The RAS indicators have target, trigger and limit values and, like the bank-wide and sub-risk limits, are monitored on an ongoing basis, ensuring that deviations from the risk strategy are promptly identified and corrective measures can be quickly implemented.

The aim of the risk inventory is to ascertain the potential danger posed by significant new risks entered into and to assess significant existing risks. The results of the risk inventory are compiled and analysed for the Association of Volksbanks. The results of the risk inventory are incorporated into the risk strategy and provide the starting point for the risk sustainability account, as it has to take significant risk types into account.

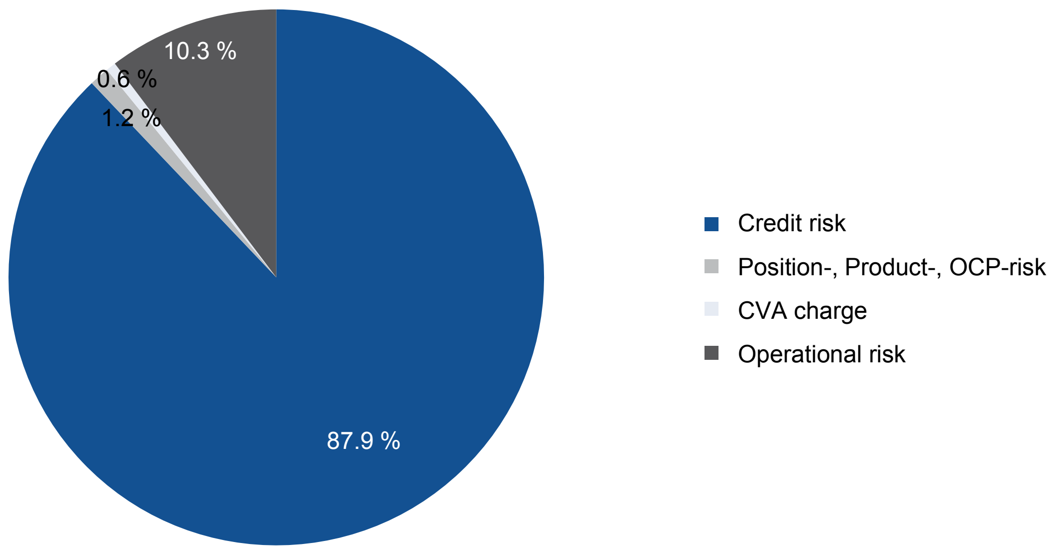
The basis for the quantitative implementation of the ICAAP is the risk sustainability account. It demonstrates that adequate risk-covering capital is in place at all times to provide sufficient cover for risks that have been entered into and which also ensures such cover is available for the future. For this purpose, firstly all relevant individual risks are aggregated. The existing, previously defined risk coverage capital is then compared with this total risk. Compliance with the total bank risk limit and the single-entity limit determined by the central organisation's Managing Board for the whole association is monitored on a monthly basis, and a risk report is prepared.

When determining the risk-bearing ability, different objectives may be pursued, which are reflected in three different views.

- Regulatory view (observance of regulatory capital ratios)
- Economic liquidation view
- Economic going concern view

The regulatory view compares the sum of all risks required by the regulator to be covered by capital according to specified risk measurement methods and the defined risk-covering capital (based on CRR/CRD IV and the Austrian Banking Act). Assurance of regulatory riskbearing ability is a minimum requirement, since it is stipulated by law.

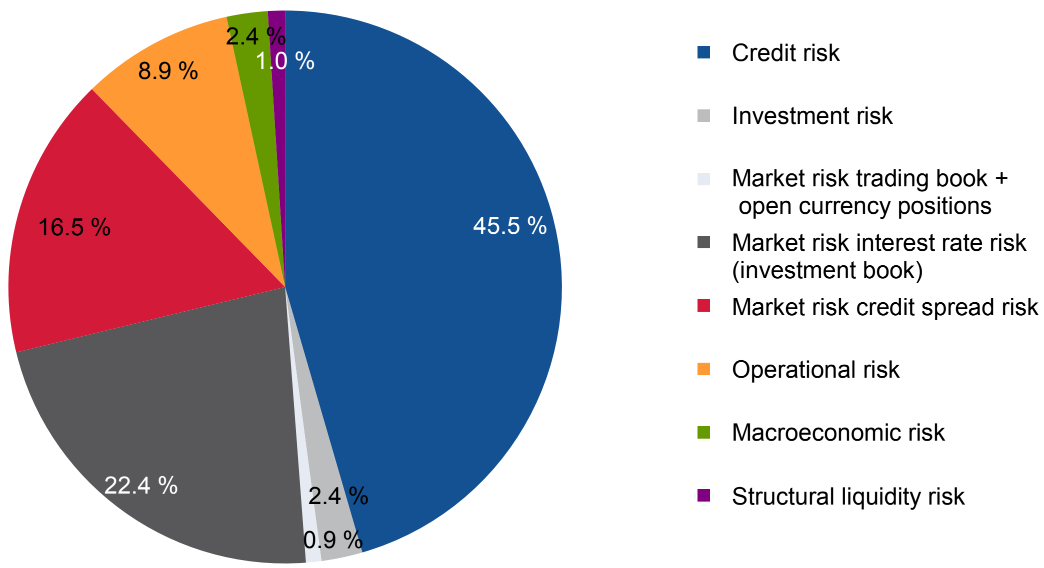
As at 31 December 2015, the regulatory overall risk position for the association is composed as follows:



In the economic liquidation view, the focus is on the meeting of creditors' claims in the event of liquidation. With this view, the risk-covering capital is defined on the basis of the internal capital. This is based on the regulatory definition, but also includes further components such as unaudited interim net income/losses as well as hidden liabilities/reserves. Moreover, "internal" – usually value-at-risk – methods are employed to determine the total risk position. This concerns not only the risks which the regulator requires to be covered by equity but also the analysis of all quantifiable risks regarded as significant in the context of the risk inventory.

A confidence level of 99.9 %, derived from the bank's target rating, and a holding period of one year are used to quantify risk in the liquidation view.

As at 31 December 2015, the total risk position for the association in the economic liquidity view is composed as follows:



The going-concern view seeks to ensure the continuation of normal business operations. The going-concern view is based on coverage of risks through capital available in the short term in day-to-day business. Minor, highly probable risks should be accommodated without jeopardizing ongoing business operations. Therefore, the risk-covering capital essentially comprises only hidden reserves/liabiliies, the net profit/loss achieved in the current financial year and the target profit/loss for the next 12 months, as well as the capital that exceeds the fixed capital ratio of the risk strategy. The risk quantification is based on a moderate confidence level of 95 % and a holding period of one year.

The economic risk sustainability account is regarded as an important view from a management perspective, as the combination of risk measurement and income accounting allows risk-adjusted income management. Standard performance measurement methods such as return on equity (ROE) are supplemented by the meaningful return on economic capital (ROEC) measurement, which takes adequate account of risks and facilitates comparison of segment performance, thus laying the foundation for value-oriented bank management.

d) Credit risk

The following risk sub-types are grouped under the heading of credit risk.

- Default risk
- Counterparty risk
- Credit concentration risk
- Repayment vehicle risk
- Transfer risk
- Migration risk
- Macroeconomic risk
- Foreign exchange risk from loans

Default risk denotes potential losses that may arise from the default of business partners who constitute borrowers at the association.

The counterparty risk is defined as the risk that a business partner in an unsecured over-the-counter (OTC) derivative transaction will not meet its contractual obligations or will not fully meet them, thus causing an actual loss resulting from the positive fair value of the derivative transaction (replacement risk) for the association.

Concentration risk denotes the risk that a default by a customer will lead to defaults across the whole group of its business relations, even though this relationship would not necessarily entail a group default.

Repayment vehicle risk is the risk that a repayment vehicle that has been saved into in order to repay a debt does not achieve the desired performance and is finally insufficient to cover the debt. This shortfall between expected savings volume and outstanding debt at maturity serves as a guide to the potential loss.

Transfer risk occurs in the case of receivables that cross national borders. In the case of a deferment of payment (moratorium), cash flows out of a country are prohibited, even if the borrower is willing and able to pay. The probability of this happening is modelled as a surcharge on the probability of insolvency.

Migration risk represents the risk of change in a debtor's creditworthiness expressed as a change in the credit rating and thus the probability of default. These are cases in which losses have not yet materialised but where the likelihood of potential defaults has significantly increased.

Macroeconomic risk is the risk of losses arising from changes in the general economic situation.

Risk from foreign currency loans arises due to a mismatch between the currency of the debtor's income and the financing currency. If the exchange rate changes to the customer's disadvantage, the monthly cost to the customer increases, which can result in additional defaults.

Organisation and risk strategy

Strict separation of sales and risk management units is in place in all association units that generate credit risk. All case-by-case decisions are made under strict observance of the principle of dual control, which led to stipulation of clear processes for the collaboration between the risk management units in the central organisation and in the members of the Association of Volksbanks. For large-volume transactions, processes have been created to ensure the involvement of operational central organisation’s risk management and the central organisation’s Managing Board in risk analyses and credit decisions. Limit systems that combine the decision-making competences of the individual units in a single framework play a key role in this process.

Measuring and controlling the credit risk also necessitates the development of sophisticated models, systems and processes tailored to the bank’s own portfolio. The aim is firstly to structure and improve credit decision making and secondly to use such instruments and their findings as a basis for portfolio management. When implementing these systems, the association paid particular attention to ensuring that all rating systems used in the association show a comparable probability of default (PD) and are connected with the VB master scale, which comprises a total of 25 rating categories. The PD band used enables both comparison of internal ratings with the classifications of external rating agencies and, most importantly, comparison of credit ratings across countries and customer segments.

Loan portfolio and credit value at risk

The term economic capital describes the minimum economic capital necessary from an economic perspective based on the result of a risk measurement. Along with regulatory capital, it is held for the purpose of covering unexpected losses exceeding expected losses. The calculation of the economic capital requirements needed for the credit risk is based on the credit value at risk (CVaR) method. For this purpose, the association has selected an analytical calculation method based on an actuarial approach. In particular, a CreditRisk+ model adapted in line with internal requirements will be used for modelling credit risks in the loan portfolio.

The CVaR method is used at association level as a basis for the following tasks:

- Breaking down the CVaR into individual segments respectively members of the association and customers
- Identifying portfolio concentrations
- Analysing the development of the CVaR in portfolio business
- Analysis of individual customers’ marginal contributions
- Identifying the major drivers behind CVaR changes (for example: new business, Exposure at Default (EAD), collateral, loss and default rate, risk factor)

The CVaR for the credit risk is also used for the following purposes as part of general bank management:

- Calculating economic capital
- Ensuring comparability of the risk situation for different types of risk (e.g. credit risk and market risk)
- Calculating risk-adjusted performance ratios (e.g. ROEC)
- Allocating capital
- Cost of capital for a loan in the preliminary and final costing

The CVaR results also serve as a means of obtaining additional information for portfolio analysis and management. A corresponding report is compiled every month.

