VOLKSBANK

ANNUAL REPORT

ASSOCIATION OF VOLKSBANKS

2014

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Business development

Österreichische Volksbanken-Aktiengesellschaft (VBAG), which has its registered office at Kolingasse 14 – 16, 1090 Vienna, Austria, is the central organisation of the Austrian Association of Volksbanks. VBAG has been undergoing a restructuring process since its partial nationalisation in April 2012. This process is based on a restructuring plan and the requirements laid down by the European Commission and the Republic of Austria. VBAG is a bank in wind-down, meaning that it must close or sell virtually all of its own business in Austria and abroad.

In 2012 it was also decided to reorganise the Volksbank sector into a banking association in accordance with section 30a of the Austrian Banking Act (joint liability and liquidity association): Since 18 September 2012, primary banks and VBAG have constituted the Association of Volksbanks, with VBAG as the central organisation. The responsibilities of VBAG within this banking association are clearly specified: as the central organisation, it carries out extensive management and control functions, and is also responsible for risk and liquidity management throughout the Volksbank sector. Its business activity is restricted to the provision and brokering of products and services for Volksbanks and their customers.

Wind-down measures

At the beginning of 2014, loans associated with a real estate portfolio totaling approximately euro 408 million were sold or repaid early as part of the restructuring process.

The sale process for a portfolio of investments in private equity funds as well as direct investments in the DACH countries and Eastern Europe was concluded at the end of July.

Sberbank of Russia filed a lawsuit against VBAG at the International Court of Arbitration in November 2013 in connection with the sale of VBI. Through negotiation, we were able to persuade Sberbank of Russia to withdraw its complaint in April 2014.

Sales proceedings for Investkredit International Bank plc, the VB Leasing International Group and Volksbank Malta Ltd began in the 2013 business year. Although contracts were signed for Investkredit International Bank plc in March 2014, the sale process was not completed as the deal was not closed. The banking licence was returned with effect from 13 October 2014 and the liquidation of the company commenced. Contracts for Volksbank Malta Ltd were signed in April 2014. The deal was closed on 25 September 2014.

After sales proceedings for the entire VB Leasing International Group, which began in mid-2013, proved unsuccessful, processes to sell four national companies were initiated (Poland, Czech Republic, Slovakia, Romania). Contracts for the sale of the national companies in Poland and Romania were signed in the second quarter of 2014, and the deal was closed on 9 September 2014. Contractual negotiations for the sale of the national companies in the Czech Republic concluded with the signing of the contract on 11 September 2014 and the closing of the deal on 31 October 2014. A new sale process began for the remaining companies in the VB Leasing International Group.

Rating agency Moody's downgraded VBAG's issuer rating from Baa3 to Ba1 on 27 March 2014 and from Ba1 to Ba3 on 5 August 2014. This means that VBAG's senior unsecured bonds are rated as sub-investment grade, which is outside the investment profile of many institutional investors. Some institutional investors sold their bonds as a result. Some private investors also sold VBAG bonds following the rating downgrade. The bank redeemed bonds up to a previously defined limit, enabling it to reduce the cost of the existing excess liquidity. The rating downgrades by Moody's thus had no unexpected impact on the Group's liquidity position.

An investment bank was commissioned to support the sale process for Volksbank Romania S.A. in April 2014. Together with the co-owners, VBAG signed a contract of sale with Romania's Banca Transilvania on 10 December 2014. We obtained approval from the Romanian national bank and the competition authorities on 17 March 2015. The deal was closed on 7 April 2015. In accordance with the restructuring agreement dated 26 April 2012, the sale of Volksbank Romania S.A. must be completed by 31 December 2015.

The Managing Board resolved to reorganise VBAG's structures on 2 October 2014, subject to approval from the authorities, regulators and committees. The top institution, VBAG, will be divided. Those duties that VBAG is statutorily required to fulfil as the Association of Volksbanks' central organisation will be transferred to a large regional Volksbank. Service functions that VBAG provides to the Volksbank sector and that are necessary to ensure that the banks operate correctly will also be transferred. The aim of the remainder of VBAG is to continue with the rapid implementation of the windingdown process, which has been running successfully for two years, to service liabilities owed to creditors on schedule when they fall due and thus ultimately to wind up VBAG. We are aiming to split up VBAG at the beginning of July 2015. VBAG will then leave the joint liability scheme. The Annual General Meeting of VBAG resolved on 23 December 2014 to change the business model with a view to creating a company in wind-down in accordance with section 162 of the Federal Act on the Recovery and Resolution of Banks (BaSAG), and thus approved the strategy adopted by the Managing Board.