The most important aim of using credit risk methods and instruments is preventing loss through identifying risks at an early stage.

Risk management and risk controlling function

Limits

Monitoring, controlling and restricting the risk of individual exposures and risk clusters are managed on the basis of the following limits:

- Credit limits for groups of affiliated customers
- Portfolio limits

The group of affiliated customers is used as the basis for limits in new lending within the Association of Volksbanks. Limits stipulated for the Association of Volksbanks differ from those for merger groups or individual banks. Credit limits for groups of affiliated customers are essentially limits with regard to:

- Sovereign and similar risks, including country, central bank, supranational organisation (e.g. EU) and state-guaranteed risks
- Bank and similar risks: these primarily apply to the CO's treasury business as well as investment book investments
- Companies and all other borrowers not categorised as countries or banks; retail clients and municipalities are thereby to be treated as companies for the purpose of credit risk limits.

The limits for the maximum gross total exposure are calculated based on percentages of the relevant eligible own funds in line with rating classes. The maximum unsecured exposure is calculated as the percentage of the maximum total exposure (likewise in accordance with rating class) less protection class 1 collateral. If special circumstances mean that the limits have to be exceeded in individual business areas (e.g. charities or pharmacies), the relevant reasons must be given and prior authorisation must be obtained. Limits are reviewed on an ongoing basis at single-entity level through operational risk management at the individual banks and are monitored through central analyses performed by VBW in its role as the central organisation.

At present, when setting limits for portfolios, the association primarily uses country risk limits with the aim of limiting the transfer risk. The target portfolio of the Association of Volksbanks is Austrian business. Foreign business therefore has a limit of 5 %.

Concentrations

Concentrations are quantified and assessed on a association-wide basis in two ways: on a monthly basis in the CVaR calculation and on a quarterly basis when preparing the association risk report. This analysis includes, for example, concentrations at individual customer level as regards corporates, banks and the public sector. In addition, the concentration risk shows the effects of a group view rather than the individual customer view.

The 25 largest items in loans and advances to corporate customers of the Association of Volksbanks come to a total of euro 1.7 billion, corresponding to 5.4 % of the total portfolio. At euro 1.2 billion, the collateralised EAD for these top 25 companies represents 70 % of the total amount. Of the total figure of euro 1.7 billion, euro 1.6 billion relates to Austria, euro 54 million to Great Britain and euro 28 million to Germany. A breakdown of these 25 corporate customers shows that euro 1.0 billion relates to classic corporate financing, euro 594 million to off-balance sheet transactions (commitments and derivatives), euro 96 million to participations.

Rating system

Standardised models are applied across the association to determine credit ratings (the VB rating family) and to determine the loss amount in the event of default. The expected likelihood of each customer defaulting is estimated across the VB rating family and expressed via the VB master scale. The concept behind the VB master scale allows for the comparison of borrower credit ratings across regions and customer groups.

The rating classes in rating category 5 cover the reasons for defaulting on a loan applied across the association and are also used for reporting nonperforming loans (NPL). Loans from parts of rating category 4 and loans past due more than 60 days are defined as problem loans. An in-depth description of rating methods can be found in the regulatory disclosure on the institutions website.

Forbearance

Based on the EBA FINAL draft ITS on supervisory reporting on forbearance and non-performing exposures as well as Commission Implementing Regulation (EU) 2015/227 of 9 January 2015 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013, all loans and bonds as well as revocable and irrevocable loan commitments, balances held with central banks and other demand deposits in all valuation categories, with the exception of items held for trading, fall within the scope of application of supervisory reporting on forbearance and non-performing exposures. Non-current assets held for sale and disposal groups also fall within the scope of application pursuant to IFRS 5. Forbearance refers to concessions made by the lender to a debtor linked to financial difficulties or impending financial difficulties experienced by the debtor, which the lender would not grant otherwise. Forborne credit exposures are assigned to the categories of performing forborne credit exposures and non-performing forborne credit exposures. Regulations on subsequent monitoring of exposures (special monitoring requirements in the Association of Volksbanks) and criteria for recovery are derived from this categorisation.

Concessions have been agreed for economic reasons in connection with customer loans with a total carrying amount of euro 572,526 thousand. This amount relates to performing forborne credit exposures amounting to euro 245,078 thousand and non-performing forborne credit exposures amounting to euro 327,448 thousand; value adjustments of euro 95,917 thousand have been made for the non-performing forborne credit exposures.

The decision on when a transaction is no longer classified as forborne is made on the basis of fixed criteria, which must be cumulatively fulfilled. For customers undergoing intensive supervision, the decision is made as part of the scheduled monitoring process, while in cases involving restructuring it is made during ongoing monitoring of the exposure.

Counterparty default risk

Counterparty risk for market values arising from unsecured derivatives is accounted for by means of credit value adjustments (CVA) or debt value adjustments (DVA), as an approximation function for the potential future exposure in relation to counterparty default risk. The expected future exposure (EFE) is calculated using a Monte Carlo simulation. As no observable credit spreads are available for these counterparties on the market, the default probabilities are based on the internal ratings of the Association of Volksbanks.

Legally enforceable netting agreements are in place with key counterparties of the association, which have been taken into consideration internal risk controlling and determining capital requirements. The association does not use an internal model to calculate counterparty default risk.

The amount of the counterparty limits (off-balance limits) for derivative transactions with banks and financial institutions depends on the following criteria:

- Internal credit rating
- Amount of the counterparty's own funds
- Amount of the bank's own funds
- Intensity of the business relationship with the counterparty (strategically important, small number of transactions, sporadic)
- Legally enforceable netting agreements in place

The terms of the off-balance limits set are determined taking counterparty default risks into consideration.

The market and liquidity risk department of VBW is responsible for monitoring the counterparty limits for treasury that are set in line with various maturity bands. The inclusion of derivative transactions in the off-balance lines is based on the principle of positive fair value plus a term-dependent add-on for counterparties without legally enforceable netting agreements. If valid netting agreements are in place, positive and negative fair values are netted and any cash collateral is taken into account.

For institutional counterparties without netting, the amount of the add-ons is based on article 274 CRR. The add-on calculation is carried out in accordance with article 298 CRR, applying the off-balance netting. More conservative markups are used for internal risk management for non-credit institutions.

Utilisation reports and any overdraft reports are made available to the credit and treasury departments concerned on a daily basis.

Collateral management - Derivative trading

As part of internal risk controlling in the association, a daily comparison of the fair value of derivative transactions is currently performed with counterparties for transactions concluded on the basis of framework contracts (ISDA – international swaps and derivatives association, Austrian or German framework contract) or credit support annex (CSA) contracts. If the fair values exceed certain contractually defined thresholds, these surpluses must be covered by collateral. The repo transactions are also examined with regard to the amount of collateral. In line with agreed margin calls, collateral is mostly transferred in the form of cash or government bonds in euro.

Credit risk reporting

The association performs credit risk reporting on a monthly basis and provides a detailed presentation of prevailing credit risk as at the reporting date, and within the banking association in accordance with section 30a of the Austrian Banking Act. Corresponding reports are produced for the association, major association units and key business areas. This information is also included in the credit risk sections of the association risk report.

The reports contain a quantitative presentation of management-related information on the credit risk, which is supplemented by a brief assessment of the situation and further qualitative information where appropriate.

The following analyses form part of the report:

- Portfolio distributions
- Development of new business
- Credit rating distributions
- Non-performing loans
- Credit risk concentrations
- Country group analyses
- Customer segments (customer segment split)
- Sector distributions (commerce)
- Significant CVaR information

These analyses are presented according to different sizes and ratios, for example: unsecured exposure, total exposure, expected loss, existing risk provisions, standard risk costs, non-performing loans, CVaR. The key ratios used to describe credit risks for the various business segments as at the balance sheet date and in comparison to the previous year are shown in the following tables and are excerpts taken from the association risk report.

Following tables respectively include assets held for sale.

Presentation of receivables from banks and customers broken down by credit quality and allocation to individual risk categories.

	Loans and receivables to credit institutions and customers	
Euro thousand	**31 Dec 2015**	**31 Dec 2014**
Gross carrying amount	23,265,290	28,319,678
Risk provision	439,513	951,316
Net carrying amount	**22,825,776**	**27,368,362**
Receivables impaired		
Risk category 1 (1A - 1E)	0	0
Risk category 2 (2A - 2E)	0	0
Risk category 3 (3A - 3E)	342	0
Risk category 4 (4A - 4E)	3,379	0
Risk category 5 (5A - 5E)	856,379	1,689,803
Risk category 6 (NR)	630	0
Gross carrying amount	860,730	1,689,803
Risk provision	370,517	884,197
Net carrying amount	**490,212**	**805,606**
Receivables not impaired but past due 90 - 180 days		
Risk category 1 (1A - 1E)	0	0
Risk category 2 (2A - 2E)	0	0
Risk category 3 (3A - 3E)	0	0
Risk category 4 (4A - 4E)	0	0
Risk category 5 (5A - 5E)	24,997	28,706
Risk category 6 (NR)	0	0
Gross carrying amount	**24,997**	**28,706**
Receivables not impaired but past due 180 - 365 days		
Risk category 1 (1A - 1E)	0	0
Risk category 2 (2A - 2E)	0	0
Risk category 3 (3A - 3E)	0	0
Risk category 4 (4A - 4E)	0	0
Risk category 5 (5A - 5E)	26,327	26,621
Risk category 6 (NR)	0	0
Gross carrying amount	**26,327**	**26,621**
Receivables not impaired but more than 365 days past due		
Risk category 1 (1A - 1E)	0	0
Risk category 2 (2A - 2E)	0	0
Risk category 3 (3A - 3E)	0	0
Risk category 4 (4A - 4E)	0	0
Risk category 5 (5A - 5E)	77,634	107,848
Risk category 6 (NR)	0	0
Gross carrying amount	**77,634**	**107,848**
Receivables neither impaired nor past due		
Risk category 1 (1A - 1E)	493,844	606,257
Risk category 2 (2A - 2E)	2,312,578	3,470,348
Risk category 3 (3A - 3E)	15,245,148	17,904,136
Risk category 4 (4A - 4E)	3,967,960	4,154,818
Risk category 5 (5A - 5E)	196,459	264,651
Risk category 6 (NR)	59,613	66,490
Gross carrying amount	**22,275,602**	**26,466,701**
Portfolio based allowance	68,996	67,119
Total net carrying amount	**22,825,776**	**27,368,362**

Classification to the individual risk categories is carried out according to internal rating categories at the association. Receivables in risk category 1 have the highest rating (lowest expected default rate), while receivables in risk category 4 have the lowest rating and receivables in risk category 5 constitute defaulted receivables (= non-performing loans, NPLs). Risk category 6 (NR) comprises almost all non-defaulted exposures that cannot be assigned to any of the other risk categories 1 - 4. These are mainly small exposures that fall below the rating obligation. This category includes customers with a wide variety of live ratings and, unlike the other risk categories, is not assigned to any particular risk. The distribution of risk provisions is also clarified accordingly. It must be noted that the gross carrying amount of the individual impaired loans and receivables does not correspond to the total of the NPLs. If the rating of a defaulting customer improves, the customer is assigned to a better (performing) rating category, impairment is reduced accordingly and the customer is no longer designated as an NPL.