Prior to taking over the supervision of 130 European credit institutions, the European Central Bank (ECB) submitted these banks to an asset quality review followed by extensive stress tests ("comprehensive assessment") in 2014. The Austrian Association of Volksbanks, and thus also VBAG, was one of six Austrian banking groups to undergo this assessment. The ECB calculated that the Association of Volksbanks had an aggregate capital shortfall of euro 865 million based on the figures for 2013. However, this stress test, which was based on the reporting date of 31 December 2013, did not take into account the wind-down measures already implemented in 2014, the impairments that had already been made, or the reorganisation of the Association of Volksbanks presented by the Managing Board on 2 October 2014, as these measures were undertaken after the cut-off date for the comprehensive assessment (31 December 2013). As the asset quality review was based on regulatory requirements from the ECB that differ from IFRS standards, the ECB's recommendations on how to deal with deviations found in the asset quality review had no direct impact for the Group in terms of accounting.

A capital plan was submitted to the ECB on 10 November 2014, which presented the measures planned to cover the capital shortfall identified by the comprehensive assessment. The key element in this capital plan is the reorganisation of the Association of Volksbanks and the associated restructuring of VBAG. The plan also includes measures such as further wind-down of the non-core portfolio, sale of securities causing RWA, implementation of a securitisation transaction, liquidation of hidden reserves from real estate and other RWA reduction measures.

These measures are currently being implemented and are expected to be completed by the end of June 2015.

Rating agency Moody's responded to the results of the comprehensive assessment by downgrading VBAG's issuer rating by two classes from Ba3 to B2 on 30 October 2014. As Moody's had already downgraded VBAG to the sub-investment grade range at the end of March 2014, there was no noticeable reaction from investors in the short term.

In view of the plans that have been announced to split up VBAG and reorganise the association, rating agency Fitch has reassessed VBAG's rating, which until now was identical to the rating of the Association of Volksbanks. The agency confirmed its rating of A with a negative outlook for the association and downgraded VBAG's rating to BBB–, also with a negative outlook.

Economic situation

Austrian gross domestic product (GDP) saw virtually no growth in 2014. Quarterly growth rates fluctuated around zero percent. The 0.3% GDP growth recorded for the year as a whole is attributable to a growth overhang from the previous year. Given a weak performance in real incomes and the labour market, consumer spending only remained stable due to a fall in the savings ratio. Growth in gross fixed capital formation was somewhat stronger, however the trade balance was unexpectedly weak due to tourism and weak development of world trade. Austria's unemployment rate of 4.9% (5.6% using the new calculation methodology) according to Eurostat figures remained one of the lowest in the euro zone and consumer price inflation was the highest in the single currency area, both for the year as whole (1.5%) and at year-end (0.8%). Although this inflation was partly attributable to charges in the public and quasi-public sectors, and therefore cannot be regarded as a sign of economic momentum, the credit market performed robustly compared to others in Europe and points to some resilience in the Austrian economy despite weak growth.

Economic performance in Austria was very uneven. While manufacturing production increased in the first three quarters in Styria, Upper Austria, Tyrol, Vorarlberg and Burgenland, it declined in other states and particularly in Vienna. The capital was also the weakest region in terms of construction output in the first three quarters, however it had by far the best performance in tourism. The number of non-self-employed workers increased in all states with the exception of Carinthia. Despite this, the increase in unemployment seen across all states was lowest in Carinthia. Prices initially continued to rise in the residential real estate market, however the trend flattened noticeably in the third quarter. The Austrian National Bank's property price index for Austria decreased twice in succession. The index for Vienna saw an above-average fall in the third quarter, although it regained some of the lost ground in Q4.

Growth in the euro zone as a whole slowed down in mid-2014, although overall GDP growth was somewhat better than in Austria. The real GDP growth rate for the year as a whole reached 0.9% according to Eurostat figures. This compares with a negative growth rate of -0.5% in 2013. The key factors causing the slowdown from mid-year were the increasing geopolitical tensions (IS, Ukraine and associated trade restrictions), relatively weak world trade and increasing consumer and investor uncertainty given potential deflation risks and limited fiscal room for manoeuvre. Euro zone inflation fell below zero in Q4 in the wake of falling oil prices and generally subdued demand. Prices continued to fall in the new year. The differences between national growth and inflation rates were less pronounced in 2014 than in the previous years. Economic data in the “peripheral countries” in particular again improved somewhat, and the German economy performed relatively robustly as well. German gross domestic product grew by 1.6% in 2014 as a whole according to the German Federal Statistical Office.