The defaulted loans or NPLs are assigned to risk category 5 and allocated to the individual rating categories based on the reason for the default. This means, for example, that rating category 5A denotes those borrowers that are past due by more than 90 days.

The following table shows the distribution of non-performing loans across the default rating categories.

	Loans and receivables to credit institutions and customers 31 Dec 2015		Loans and receivables to credit institutions and customers 31 Dec 2014	
Euro thousand	**Gross**	**Net**	**Gross**	**Net**
Receivables impaired				
Rating 5A	9,782	7,431	62,290	42,356
Rating 5B	131,297	78,513	507,712	271,535
Rating 5C	480,493	282,135	672,098	359,896
Rating 5D	172,269	82,374	413,582	117,631
Rating 5E	62,539	36,330	34,121	14,187
Total	856,379	486,784	1,689,803	805,606
Receivables not impaired but more than 90 days past due				
Rating 5A	11,614	11,614	25,976	25,976
Rating 5B	10,808	10,808	11,574	11,574
Rating 5C	65,720	65,720	82,830	82,830
Rating 5D	33,295	33,295	39,361	39,361
Rating 5E	7,521	7,521	3,434	3,434
Total	128,958	128,958	163,175	163,175
Receivables which are neither impaired nor past due				
Rating 5A	10,208	10,208	19,248	19,248
Rating 5B	55,403	55,403	134,031	134,031
Rating 5C	103,322	103,322	89,198	89,198
Rating 5D	20,617	20,617	18,051	18,051
Rating 5E	6,909	6,909	4,123	4,123
Total	196,459	196,459	264,651	264,651
Total sum	**1,181,796**	**812,201**	**2,117,629**	**1,233,431**

The following table shows the gross and net carrying amounts of the receivables according to their respective risk categories.

Euro thousand	Loans and receivables to credit institutions and customers Gross	Net
31 Dec 2015		
Risk category 1 (1A - 1E)	493,844	493,844
Risk category 2 (2A - 2E)	2,312,578	2,312,578
Risk category 3 (3A - 3E)	15,245,489	15,245,428
Risk category 4 (4A - 4E)	3,971,339	3,970,588
Risk category 5 (5A - 5E)	1,181,796	812,201
Risk category 6 (NR)	60,243	60,133
Total	**23,265,290**	**22,894,772**
31 Dec 2014		
Risk category 1 (1A - 1E)	606,257	606,257
Risk category 2 (2A - 2E)	3,470,348	3,470,348
Risk category 3 (3A - 3E)	17,904,136	17,904,136
Risk category 4 (4A - 4E)	4,154,818	4,154,818
Risk category 5 (5A - 5E)	2,117,629	1,233,431
Risk category 6 (NR)	66,490	66,490
Total	**28,319,678**	**27,435,481**

[1)] The net carrying amounts are shown without deduction of the portfolio impairment.

Individual impairment in risk category 5 generally does not cover the entire gross value of outstanding receivables, as collateral is taken into account but other provisions (portfolio provisions) are not, and this does not always need to result in complete impairment of the defaulted receivable in cases of restructuring (going concern consideration when recognising risk provisions).

The following table shows defaulted and non-defaulted exposures as a percentage of total receivables.

	Receivables total		Receivables in loss		Receivables alive	
Euro thousand	Exposure	Unsecured	Unsecured	Risk provision	Unsecured	Expected Loss
31 Dec 2015						
Ärzte- & ApoBank	715,086	220,001	5,130	3,169	214,871	3,245
Credit unions	26,351	26,351	71	0	26,280	220
Sparda banks	329,497	91,889	5,489	3,586	86,400	727
start:group	2,733,876	123,653	7,801	8,389	115,852	2,154
VB Kärnten	1,010,368	257,801	21,561	16,830	236,240	3,811
VB Niederösterreich	2,561,830	792,815	33,066	22,640	759,749	11,436
VB Oberösterreich	1,516,143	560,116	40,438	32,226	519,678	7,569
VB Salzburg	2,154,631	633,583	47,906	34,093	585,677	9,271
VB Steiermark	2,495,960	715,500	148,748	132,968	566,752	12,754
VB Tirol	2,528,656	728,763	20,390	11,496	708,373	12,189
VB Vorarlberg	1,984,573	607,230	41,416	32,135	565,814	8,939
VBW - Retail	4,075,073	729,885	60,883	38,379	669,002	10,986
VBW - CO	1,133,244	418,110	40,679	34,605	377,431	3,852
Total	**23,265,290**	**5,905,697**	**473,578**	**370,517**	**5,432,119**	**87,154**
31 Dec 2014						
Ärzte- & ApoBank	756,778	257,569	6,814	4,345	250,754	3,826
Credit unions	0	0	0	0	0	0
Sparda banks	350,306	120,257	8,392	5,385	111,865	912
start:group	2,854,900	130,486	10,171	7,980	120,315	1,937
VB Kärnten	1,373,339	470,317	37,585	25,749	432,732	5,436
VB Niederösterreich	2,608,476	899,189	46,414	29,929	852,775	12,297
VB Oberösterreich	1,618,228	669,264	51,074	36,148	618,189	8,461
VB Salzburg	2,256,391	729,010	69,950	54,100	659,061	10,805
VB Steiermark	2,700,377	842,762	154,795	130,363	687,967	14,784
VB Tirol	2,547,733	857,126	23,489	14,520	833,637	15,030
VB Vorarlberg	1,816,255	539,292	32,498	27,527	506,794	8,404
VBW - Retail	3,804,417	831,350	77,422	55,038	753,929	11,525
VBAG Group	5,632,479	2,467,547	598,590	493,112	1,868,957	37,299
Total	**28,319,678**	**8,814,169**	**1,117,195**	**884,197**	**7,696,975**	**130,716**

Across the association, default follows the definition given by the CRR which employ an approach based on internal ratings when calculating own funds. Defaulted receivables are compared with the amount of individual impairments recognized and performing receivables are compared with the loss expected for the following year. The expected loss is based on internal credit ratings, the economic collateral situation and the loss amount expected in the event of default derived from this. Defaulted receivables generally result in risk provisions which are less than the unsecured exposure, as in addition to provisions based on individual impairments, because there are also group based impairments and portfolio provisions. Portfolio provisions are not included in the above table.

The table below shows the overall framework of secured receivables by individual collateral categories.

Euro thousand	Loans and receivables to credit institutions and customers 31 Dec 2015	31 Dec 2014
Collateral for individual impairment loans and receivables		
Liquid funds	6,628	18,066
Securities	2,203	8,040
Mortgages	377,217	540,945
Guarantees	6,412	36,776
Movable Goods	8,348	11,976
Others	22,625	36,035
Collateral for loans and receivables not impaired but more than 90 days past due		
Liquid funds	4,216	2,634
Securities	517	1,344
Mortgages	105,941	136,405
Guarantees	675	2,004
Movable Goods	513	268
Others	3,663	4,673
Collateral for loans and receivables which are neither impaired nor past due		
Liquid funds	533,010	613,832
Securities	286,783	417,072
Mortgages	14,390,499	14,583,898
Guarantees	361,383	512,529
Movable Goods	177,068	1,004,605
Others	1,071,893	1,574,406
Total value of collaterals	**17,359,593**	**19,505,509**

The key form of collateral in the lending business is mortgages. Movable property collateral derives from the leasing units of the association and mainly constitutes private passenger cars.

The following table shows the regional distribution of utilisation across strategic sectors.

Euro thousand	Austria	EFA incl. Switzerland	EU Central and Eastern Europe	Non EU Europe	USA and Canada	Others	Total
31 Dec 2015							
Ärzte- & ApoBank	711,932	2,657	310	0	15	173	715,086
Credit unions	26,351	0	0	0	0	0	26,351
Sparda banks	327,551	1,747	84	0	0	116	329,497
start:group	2,668,450	57,662	7,478	6	113	168	2,733,876
VB Kärnten	903,937	20,133	80,459	4,970	657	214	1,010,368
VB Niederösterreich	2,548,082	9,861	1,556	769	1,408	155	2,561,830
VB Oberösterreich	1,250,662	262,276	2,601	12	591	1	1,516,143
VB Salzburg	1,998,370	150,314	1,399	849	346	3,353	2,154,631
VB Steiermark	2,411,588	12,314	70,827	1,083	0	148	2,495,960
VB Tirol	2,269,971	255,647	1,353	0	489	1,195	2,528,656
VB Vorarlberg	1,506,442	453,426	5,725	2,680	611	15,688	1,984,573
VBW - Retail	4,014,485	42,601	12,998	1,113	1,036	2,841	4,075,073
VBW - CO	564,889	448,147	24,019	6	39,204	56,980	1,133,244
Total	**21,202,710**	**1,716,783**	**208,810**	**11,487**	**44,469**	**81,031**	**23,265,290**
31 Dec 2014							
Ärzte- & ApoBank	753,270	2,877	424	0	16	191	756,778
Credit unions	0	0	0	0	0	0	0
Sparda banks	347,809	2,231	116	0	0	150	350,306
start:group	2,781,906	65,059	7,688	0	123	124	2,854,900
VB Kärnten	1,278,126	28,053	66,623	62	239	236	1,373,339
VB Niederösterreich	2,594,509	9,649	1,910	649	1,574	185	2,608,476
VB Oberösterreich	1,343,664	271,302	2,523	20	716	2	1,618,228
VB Salzburg	2,072,531	176,907	1,819	914	198	4,021	2,256,391
VB Steiermark	2,607,337	13,117	78,115	1,060	2	745	2,700,377
VB Tirol	2,275,585	268,894	1,553	1	524	1,176	2,547,733
VB Vorarlberg	1,461,513	335,544	8,062	1,053	570	9,513	1,816,255
VBW - Retail	3,747,865	36,734	15,112	1,096	1,154	2,456	3,804,417
VBAG Group	2,148,244	977,853	1,742,246	663,360	20,944	79,834	5,632,479
Total	**23,412,359**	**2,188,221**	**1,926,191**	**668,215**	**26,059**	**98,633**	**28,319,678**

The distribution of the receivables portfolio across the main regions used by the association for controlling purposes shows a clear focus on Austria. The volume outside Austria has decreased significantly due to the demerger of immigon.

The table below shows the portfolio sub-divided by sector and by customer segments.