The European Central Bank loosened its monetary policy further in 2014 in light of excessively low inflation. The measures begun in the course of the year included a securities purchase programme, new long-term refinancing for banks and key interest rate cuts on two occasions.

The loosening of monetary policy and low inflation in Europe were associated with a further reduction in market rates of interest and an appreciable weakening of the euro against the US dollar. The three-month Euribor fell by 21 basis points to 0.08% in the course of the year and yields on ten-year Austrian government bonds dropped by 157 basis points to 0.71%. While many stock markets benefited from the low interest rates and falling oil price, the Austrian stock market was weighed down by the conflict in Ukraine and the strain this placed on financial sector activities in Central and Eastern Europe. The ATX fell by 15% over the year.

In Romania, economic recovery continued after a temporary slowdown in Q2. According to the European Commission's spring forecast, GDP growth for the year as a whole should reach 2.8%. Inflation has fallen considerably here as well, which enabled the central bank to cut its key interest rate to a new record low of 2.50%.

Association result for the 2014 business year

The result before taxes was euro -240 million. The result after taxes and minority interest was euro -300 million.

Net interest income for the 2014 business year came to euro 746 million, up euro 13 million on the comparative period (2013: euro 733 million). The slight increase in net interest income was due to a reduction in interest-bearing assets and their refinancing as part of the restructuring process, whereby there was a greater reduction overall in interest expenses than in interest income.

Net fee and commission income for the reporting period was euro 258 million, up euro 4 million on the previous period (2013: euro 254 million). An increase in the Volksbanks' commission income more than compensated for the effects of the wind-down measures in non-core business.

Net trading income rose year-on-year (2013: euro 0 million) and reached euro 25 million in 2014. The increase on the previous year was mainly accounted for by interest-related transactions and is linked to the restructuring of hedging transactions. This optimised hedge accounting and improved net trading income.

There was a euro 15 million year-on-year fall in general administrative expenses to euro 808 million (2013: euro 823 million). Headcount declined by 681 compared with the end of 2013 and now totals 6,104 employees, 348 of whom are employed outside Austria. This decline is mainly due to the sale of VB Leasing International companies in Poland, Romania and the Czech Republic and to the sale of Volksbank Malta. As these sales took place at the end of the third quarter, they are not yet fully reflected in the figures.

A restructuring expense of euro 36 million was recognised in the 2014 business year for the planned restructuring. Euro 25 million of this figure relates to HR measures. The remaining costs involved provisions for increased administrative expenses and early termination of contracts.

The other operating result for the 2014 business year amounted to euro -56 million (2013: euro 131 million). Key components of the other operating result in the 2014 business year were the valuation of disposal groups in accordance with IFRS 5 and the result of deconsolidating the companies in the VB Leasing International Group, amounting to euro -24 million, and deconsolidating VB Malta, amounting to euro -19 million. The adjustment of the valuation of the asset guarantee provided by the Republic of Austria on 15 March 2013 in line with the new plan reduced the other operating result by euro -56 million (2013: income of euro 69 million). The other operating result also includes the banking levy of euro -40 million (2013: euro -47 million). Adjustments to the carrying amounts of loss-bearing liabilities in accordance with IAS 39 AG 8 led to income of euro 49 million being recognised in the reporting period (2013: euro 84 million). VB Steiermark Mitte received recovery funding (Besserungsgeld) from the common fund in the 2014 business year, which is reported under this item as income of euro 31 million. Income of euro 40 million from the sale of buildings used by the bank had been recognised in the previous year.

Expenses related to risk provisions came to euro 65 million for the 2014 business year. This represented a decrease of euro 25 million compared with the previous year's figure of euro 90 million. Owing to the winding down of the non-core loan portfolios in connection with restructuring, the write-downs required in the reporting year were lower than in 2013. However, the amount released from portfolio-based allowances was also smaller, which led to an overall increase in this item in non-core business. The Volksbanks made changes to the calculation of impairments in the reporting year. The simplified assumptions concerning the probability of default and loss given default that had previously been used were replaced by figures calculated using stochastic methods. This resulted in a reduction in the risk provisions for the Volksbanks compared to the previous year.