Euro thousand	Public sector	Banks	Corporates	Retail SME	Retail private	Special finance	Total
31 Dec 2015							
Ärzte- & ApoBank	137	40	168,327	374,425	168,875	3,281	715,086
Credit unions	0	0	0	0	26,351	0	26,351
Sparda banks	0	151	4,432	349	324,565	0	329,497
start:group	324	9,045	875,289	153,201	1,604,865	91,153	2,733,876
VB Kärnten	8,316	0	212,378	377,210	406,051	6,411	1,010,368
VB Niederösterreich	58,922	3,569	585,464	784,431	1,114,746	14,698	2,561,830
VB Oberösterreich	67,130	425	434,840	431,944	520,845	60,958	1,516,143
VB Salzburg	18,922	1,692	802,828	636,575	694,147	468	2,154,631
VB Steiermark	44,603	4	994,969	690,141	746,942	19,302	2,495,960
VB Tirol	15,998	102	1,055,672	577,147	879,434	302	2,528,656
VB Vorarlberg	48,364	143,667	529,964	228,650	1,033,928	0	1,984,573
VBW - Retail	55,116	2,659	1,487,855	847,757	1,671,382	10,305	4,075,073
VBW - CO	70,380	457,867	527,561	17,490	2,040	57,906	1,133,244
Total	**388,211**	**619,223**	**7,679,581**	**5,119,321**	**9,194,169**	**264,784**	**23,265,290**
31 Dec 2014							
Ärzte- & ApoBank	0	1,823	181,231	382,767	186,358	4,600	756,778
Credit unions	0	0	0	0	0	0	0
Sparda banks	0	5	5,230	518	344,553	0	350,306
start:group	11,391	9,048	880,134	140,396	1,721,181	92,749	2,854,900
VB Kärnten	12,770	0	318,348	494,609	542,663	4,949	1,373,339
VB Niederösterreich	60,275	3,863	605,834	834,832	1,089,382	14,289	2,608,476
VB Oberösterreich	58,538	63	475,204	468,303	563,511	52,609	1,618,228
VB Salzburg	18,287	1,778	895,850	647,172	692,786	519	2,256,391
VB Steiermark	52,034	0	1,128,459	733,917	758,405	27,561	2,700,377
VB Tirol	14,681	279	1,070,157	576,253	868,413	17,951	2,547,733
VB Vorarlberg	11,988	47,087	517,956	242,071	961,411	35,742	1,816,255
VBW - Retail	59,933	2,401	1,348,408	871,126	1,497,169	25,380	3,804,417
VBAG Group	113,533	1,616,486	1,652,708	834,733	562,317	852,703	5,632,479
Total	**413,429**	**1,682,833**	**9,079,520**	**6,226,697**	**9,788,148**	**1,129,052**	**28,319,678**

The sectors and curiae of the association represent the way in which the receivables portfolio is broken down within the association for controlling purposes, while the breakdown according to customer segment conforms to the customer groups as defined by the Austrian Banking Act.

Loan collateral

Use of loan collateral

The use and management of loan collateral are regarded as important components of credit risk management in the association. Alongside borrowers' creditworthiness, they are a decisive factor in determining the credit risk of an exposure. The primary significance of loan collateral is in making provision for unforeseeable future risks from loan exposures, thus limiting the risk of loss arising from a loan exposure in the event of insolvency or restructuring.

The types of collateral used in the association and their treatment are comprehensively set out in the association manuals Collateral Management Parts I-IV and the General Instructions on Risk Management. These categorise collateral according to both legal hedging transactions and by the type of goods on which they are based.

In the association, a key requirement when selecting a type of collateral is its congruence with the loan to be secured. If collateral is created for a loan exposure, it must be objectively valued in accordance with binding valuation rules. Furthermore, there are clearly defined guidelines and processes for creating, managing and realising loan collateral. The soundness of all loan collateral is examined regularly. Periodicity largely depends on the type of collateral and is regulated on a standard basis.

Valuation of loan collateral

In each case, the starting point for considering collateral in terms of the lending process is the current fair value, market value, nominal value or surrender value. The corresponding deductions are subsequently applied to this value in each case for the purposes of credit risk mitigation. The different types of collateral are valued based on the following initial values:

Collateral	Initial value
Financial collateral	Fair value / nominal value
Real estate collateral	Fair value / market value
Other tangible collateral	Fair value
Accounts receivable	Nominal value
Life insurance	Surrender value
Guarantees	Nominal value
Credit derivatives	Nominal value

The initial valuation method used for loan collateral is appropriately documented together with the valuation results for ongoing examination.

The most important types of collateral

Loan collateral should correspond with the type of loan to be secured. As such, capital investment loans should be secured by the assets to be financed, provided these are sound and at the guarantor's disposal for the term of the loan. In the selection of loan collateral, the cost/benefit ratio is taken into consideration so that sound loan collateral that requires low levels of processing and costs as well as loan collateral that is actually realisable are selected first. For this reason, tangible collateral, such as real estate collateral, and financial collateral, such as cash or securities collateral, are given priority.

Distribution of economic credit security within the association's portfolio:

Collaterals	Allowable amount	
Euro thousand	31 Dec 2015	31 Dec 2014
Financial collateral	1,015,578	1,535,241
Real estate collateral	14,873,658	15,261,249
Other tangible collateral	252,577	1,150,538
Accounts receivable	40,334	98,775
Life insurance	808,977	906,246
Guarantees	368,469	551,310
Credit derivatives	0	2,151
Total	**17,359,593**	**19,505,509**

Real estate collateral is by far the most important type of collateral in the association. Other tangible collateral constitutes moveable property in the leasing business. The values shown represent the recognised value of the collateral (after measurement and capping by the amount of the secured receivable).

Whether or not personal collateral is recognised depends largely on the quality of the guarantor and its close association with the borrower.

According to the right granted by means of personal collateral, the following liability instruments are recognised in the association:

Personal Collaterals
Abstract guarantees
Guarantee and payer liability (persuant to section 1357 Austrian Civil Code)
Deficiency guarantee (persuant to section 1356 Austrian Civil Code)
Draft guarantee
Strict letter of comfort

Distribution of personal collateral within the association's portfolio:

Personal Collaterals Euro thousand	Allowable amount 31 Dec 2015	 31 Dec 2014
Abstract guarantee	368,469	528,915
Guarantee	0	2,858
Joint security / Guarantee and payer liability (persuant to section 1357 Austrian Civil Code)	0	5,425
Second degree security / Deficiency guarantee (persuant to section 1356 Austrian Civil Code)*	0	981
Guarantee of a bill of exchanges acc. Bill of Exchange Act (Joint security)	0	7,337
Strict letter of comfort	0	5,794
Total	**368,469**	**551,310**

* only granted by or with counter-liability of government bodies

Abstract guarantees are the most important type of personal collateral. Personal collateral in accordance with section 1356 of the Austrian Civil Code is only recognised if this is granted by government bodies or is provided with counter-liability on the part of government bodies. The values shown represent the recognised value of the collateral (after measurement and capping by the amount of the secured receivable).

e) Market risk

Definition

Market risk is the risk that the value of an asset item will change as a result of changes to the price of value-determinant market risk factors. The association draws a distinction between the following market risk sub-groups:

- Market risk in the trading book
- Interest rate risk in the investment book
- Credit spread risk
- Foreign currency risk open currency positions
- Option risks

Market risk in the trading book

Only VBW as the central organisation has a large trading book. Based on the business strategy, market risk in the trading book is of minor significance in the association. Management and monitoring of the market risks in the treasury of the VBW is performed by the independent Market and Liquidity Risk department, which is part of Risk Control. Besides producing a risk and income presentation on a daily basis, specifying the limit structure based on the economic capital made available by the central organisation's Managing Board, the department's main tasks include administration of front-office systems, collateral management, enhancement of risk measurement systems and monitoring the market risk and counterparty limits.

Interest rate risks in the investment book

Entering into interest rate risks is a normal part of banking business and a key source of income. However, excessive interest rate risks represent a significant threat to the earnings and capital situation. Accordingly, an effective risk controlling system that monitors and limits the interest rate risk in line with the scope of business is vital for maintaining the bank's ability to bear risk.

Functional separation of the units that enter into interest rate risks and those that monitor such risks is in place.

Asset liability committees (ALCOs) are the coordination bodies for managing the ALM processes and are in place at all the association's member institutions. These meet at least monthly or at short notice if required.

Asset liability management (ALM) is responsible for ensuring the ALM organisation is adequate, chairs the meetings of the ALCO and devises the bases and analyses relevant for decision-making.

The central organisation's department market and liquidity risk is responsible for specifying risk measurement methods and enhancing them on an ongoing basis. Preparing creation and analyses, setting parameters and monitoring limits also fall within its remit. The produced reports serve as a decisionmaking tool for the ALCOs in performance of its management tasks.

The declared aim of interest rate risk management is to identify all material interest rate risks from assets, liabilities and off-balance positions in the investment book. This requires analysis of both the income effect and the present value effect of interest rate changes using simulation scenarios in the form of statistical and dynamic reports that also incorporate new business.

The following interest rate risks in the bank book are relevant to the association:

Repricing risk

Repricing risk arises due to time differences in the remaining maturity (fixed-interest instruments) or in the period until the interest rate is next fixed (variable-interest instruments) for receivables, liabilities and off-balance positions. It manifests itself in changes in the present value and future earnings of the banks brought about by changes in interest rates.

Yield curve risk

Yield curve risk results from disadvantageous changes in an interest rate curve, for example a parallel shift, a change in gradient or a change in curve.

Basis risk

In this context, basis risk results from imperfect correlations between the interest rates levied and paid on various financial instruments with otherwise similar characteristics, such as the same maturities.

Credit spread risk

Credit spread is defined as a surcharge on the risk-free interest rate which the purchaser of a security receives for not investing without risk. The credit spread results from the difference between the relevant interest rate (reference interest rate) and the risk-free interest rate. Accordingly, credit spread risk arises from fluctuations in the present value of assets due to the change in credit spreads over time.

The transactions relevant for credit spread risk are investments within the bank's own portfolio, not involving any loans or advances to customers, intended to be held over the long term. This essentially comprises the following asset classes: bonds, funds, credit default swaps (CDS) and promissory note bonds.

Risk indicators are calculated for credit spread risk for these strategic investment book positions. The risk indicators calculated are credit spread value-at-risk (CS VaR) and credit spread sensitivities.

Foreign currency risk in open foreign exchange positions

Foreign currency risk is the risk that the values of outstanding receivables/liabilities in a foreign currency will change unfavourably due to exchange-rate fluctuations.

Options risk (explicit/implicit risk from options)

An option is the right, but not the obligation, of an option holder to buy, sell or otherwise change the cash flow of a financial contract. Options may stand alone or be embedded in other financial instruments.

Here, the implicit risk of options denotes the risk from options embedded in receivables, liabilities and off-balance positions for example bonds with the right of termination.

Here, the explicit risk of options denotes the risk from standalone options, like caps and floors or swaptions.