Income from financial investments stood at euro -30 million in the reporting period, up euro 60 million on the comparative year (2013: euro -90 million). An increase in impairment of securities had a negative impact on the result for the period under review (2014: euro -18 million; 2013: euro -3 million), while valuations of assets measured at fair value through profit or loss rose year-on-year. An expense of euro -4 million was recognised on valuation of investment book derivatives for the reporting period (2013: euro -60 million). Income from the sale of held to maturity securities partially compensated for the previous year's gains on the sale of pariticipations.

The scope of companies measured at equity increased in the 2014 business year. This led to a slight year-on-year rise of euro 1 million in the result from companies measured at equity, taking it to euro 1 million. VB Romania S.A. (VBRO) has been reclassified under result from discontinued operations on the basis of the contract of sale for all shares in the company signed on 10 December 2014. The previous year's figures have been adjusted accordingly.

The equity measurement of VBRO in income from discontinued operations is euro -275 million for the 2014 business year (2013: euro -127 million). As well as absorbing the negative result for the 2014 business year (euro -218 million) and the previous year's losses that had not yet been recognised (euro -34 million), the carrying amount had to be impaired by euro -22 million based on the anticipated purchase price. The previous year's figure had included an amount of euro 15 million from the purchase price adjustment agreed for the sale of shares in Selini Holding GmbH.

VBAG did not recognise any deferred tax assets on the tax loss for 2014, since these cannot be used in the next four years. Deferred tax income on differences derived from the valuation of derivatives and securities was recognised to the extent that deferred tax liabilities arose due to other differences in valuation.

Statement of financial position

Total assets amounted to euro 36.7 billion as at 31 December 2014, a reduction of euro 3.9 billion since the end of 2013 (euro 40.6 billion), owing to wind-down measures.

Loans and advances to credit institutions came to euro 1.4 billion, which represented a decrease of euro 0.5 billion compared with the end of the previous period (euro 1.9 billion).

Loans and advances to customers amounted to euro 26.5 billion as at 31 December 2014, a decrease of euro 2.9 billion compared with the end of the previous year (31 December 2013: euro 29.5 billion). The decreases mainly occurred in non-core areas and were essentially due to the sale of companies in the VB Leasing International Group and the sale of VB Malta.

Financial investments were reduced by euro 0.4 billion to euro 4.1 billion compared with the end of 2013 (euro 4.5 billion) through sales and redemptions.

Assets held for sale include loans whose sale had been contractually agreed or was highly likely as at 31 December 2014. The carrying amount of the holding in VB Romania S.A, which is measured at equity, is also shown here.

Amounts owned to credit institutions fell by euro 0.8 billion compared to the end of 2013 (euro 2.9 billion) to euro 2.1 billion.

Amounts owed to customers came to euro 24.1 billion, which represented a decrease of euro 0.8 billion compared with the end of 2013 (euro 24.9 billion). This was due among other things to reductions in customer portfolios.

Debts evidenced by certificates fell by euro 2.4 billion year-on-year (year-end 2013: euro 6.4 billion) and stood at euro 3.9 billion as at 31 December 2014. This reduction was mainly due to scheduled redemptions and early repayments.

Report on branches

The association of Volksbanks does not have any branches.

Financial and non-financial performance indicators

Key financial indicators

VBAG, the central organisation of the Association of Volksbanks, is going through a major wind-down phase and the strategic objective is therefore focused not so much on profit as on reducing risk-weighted assets, on own funds and capital ratios. The own funds of the association group of credit institutions were euro 3.4 billion as at 31 December 2014 and its total risk amount was euro 23.3 billion.

The Common Equity Tier I capital ratio in relation to total risk was 10.3%, while the core capital ratio was also 10.3%. The equity ratio stood at 14.7%.

The association's return on equity (ROE) before taxes was 1.3% as at 31 December 2014 (31 December 2013: 3.9%), while the ROE after taxes was -1.0% (31 December 2013: 4.0%). The ROE before taxes is calculated as the ratio of the result before taxes to the average of equity as at the reporting date and equity as at the previous year's reporting date, while the ROE after taxes is calculated as the ratio of the result after taxes to the average of equity as at the reporting date and equity as at the previous year's reporting date.

The association's operating cost-income ratio for the reporting period was 78.6% (31 December 2013: 83.4%).

Non-financial performance indicators

Human Resources

2014 was shaped by the decision to make unprecedented changes to the association's structure. The number of Volksbanks in the association is to be reduced by some 80% in the medium term. Achieving this objective required extensive preparatory measures in 2014, with the initial steps already having been implemented.