Market risk reporting

Market risk controlling in the trading book

The key task of risk monitoring is to estimate on a daily basis the possible loss that could arise from unfavourable market developments. These value-at-risk (VaR) calculations are performed using the MUREX risk management system based on the historical simulation method.

Historical simulation is used to add the historically observed changes to the current development of risk factors. This produces hypothetical developments of market risk factors that can be used as a basis for determining value at risk.

In the next step, the current portfolio is valued using the previously generated scenarios. This produces hypothetical portfolio values that are used to calculate the profit and loss distribution by mapping the differences between the hypothetical future and currently observed portfolio value. The VaR is obtained by applying the relevant quantile to the empirically calculated profit and loss distribution.

The time horizon corresponds to the minimum legal requirement of one year. The amount of VaR is ascertained from the 1 % quantile of the hypothetical profit and loss distribution.

The following table shows VaR (99 % confidence level, holding period of one day) in the trading book for 2015, broken down into risk types:

EUR thousand	Interest	Currency	Volatility	Total
31 Dec 2015				
Volksbank Wien AG trading book	103	0	74	**137**

The plausibility and reliability of the VaR figures is reviewed daily by backtesting. In this process, forecast losses are compared ex post with actual trading results. An exception (outlier) is deemed to exist if a negative trading result exceeds the potential risk amount calculated by the model.

Backtesting at VBW is based on hypothetical trading results assuming an unchanged portfolio. The portfolio used as the basis for the VaR calculation is then revalued the following day with the current market risk factors. In 2015 there was one backtesting outlier.

A structure of limits reflecting the risk and treasury strategy and approved by the central organisation's Managing Board is a key element of market risk management.

In addition to VaR, a further series of risk ratios are calculated daily. These chiefly include interest rate sensitivities and option risk ratios (delta, gamma, vega, rho).

Volume limits for all currencies limit the liquidity risk. Management action triggers and stop loss limits are also in place. The MUREX and Bloomberg TOMS front office and risk management systems are available for daily risk controlling purposes. The external pricing software UnRisk is also used to support the valuation of structured products.

Stresstesting

As VaR cannot cover the impact of extreme situations on earnings, extensive stress tests are performed on all trading book portfolios on a monthly basis or as required.

Through crisis tests firstly, assessing whether the bank's own funds can absorb potential major losses, and secondly, taking necessary measures to enable the bank to reduce its risk and retain its equity.

VBW applies various methods to generate scenarios. These can be divided into two categories: non-portfolio-specific and portfolio-specific methods.

Non-portfolio-specific scenarios such as parallel shifts, curve tilts or reconstructions of historical crises are applied to the current portfolio in the same way within each crisis test.

Portfolio-specific scenarios attempt to find the least favourable possible impacts for the current portfolio. At VBW, such scenarios are sought subjectively and empirically.

Valuations

All trading book positions are managed using the MUREX, front office and risk management system. MUREX is linked to real-time market data, which means positions are valued at market prices. Products that are not referenced to direct prices are valued using various pricing models based on current market parameters. The external pricing software UnRisk can be used to measure complex derivatives.

The systems described above ensure a daily, independent valuation of trading book positions.

The CO Market Risk association manual of the VBW sets out all rules and organisational processes for measuring and monitoring market risks.

Interest rate change risk in the investment book

The risk controlling records all the main forms of interest rate risk, such as basis and option risks. All positions of the association sensitive to interest rate movements are included. The objective of risk controlling is to keep the bank's interest rate risks within specific parameters defined by the bank itself.

Positions with no specific lock-in period, which are primarily core deposit products such as savings deposits, current account deposits and loans with no fixed maturity are incorporated in the risk measurement using fictions. The assumptions were made based on statistical analyses or experience values or using expert opinions. The assumptions made were documented, are adhered to at all times and regularly reviewed with regard to their validity. Any deviations are also documented and displayed, provided that they are justified by facts. To approximate the basis risk within the gap process report, products (interest rate swaps, bonds, loans) whose lock-in period is not equal to the interest rate adjustment and is greater than or equal to one year are placed in maturity bands by replicating fixed-interest portfolios. This relates to those positions for which interest rates are fixed in line with secondary market rates of return (SMR) or a constant maturity swap (CMS).

Risk reports

An important building block of reporting is the gap report, which also forms the basis for interest rate risk statistics in line with the gap analysis method. To determine the gaps, products sensitive to interest rate movements are allocated to the appropriate maturity band according to their remaining maturity.

As an additional step, a gap report is produced that approximates the basis risk, e.g. of positions that are linked to secondary market rates of return, by replicating fixed-interest portfolios.

Additional present value reports are produced to obtain further ratios. Besides parallel shifts, tilts in interest rate curves are used. These scenarios and stress tests are regularly examined as to their validity and may be added to or replaced.

Stress testing refers to the development of scenarios for extreme market conditions. Interest rate shocks, which can lead to extraordinary losses for the bank, are a fixed component of stress tests in risk controlling.

Currently, the following stress tests are performed:

- Parallel shift of +50 bp, +100 bp and +200 bp
- Parallel shift of -50 bp and –100 bp
- Tilt/money market +100 bp
- Capital market –100 bp

The following table shows the stress testing results as of year-end 2015:

Euro thousand	Difference in a basis point-shift of						
31 Dec 2015						GM+100 /	GM+000 /
Currency	+50 bp	-50 bp	+100 bp	-100 bp	+200 bp	KM-100	KM+100
EUR	62,449	-1,232	142,511	43,633	317,392	108,368	81,913
USD	482	-487	958	-979	1,894	58	226
CHF	-19,849	27,603	-29,491	64,881	-40,990	93,629	-17,976
GBP	24	-25	48	-49	96	25	2
JPY	-335	781	-627	1,976	-1,156	1,980	-445
CZK	27	-27	54	-52	107	49	1
PLN	-10	10	-20	21	-38	-5	0
RON	0	0	0	0	0	0	0
Others	190	-96	416	-125	1,170	611	-32
Total	**42,976**	**26,528**	**113,850**	**109,306**	**278,475**	**204,714**	**63,689**

The results show that the greatest interest rate risk for the association is naturally attributable to the euro. Apart from interest rate risk positions in USD, interest rate risks in other foreign currencies are of minor importance. Other currencies not explicitly mentioned in the table have been grouped under Others.

The present value of interest rate risk in the association (regulatory view in accordance with the National Bank of Austria's standard procedures) was 3.30 % as at 31 December 2015.

Credit spread risik

Particular attention is paid to credit spread risk in the strategic investment book (strategic banking book positions – SBBP) and the Volksbanks' A-depots (own accounts). These essentially include all bonds, fonds, credit default swaps and bonded loans. For SBBP positions monthly reporting has been implemented. The Managing Board is notified of SBBP positions as part of the quarterly association risk reporting process of the association. The SBBP report is split into a portfolio section and a risk section.

The SBBP portfolio report describes assets with regard to their fair values and carrying amounts and presents them in structural analyses according to various characteristics, such as asset class, IFRS and local GAAP treatment, credit rating, sector or duration. All portfolios are presented on the basis of the end of the respective quarter and their quarterly performance.

Portfolio structure according to IAS 39 categories

Euro thousand	Bond	Securisation	Syndicated loans & SSD	Fund & Equity	CLN, LPN & CL-SSD	Total
31 Dec 2015						
At fair value through profit or loss	0	0	0	0	0	0
Available for sale	1,971,899	0	0	228,633	0	2,200,532
Held to maturity and loans & receivables	69,747	0	75,096	0	0	144,843
Total	**2,041,646**	**0**	**75,096**	**228,633**	**0**	**2,345,375**

Euro thousand	Bond	Securisation	Syndicated loans & SSD	Fund & Equity	CLN, LPN & CL-SSD	Total
31 Dec 2014						
At fair value through profit or loss	11,519	0	0	1,900	0	13,419
Available for sale	3,049,335	0	0	290,995	19,853	3,360,183
Held to maturity and loans & receivables	338,510	208,113	348,247	0	0	894,869
Total	**3,399,364**	**208,113**	**348,247**	**292,894**	**19,853**	**4,268,471**

The on-balance-sheet portion of the strategic investment book corresponds to the portion of the financial investments eligible for the capital market. As well as the off-balance-sheet portion of the strategic investment book positions, only some of the figures in the SBBP report include deferred interest. Participation capital, bonds not eligible for the capital market and short-term government securities are not recorded in the strategic investment book, as these are excluded due to technical or regulatory requirements rather than for strategic reasons.

Top 10 exposures in the public sector

Euro thousand 31 Dec 2015	Available for sale Carrying amount	Held to maturity Carrying amount	Loans and receivables Carrying amount	Total Carrying amount
Austria	979,837	0	0	979,837
Italy	123,281	20,000	0	143,281
Poland	107,006	4,462	0	111,468
Switzerland	0	0	74,596	74,596
Belgium	59,060	4,983	0	64,044
Czech Republic	60,636	0	0	60,636
Portugal	44,717	0	0	44,717
Spain	40,728	0	0	40,728
Hungary	32,034	0	0	32,034
Lithuania	26,084	0	0	26,084
Total	**1,473,384**	**29,445**	**74,596**	**1,577,425**
31 Dec 2014				
Austria	1,048,255	0	0	1,048,255
Italy	144,344	20,000	0	164,344
Poland	110,309	8,933	0	119,242
Belgium	67,159	4,981	0	72,140
Switzerland	0	0	66,534	66,534
Czech Republic	63,009	0	0	63,009
Hungary	44,710	0	0	44,710
Portugal	43,702	0	0	43,702
Spain	41,821	0	0	41,821
Germany	26,782	5,000	0	31,782
Total	**1,590,090**	**38,914**	**66,534**	**1,695,538**

Off-balance-sheet exposure (CDS) in the public sector

Euro thousand	Collateral sold		Collateral bought		Total net	
31 Dec 2015	Face value	Fair value	Face value	Fair value	Face value	Fair value
Hungary	0	0	-29,185	12	-29,185	12
Portugal	0	0	0	0	0	0
Italy	0	0	0	0	0	0
Total	**0**	**0**	**-29,185**	**12**	**-29,185**	**12**
31 Dec 2014						
Hungary	37,355	-229	-65,591	424	-28,237	195
Portugal	38,000	-313	-38,000	332	0	20
Italy	48,000	-195	-48,000	189	0	-6
Total	**123,355**	**-736**	**-151,591**	**945**	**-28,237**	**208**

The largest exposure in the public sector is to the Republic of Austria. Peripheral European countries (Portugal, Italy, Ireland, Greece and Spain) make up around 10 % of the total exposure of the strategic investment book positions. Of these, the association's largest exposure is to Italy, followed by Portugal and Spain. The strategic investment book contains no exposure to Greece or Ireland.

Portfolio distribution by credit rating

Euro thousand	31 Dec 2015	31 Dec 2014
1A	1,540,331	1,875,105
1B-1C	236,593	517,359
1D-2A	85,675	391,366
2B-3A	459,170	1,223,202
3B-4E (NIG)	19,886	253,214
5A-5E (Default)	3,705	6,325
no rating	15	1,900
Total	**2,345,375**	**4,268,471**

Portfolio distribution by sector

Euro thousand	31 Dec 2015	31 Dec 2014
Financial sector	429,905	1,404,504
Public sector	1,643,167	1,807,631
Corporates	228,617	555,618
No classification	43,686	500,717
Total	**2,345,375**	**4,268,471**

The portfolio distribution by sector shows that the majority of the exposure in the strategic investment book is to public-sector debtors. Funds are not assigned to a sector since their individual components may belong to different sectors.

CS-VaR is calculated based on a historical simulation. The scope of the underlying market indices has been extended to include individual indices in the case of countries. Credit Spread Value at Risk is used in risk reporting and for risk limits for strategic investment book positions as well as in the context of bank-wide risk management within the risk sustainability account and the total bank risk stress test. The monthly risk limits for strategic investment book positions are integrated into the limits for the risk sustainability account.

To calculate credit spread risk in the strategic investment book, the portfolio is broken down into 30 risk clusters based on the criteria of currency, credit rating and sector. Securities allocated to the financial and euro-zone corporate sector are further differentiated by seniority. In addition, specific covered risk indices are used for the euro-zone and individual risk clusters are calculated for 15 European countries. The systemic credit spread is measured for each cluster on the basis of corresponding market indices and a risk-free interest rate curve. The calculation uses daily historical data going back to 2009. Monthly changes in the credit spread are determined on the basis of this data and then used to calculate the credit spread value at risk with a historical simulation.

For the presentation of the credit spread risk in the risk report of the association, the value at risk is shown in the liquidation view (99.9 % confidence level, holding period of one year) and the going concern view (95 % confidence level, holding period of one year, only for parts of the portfolio that are designated as available for sale and measured at fair value through profit or loss). A second risk concept involves the performance of a similar sensitivity analysis (standardised) based on a 10-bp shift for the risk clusters and factors described above, which is presented in the risk report for the strategic investment book.

Following risk ratios result for the association as at 31 December 2015:

Euro thousand 31 Dec 2015	Credit Spread Value at Risk	10 basis point-Shift
Section 30a BWG - Association of Volksbanks	231,612	-16,279

Euro thousand 31 Dec 2014	Credit Spread Value at Risk	10 basis point-Shift
Section 30a BWG - Association of Volksbanks	327,405	-26,251

As well as the portfolio and risk report, carrying out various stress tests is also an important aspect of risk controlling for the SBBP. Uniform association-wide standards based on economic group research are vital for risk controlling here. These stress tests take place every six months. Three historical stress scenarios based on historical EBA stress scenarios (2001 recession, subprime crisis and European sovereign debt crisis) are also calculated, these scenarios are also mapped in the risk reporting.

All of the models described here are subject to regular backtesting in strategic risk management and are further developed on an ongoing basis in collaboration with other key departments.

f) Operational risk

Definition

The association defines operational risk based on chapter 4 paragraph 52 CRR as the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. Furthermore, legal risk is also taken into account in the operational risk.

Organisation and risk strategy

Within the association, line management is responsible for managing operational risks, with support from experts from the Operational Risk and Internal Control Systems divisions. The aim is to optimise processes to decrease the likelihood of operational risks occurring and/or the impact of operational losses. Close collaboration with security, safety and insurance management also enables optimal, comprehensive management of operational risks.

Both, quantitative and qualitative methods are used to analyse operational risks. Quantitative methods include, for example, performance of stress tests and analysis of risk reports. If there is a significant accumulation of losses in specific areas of the business, qualitative risk analyses are carried out.

Risk management and -controlling

The following policies and principles derived from the associations risk strategy apply to OpRisk management:

- The foremost aim of the entire OpRisk management process is to optimise processes to decrease the likelihood of events occurring and/or the impact of operational losses.
- Events are fully documented on an electronic platform, in a sufficiently comprehensible manner, to enable third-party experts to make use of the documentation. Since April 2014, operational events throughout the association have been recorded in a standardised fashion. The resulting transparency with regard to the events that have occurred makes it possible to produce a risk assessment derived from historical data.
- The methods, systems and processes in OpRisk management must be adapted to the respective institution in observance of group requirements in line with the proportionality principle.
- The adequacy of risk management and monitoring measures and of additional measures aimed at minimising risk is assessed on a continual basis and at least once a year and is reported to the Board. Measures to spread risk include, for example, awareness-raising initiatives/training, ensuring confidentiality, availability and integrity of customer and company data and operational contingency planning, as well as, in particular, adequate separation of responsibilities and application of the principle of dual control. Management must formally and verifiably accept (remaining) operational risks that cannot be prevented, reduced or transferred.
- The effectiveness of the operational risk management is also confirmed by way of periodic independent audits.

The association has implemented an internal control system (ICS) in accordance with the internationally recognised COSO standard. There are detailed descriptions of ICS procedures and controls. Responsibilities and roles with regard to the ICS are clearly defined, and ICS reporting is regularly carried out. Control activities are documented and reviewed, and ICS-relevant risks are regularly evaluated and updated. This ensures an ongoing process of optimisation. The Audit department reviews the internal control system in its function as an independent monitoring entity. It reviews the effectiveness and adequacy of the ICS as well as compliance with internal rules and regulations.

One of the priorities for 2015 was to optimise the OpRisk program within the Association of Volksbanks pursuant to section 30a BWG, to ensure that the requirements of the standard approach were met throughout the association. Training and awareness-raising activities were carried out in parallel.

g) Liquidity risk

Definition

Liquidity risk is defined as the risk of not being able to meet payment obligations on their due date or not being able to raise the liquidity required at the conditions expected as and when necessary. Liquidity risk is controlled by means of monitoring surpluses from the allocation of cash flows of all asset and liability items to defined maturity bands.

Organisation and strategy

In accordance with the legal requirement to ensure segregation of front and back office functions, liquidity management and control is carried out based on a holistic ALM approach in the central organisation's Treasury. Monitoring and limitation of liquidity risk and the methodological principles of risk measurement are the responsibility of the association's Risk controlling.

ALM Liquidity management

ALM Liquidity management comprises the sub-areas of operational liquidity management, liquidity control and liquidity strategy and is responsible for operational liquidity management, short-term reporting and long-term, strategic liquidity management. Liquidity management is the central department for liquidity issues in the VBW and the Association of Volksbanks. These include in particular liquidity pricing (transfer pricing), association-wide, central management of collateral, establishing the funding structure, managing available liquid assets and ensuring compliance with the refinancing strategy.

In addition, liquidity management is documented via the liquidity and funding strategy, the liquidity manual and the liquidity emergency manual.

Operative risk management and risk controlling function

Operational liquidity management

The operational liquidity management unit uses various instruments and tools to ensure adherence to risk controlling policies and legal regulations, for daily reporting, as well as for the supply of short-term liquidity in VBW and the Association of Volksbanks.

Operational liquidity management comprises the following key tasks:

- Cash management, supported by a real-time cash management system, provides for settlement of all the association's transactions and management of the nostro accounts maintained by VBW in all currencies. An intraday comparison of data from cash management with the cash flows from day-to-day liquidity planning is performed. Further cash management tasks include monitoring of various payment transaction platforms including the TARGET II platform.

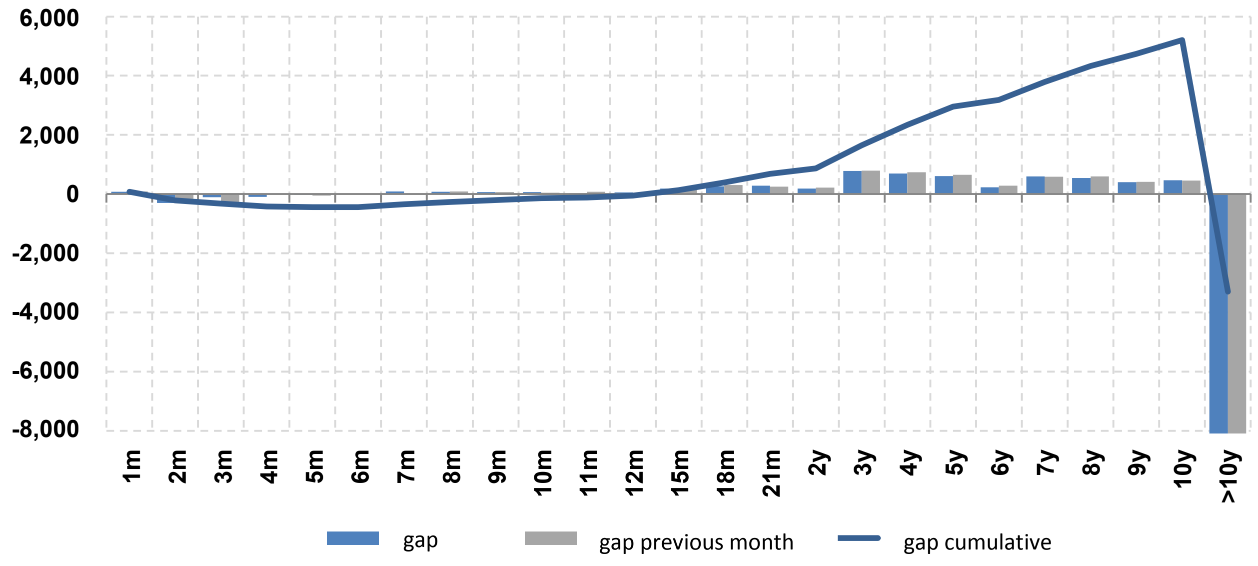
- Collateral management: ECB-eligible collateral (eligible bonds and credit claims) of the association, as well as the initiation/use of ECB refinancing, facilitates optimal use of the collateral portfolio, with due consideration of planning data, cash management requirements and regulatory requirements under section 25 of the Austrian Banking Act.
- A planning tool enables daily liquidity planning for the next 31 days, and weekly planning for the next 12 months for all relevant currencies. This tool also allows for a liquidity outlook covering the Association of Volksbanks, based on net cash flow up to product level. Cash flows are modelled at product level on a daily basis, including market, institutional and product-specific data as well as a daily valuation of all positions presented in foreign currencies, in order to model liquidity requirements arising from currency fluctuations.
- Compliance with the legal provisions of section 25 of the Austrian Banking Act and CEBS guidelines by VBW and the association in connection with managing ECB collateral and monitoring liquid assets is another key part of operational liquidity management.
- Monitoring the association's refinancing positions in all currencies and the "liquidity control system" for association banks implemented by VBW as central organisation in accordance with section 30a of the Austrian Banking Act – including liquidity notifications, refinancing management, use of collateral and an early warning system – constitute a further element of operational liquidity management.
- Planning and complying with the minimum reserve provisions (compliance) for the Association of Volksbanks while taking liquidity planning into account and regularly reporting to the central organisation's Managing Board are also part of the task area.

Liquidity risk management

Risk reports

To present the structural liquidity risk, the central organisation's market and liquidity risk department creates a liquidity gap report that takes into account both deterministic and stochastic capital cash flows and interest rate cash flows of on- and off-balance sheet products. The cash flows are calculated and modelled in their original currency first of all and are then aggregated and translated into euro. Surplus cover and deficits from the cumulative cash flows are identified and analysed using the GAP method. The report visualises the net cash flows for each maturity band, the cumulative cash flow and the liquidity buffer. The liquidity buffer corresponds to the lending value of the unencumbered assets/collaterals at the central banks as well as the cash and cash reserve deposited and accepted at the Austrian national bank.

Liquidity gap report for the association as at 31 December 2015 in euro million



The addition of inflows and (negative) outflows shows the gap as the net cash flow for each maturity band. The point at which a negative cumulative gap could no longer be offset by the liquidity buffer (freely available assets, represented by the dotted line) indicates the survival period. As shown in the illustration, the survival period is greater than 10 years.

In addition to the real case scenario, stress scenarios are also calculated. As determined by CEBS, this involves a bank, a market and a combined stress scenario. In these cases, the liquidity buffer is stressed with regard to sufficient cover.

Limits for the structural liquidity risk are set in the real case scenario and in the stress scenarios using the structural survival period and the net concentration ratio. The structural survival period is the period up to which the institution is able to make its due payments with deposits and the liquidity buffer. Additional funding measures are not taken into account here and would extend the structural survival period. The net concentration ratio is the net of cash inflows and cash outflows for a certain maturity band in relation to the liquidity buffer.

LCR & NSFR

The aim of the liquidity coverage ratio (LCR) is to ensure the short-term solvency of banks in stress situations. The net stable funding ratio (NSFR) is aimed at banks' medium to long-term liquidity position and is intended to limit their use of liquidity maturity transformation.

VBW has reported LCR and NSFR to the regulator since 31 March 2014. The ratios form an integral component of risk management and reporting.

As at 31 December 2015, LCR in the association stood at 101 %. The LCR is composed as follows:

Euro thousand	31 Dec 2015
Assets	3,185,573
Outflows	3,407,912
Inflows	245,627
Netto Outflow	3,162,284
LCR	**100.74 %**

h) Investment risk

The association defines investment risk as the risk that a held investment will default or lose value. Since this risk is material for the association, it is quantified and taken into account when determining risk-bearing capacity. Investment risk is divided into the following characteristics:

- Default risk of investments
- Impairment risk of investments
- Foreign exchange risk of investments

The default risk of investments is calculated using the credit value at risk model and included in credit risk reporting (see section d) Credit risk). This risk category includes not only traditional investments, but also loans to these investments, which correspond to the definition of IAS 24 Related Parties.

The impairment risk of investments is taken into account by means of discounts on the carrying amounts of the investments in the risk sustainability account.

The foreign exchange risk of investments refers to the risk of a change in the value of consolidated core capital components in non-euro currencies due to exchange rate fluctuations and is calculated based on value at risk via the internal market risk model.

i) Other risks

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

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

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

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

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

Although other risks are not of key significance to the association, they are intrinsic to its operations. Mainly organisational measures are implemented for the management of other risks.

Therefore, to protect against other risks, a capital buffer is defined on the basis of the economic total bank risk limit.

52) Fully consolidated companies[1)]

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
3V-Immobilien Errichtungs-GmbH; Wien	HD	100.00 %	100.00 %	35
BBG Beratungs- und Beteiligungsgesellschaft m.b.H.; Salzburg	HD	100.00 %	100.00 %	40
Domus IC Leasinggesellschaft m.b.H.; Salzburg	HD	100.00 %	100.00 %	36
Gärtnerbank Immobilien GmbH; Wien	HD	100.00 %	100.00 %	35
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Wien	HD	100.00 %	100.00 %	35
VB Aktivmanagement GmbH; Klagenfurt	HO	100.00 %	100.00 %	35
VB Kärnten Süd Leasing GmbH; Ferlach	FI	100.00 %	100.00 %	634
VB Rückzahlungsgesellschaft mbH; Wien	HO	100.00 %	100.00 %	35
VB Services für Banken Ges.m.b.H.; Wien	HD	98.89 %	98.89 %	327
VB-Immobilienverwaltungs- und -vermittlungs GmbH; Klagenfurt	HD	100.00 %	100.00 %	73
VBKS Leasing d.o.o.; Kranj	FI	100.00 %	100.00 %	542
Verwaltungsgenossenschaft der IMMO-BANK eG; Wien	HO	100.00 %	100.00 %	3,915
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	HD	99.00 %	99.00 %	36
Volksbank AG, Schweiz; St. Margrethen	KI	100.00 %	100.00 %	9,229
Volksbank Aktiengesellschaft, Liechtenstein; Schaan	KI	100.00 %	100.00 %	48,454
Volksbank Salzburg Leasing Gesellschaft m.b.H.; Salzburg	FI	100.00 %	100.00 %	73
Volksbank Vorarlberg Anlagen-Leasing GmbH; Rankweil	FI	100.00 %	100.00 %	37
Volksbank Vorarlberg Marketing- und Beteiligungs GmbH; Rankweil	HD	100.00 %	100.00 %	36
Volksbank Vorarlberg Privat-Leasing GmbH; Rankweil	FI	100.00 %	100.00 %	37
VVB Immo GmbH & Co KG; Rankweil	HD	100.00 %	100.00 %	10
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Wien	FI	100.00 %	100.00 %	872

[1)] all fully consolidated companies are under control

53) Companies included

Company names and headquarters	Type*	Subscribed capital in euro thousand
Bank für Ärzte und Freie Berufe Aktiengesellschaft; Wien	KI	9,698
HAGEBANK TIROL Holding, eingetragene Genossenschaft; Innsbruck	SO	747
IMMO-Bank Aktiengesellschaft; Wien	KI	11,835
Österreichische Apothekerbank eG; Wien	KI	273
Schulze-Delitzsch Ärzte und Freie Berufe e.Gen.; Wien	SO	22,967
Spar- und Vorschußverein "Graphik" registrierte Genossenschaft mit beschränkter Haftung in Liqu.; Wien	KI	93
Spar- und Vorschuß-Verein der Beamtenschaft der Oesterreichischen Nationalbank registrierte Genossenschaft mit beschränkter Haftung in Liqu.; Wien	KI	114
SPARDA-BANK AUSTRIA Nord eGen; Linz	KI	1,741
SPARDA-BANK AUSTRIA Süd eGen; Villach	KI	3,786
start:bausparkasse e.Gen.; Wien	KI	51,992
VB Alpenvorland Beteiligung e.G.; Amstetten	SO	5,134
VB Beteiligungsgenossenschaft Obersdorf-Wolkersdorf-Deutsch-Wagram e.Gen.; Obersdorf	SO	541
VB Donau-Weinland Beteiligung e.G.; Stockerau	SO	1,597
VB Fels am Wagram Beteiligung e.G.; Fels am Wagram	SO	74
VB Krems-Zwettl Beteiligung e.G.; Krems an der Donau	SO	610
VB Niederösterreich-Mitte Beteiligung e.G.; St. Pölten	SO	2,066
VB Ost Verwaltung eG; Schwechat	SO	1,010
VB Ried im Innkreis Verwaltungsgenossenschaft eG; Ried im Innkreis	SO	6,662
VB Tullnerfeld Beteiligung e.G.; Tulln	SO	460
VB Wien Beteiligung eG; Wien	SO	24,566
VB-Beteiligung GmbH in Liqu.; Klagenfurt am Wörthersee	SO	100
VB-Beteiligungsgenossenschaft für den Bezirk Weiz eG; Gleisdorf	SO	3,829
VB-Beteiligungsgenossenschaft für die Süd- und Weststeiermark eG; Köflach	SO	854
VB-Beteiligungsgesellschaft Graz-Bruck e.Gen.; Graz	SO	4,471
Volksbank Bad Goisern eingetragene Genossenschaft; Bad Goisern	KI	60
Volksbank Bad Hall e.Gen.; Bad Hall	KI	123
Volksbank Eferding - Grieskirchen registrierte Genossenschaft mit beschränkter Haftung; Eferding	KI	2,070
Volksbank Enns - St.Valentin eG; Enns	KI	561
Volksbank Feldkirchen eG; Feldkirchen	KI	987
Volksbank Gewerbe- und Handelsbank Kärnten eGen; Klagenfurt	KI	27,495
Volksbank Kärnten Süd e.Gen.; Ferlach	KI	2,902
Volksbank Kufstein-Kitzbühel eG; Kufstein	KI	4,021
Volksbank Landeck eG; Landeck	KI	2,034
Volksbank Marchfeld e.Gen.; Gänserndorf	KI	1,397
Volksbank Niederösterreich AG; St. Pölten	KI	19,994
Volksbank Niederösterreich Süd eG; Wiener Neustadt	KI	1,245
VOLKSBANK OBERES WALDVIERTEL registrierte Genossenschaft mit beschränkter Haftung; Heidenreichstein	KI	416
VOLKSBANK OBERKÄRNTEN registrierte Genossenschaft mit beschränkter Haftung; Spittal an der Drau	KI	5,093
Volksbank Oberndorf registrierte Genossenschaft mit beschränkter Haftung; Oberndorf	KI	750
Volksbank Oberösterreich AG; Wels	KI	15,110
Volksbank Obersteiermark e.Gen.; Leoben	KI	7,575
Volksbank Ötscherland eG; Wieselburg	KI	1,200
Volksbank Salzburg eG; Salzburg	KI	10,626
Volksbank Schärding Wels Holding eG; Schärding	SO	12,387
Volksbank Steiermark Mitte AG; Graz	KI	25,000
Volksbank Steirisches Salzkammergut registrierte Genossenschaft mit beschränkter Haftung; Bad Aussee	KI	121
Volksbank Südburgenland eG; Pinkafeld	KI	1,540
Volksbank Süd-Oststeiermark e.Gen.; Hartberg	KI	2,088
Volksbank Tirol Innsbruck-Schwaz AG; Innsbruck	KI	10,000
VOLKSBANK VÖCKLABRUCK-GMUNDEN e.Gen.; Vöcklabruck	KI	5,042
VOLKSBANK VORARLBERG e. Gen.; Rankweil	KI	759
Volksbank Weinviertel e.Gen.; Mistelbach	KI	558
VOLKSBANK WIEN AG; Wien	KI	107,477
Waldviertler Volksbank Horn registrierte Genossenschaft mit beschränkter Haftung; Horn	KI	745

54) Unconsolidated affiliated companies

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
ADRIA NEKRETNINE d.o.o.; Rijeka	SO	100.00 %	100.00 %	3
AREA Liegenschaftsverwertungs GmbH; Rankweil	SO	100.00 %	100.00 %	35
Ärzte Consulting GmbH; Salzburg	SO	100.00 %	100.00 %	35
Atlas Bauträger GmbH; Feldkirchen	SO	100.00 %	100.00 %	36
Atlas Beteiligungsgesellschaft mbH.; Feldkirchen (Ktn.)	SO	65.00 %	65.00 %	87
Cetium Immobilien GmbH; St. Pölten	SO	100.00 %	100.00 %	135
Commerce Unternehmens-Consulting GmbH; Leoben	HD	100.00 %	100.00 %	35
EVP Energieversorgung GmbH; Heidenreichstein	SO	100.00 %	100.00 %	35
Ferienhäuser St. Lorenzen ob Murau Besitz- und Verwaltungs GmbH; Wien	SO	90.00 %	90.00 %	35
Forum IC Leasinggesellschaft m.b.H.; Salzburg	FI	100.00 %	100.00 %	36
Freizeitcenter Betriebsführungs GmbH; Salzburg	SO	100.00 %	100.00 %	35
Hotel Erzherzog Johann Betriebsges. m.b.H.; Bad Aussee	SO	100.00 %	100.00 %	1,254
Immobilien Besitz- und Verwertungsgesellschaft mbH; Judenburg	HD	100.00 %	100.00 %	35
Immo-Contract Baden Maklergesellschaft m.b.H.; Baden	SO	100.00 %	100.00 %	175
IMMO-CONTRACT Hausverwaltung GmbH; Stockerau	SO	100.00 %	100.00 %	36
IMMO-CONTRACT Maklergesellschaft m.b.H., Wien; Wien	SO	51.00 %	51.00 %	100
IMMO-CONTRACT St. Pölten Maklergesellschaft m.b.H.; St. Pölten	SO	75.00 %	75.00 %	73
Immo-Contract Weinviertel GmbH; Mistelbach an der Zaya	SO	51.00 %	51.00 %	35
IMMO-FINANZIERUNG-SERVICE GmbH; Wien	SO	100.00 %	100.00 %	36
IMMO-PROJEKT Bauträger Gesellschaft m.b.H.; Wien	SO	100.00 %	100.00 %	36
IMMO-PROJEKT Immobilien Verwertungsges.m.b.H.; Wien	SO	100.00 %	100.00 %	50
IMMO-WOHNBAU Service und Beteiligungsges.m.b.H.; Wien	HO	100.00 %	100.00 %	3,050
Kufstein unlimited Festival GmbH; Kufstein	SO	100.00 %	100.00 %	35
Meinhardgarage Gesellschaft m.b.H.; Innsbruck	SO	100.00 %	100.00 %	50
Meinhardgarage Gesellschaft m.b.H. & Co. KG; Innsbruck	SO	100.00 %	100.00 %	210
Nordfinanz Vermögensberatung GmbH; Heidenreichstein	SO	100.00 %	100.00 %	150
Phönix Immobilien- und Bauträger GmbH; Graz	HD	100.00 %	100.00 %	35
REALCONSTANT Liegenschaftsverwertungs- Ges.m.b.H.; St. Pölten	SO	99.90 %	99.90 %	73
Realitäten Beteiligungs-GmbH; Schärding	SO	100.00 %	100.00 %	500
Resort Errichtungs- und Betriebsges.m.b.H.; Heidenreichstein	SO	99.76 %	99.76 %	42
Sparda Versicherungs-Service GmbH; Villach	SO	100.00 %	100.00 %	408
Sporthotel Betriebsführungs GmbH; Salzburg	SO	100.00 %	100.00 %	35
Süd- und Weststeirische Immobilientreuhand GmbH; Köflach	HD	100.00 %	100.00 %	35
Südring Immobilienverwaltung GmbH; Leoben	HD	100.00 %	100.00 %	73
TVB Bauträger Gesellschaft m.b.H.; Tulln	SO	100.00 %	100.00 %	36
UVB-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
V.I.P. Volksbank Immobilienprojekte VOBA Treuhand- und VerwaltungsgesellschaftmbH & Co KG; Salzburg	SO	100.00 %	100.00 %	7
VB - REAL Volksbank Krems-Zwettl Immobilien- und Vermögenstreuhandgesellschaft m.b.H.; Krems an der Donau	SO	100.00 %	100.00 %	727
VB Buchführung GmbH; Ferlach	SO	100.00 %	100.00 %	36
VB ManagementBeratung GmbH; Wien	SO	100.00 %	100.00 %	36
VB Realitäten Gesellschaft m.b.H.; Ferlach	SO	100.00 %	100.00 %	36
VB Steirisches Salzkammergut und Medienförderverein Ausseer Land GesnbR; Bad Aussee	SO	95.00 %	95.00 %	42
VB SÜDOST Verwaltungs-GmbH; Hartberg	HD	100.00 %	100.00 %	800
VBKA-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
VB-Real Projektentwicklungs Gesellschaft m.b.H.; Wels	HD	100.00 %	100.00 %	500
VBV Vermögensverwaltungs GmbH; Wieselburg	SO	99.00 %	99.00 %	36
VOBA Treuhand- und Verwaltungsgesellschaft mbH; Salzburg	SO	100.00 %	100.00 %	37
Volksbank Kufstein Immobilien GmbH; Kufstein	SO	100.00 %	100.00 %	35
Volksbank Kufstein Versicherungsvermittlung GmbH; Kufstein	SO	100.00 %	100.00 %	36
Volksbank Salzburg Immobilien GmbH; Salzburg	SO	100.00 %	100.00 %	35
Volksbank Tirol Innsbruck-Schwaz Versicherungsservice GmbH; Innsbruck	SO	100.00 %	100.00 %	50
Volksbank Versichert Maklergesellschaft m.b.H.; Landeck	SO	100.00 %	100.00 %	35

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
Volksbank Vorarlberg Immobilien GmbH & Co OG; Hohenems	SO	100.00 %	100.00 %	109
Volksbank Vorarlberg Versicherungs-Makler GmbH; Dornbirn	SO	100.00 %	100.00 %	60
VOME Holding GmbH; Wien	HO	100.00 %	100.00 %	35
VVB Liegenschaftsvermietungsgesellschaft mbH & Co KG; Rankweil	HD	100.00 %	100.00 %	0
Wohn + Wert Realitäten GmbH; Ernstbrunn	HD	100.00 %	100.00 %	100

*Abbreviations Type

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

Vienna, 15 June 2016

Gerald FLEISCHMANN
Chairman of the Managing Board
General Secretariat, Organisation / IT,
HR Management, Press Office, Risk Control, Banking Association Strategy

Josef PREISSL
Deputy Chairman of the Managing Board
Compliance Office, Property Subsidiaries, Integration/Operational Risk Governance,
Legal, Audit, Association Risk Management, Risk Retail/SME,
Reorganisation Management, VB Services for Banks

Wolfgang SCHAUER
Member of the Managing Board
Major Commercial, Marketing/Communication,
Regional Management/Branches, Treasury,
Sales Management, Front Office Service Center

Rainer BORNS
Member of the Managing Board
Finance

AUDITOR'S REPORT

Report on the Consolidated Financial Statements of the Banking Association

We have audited the accompanying consolidated financial statements of the Banking Association according to section 30a of the Austrian Banking Act of

VOLKSBANK WIEN AG,
Vienna, Austria,

for the year from 1 January 2015 to 31 December 2015. These consolidated financial statements comprise the Banking Association's consolidated statement of financial position as of 31 December 2015, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the fiscal year 2015 and a summary of significant accounting policies and other explanatory notes. Our liability as auditors toward the Company and third parties is guided under Section 275 UGB (Austrian Commercial Code) (EUR two million).

Management's Responsibility for the Consolidated Financial Statements of the Banking Association

The management of VOLKSBANK WIEN AG, Vienna, Austria, as the Banking Association's central organization is responsible for the accounting system of the Banking Association and for the preparation and fair presentation of the consolidated financial statements of the Banking Association in accordance with the accounting and valuation principles described in the Framework of Rules for the preparation of the consolidated financial statements of the Banking Association 2015. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of Type and Scope of the Audit of the Consolidated Financial Statements of the Banking Association

Our responsibility is to express an opinion on these consolidated financial statements of the Banking Association based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing. Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements of the Banking Association are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements of the Banking Association. The procedures selected depend on the Banking Association's auditor's judgment, including the assessment of the risk of material misstatement, whether due to fraud or error. In making such risk assessment, the Banking Association's auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements of the Banking Association in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banking Association's internal control. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements of the Banking Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements of the Banking Association were prepared in accordance with the accounting and valuation principles described in the Framework of Rules of the Banking Association 2015.

Emphasis of Matter

Without qualifying our opinion, we refer to the disclosures made by Management of the Banking Association's central organization in the notes relating to the Banking Association's ability to continue as a going concern, in particular to the disclosures concerning the ECB approval of the banking association according section 30a of the Austrian Banking Act with VBW as central organization until June 30, 2016.

Furthermore

- the consolidated financial statements of the Banking Association were prepared in accordance with the Framework of Rules for the preparation of the consolidated financial statements of the Banking Association 2015 and
- their only purpose is to assist VOLKSBANK WIEN AG, Vienna, Austria, to meet the regulatory requirements and they shall not be used for any other purpose.

Our opinion is not modified in respect of these matters.

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

Pursuant to regulatory provisions, the management report for the consolidated financial statements of the Banking Association is to be audited as to whether it is consistent with the consolidated financial statements of the Banking Association and as to whether the other disclosures are not misleading with respect to the Banking Association's financial position. The auditor's report also has to contain a statement as to whether the management report for the consolidated financial statements of the Banking Association is consistent with the consolidated financial statements of the Banking Association.

In our opinion, the management report for the consolidated financial statements of the Banking Association is consistent with the consolidated financial statements of the Banking Association.

Restriction of Use

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

Vienna, 15 June 2016

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:
Martin Wagner
Wirtschaftsprüfer
(Austrian Chartered Accountants)

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

TERMINOLOGY

Association of Volksbanks
The Association of Volksbanks includes the VOLKSBANK WIEN AG as the central organisation and the Association's deposit insurance organisation.

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

Primary banks
status: 26 April 2016

26 regional Volksbanks, 5 specialist banks (Ärztebank, IMMO-BANK AG, Österreichische Apothekerbank, SPARDA-BANK AUSTRIA and start:bausparkasse). Mergers will reduce the number of primary banks to 8 regional Volksbanks and 2 specialist banks.

VOLKSBANK WIEN AG
is a primary bank – as one of the regional Volksbanks – and also the central organisation of the banking association in accordance with section 30a of the Austrian Banking Act (BWG).

Austrian Cooperative Association
Auditing and early detection within the banking association is carried out by the Österreichischer Genossenschaftsverband (Schulze-Delitzsch) – for short: ÖGV. The primary banks, Volksbank Haftungsgenossenschaft eG and Volksbank Einlagensicherung eG are ordinary members of the ÖGV.

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