Such enormous changes in a very short period necessitate a structured “change process”. The range of measures will challenge employees, managers and officials alike. The changes not only have implications for the association's staff, organisation and structure, but will also involve a major focus on sales, as any adverse impact on customer relationships must be avoided.

As at the end of 2014, the association employed 6,104 staff (full-time equivalents), including 5,756 in Austria and 348 abroad. This represents a reduction in headcount of 681 compared with the previous year, involving 462 employees who worked outside Austria (due to the sale of the VB Leasing International companies in Poland, Romania and the Czech Republic, as well as the sale of Volksbank Malta).

Significant organisational and IT projects

Activities in “Organisation/IT” focused on fundamental projects for the future direction of the Association of Volksbanks as a whole.

The “Mustermandant” project aims to standardise processes and IT in the Volksbank sector in order to facilitate mergers, increase synergy effects and reduce costs. The first two phases of the project have been completed. Settings in the core bank system have been harmonised, a standard product offering was introduced and new support structures were created at VBAG. 16 Volksbanks have already migrated to Mustermandant and the migration process is underway at a further 14.

Together with representatives from four Volksbanks (Wien-Baden, Salzburg, Tirol Innsbruck-Schwaz, Vorarlberg), from May to September 2014 the basis was prepared for the decisions to be made at the Group meeting on 2 October 2014 concerning the future model of cooperation within the association. 23 main functions and some 200 detailed functions were identified. These were intensively discussed in workshops. With a view to the future structure of eight + two regional Volksbanks, there were deliberations as to which functions should be replicated at each of the ten banks and which should be performed only once by the Association of Volksbanks. The clear objective of this preparatory work remains to structure the future Association of Volksbanks as efficiently as possible while retaining the regional set-up that clients have come to expect (including continuing to provide customers with fast decision-making). Implementation will take place in the next few years, partly in the course of the planned mergers.

From April to October 2014, the Finance and Risk Architecture ("ZiFiRA") project developed a detailed design and corresponding migration path for the target project outcome in terms of the functional and IT architecture and the governance processes for finance and risk management applications. The project approach involved extensively analysing the status quo, defining the action required, setting out the target architecture, and producing a business case and implementation plan. On the basis of the project vision, and the guiding principles behind the financial and risk architecture, the project defined in detail the reports and processes envisaged for the functional objectives, together with an IT architecture centred on a new core data warehouse for the technical objectives. The Governance sub-project set out the necessary processes for optimal operation and for further developing these new requirements. Finally, detailed implementation plan was produced. The economic feasibility of the implementation project was demonstrated in a detailed business case. The extensive results of this evaluation project were compiled in collaboration with the banking association's data centre (ARZ). Joint implementation is planned from the second half of 2015.

The first half of 2014 saw the launch of the "digitalisation" project, which prioritized 14 action areas. The aim is to modernise the websites of the primary banks and the association's volksbank.at website using responsive web design. Harmonising customer systems (internet and mobile banking) and standardising online sales processes in the Association of Volksbanks are of foremost importance to the project. The first key action areas have already been implemented in 2014. The website relaunch is planned for 2015, and implementation of all remaining action areas, bringing the project to its conclusion, is planned for 2016.

Alongside projects specific to the association, strategic projects in reporting include the implementation of the common reporting platform ("Gemeinsame Meldewesen-Plattform" – GMP). This project is introducing the GMP on the basis of the "ABACUS" IT system provided by Austrian Reporting Services GmbH (AuRep). The GMP will represent a sea change in terms of the working methods and processes used in reporting at all major Austrian banking groups. It is due to go live in the securities sector on 1 July 2015. An extensive project setup was established in the Volksbank sector in September 2014 with ARZ and AuRep. Positive collaboration with these partners has enhanced synergy effects that enable us to drive the project forward despite the tight resources available. In addition to putting these technical and functional requirements in place, the project is also focusing on organisational changes to the collaborative model for reporting in the Volksbank sector. This is to take the form of a new service agreement based on the common reporting platform.

Significant events after the balance sheet date

Restructuring of VBAG and reorganisation of the association

At the Annual General Meeting on 28 May 2015, the VBAG shareholders unanimously resolved to split up VBAG and convert it into a wind-down company. The part of VBAG that functions as the central organisation will be transferred to Volksbank Wien-Baden AG. The remainder of VBAG will continue to operate as a company in wind-down under the name immigon portfolioabbau ag in accordance with section 162 of the Federal Act on the Reorganisation and Winding-up of Banks (BaSAG). To enable the split, the Annual General Meeting also resolved to carry out a simplified capital reduction at VBAG in order to cover accumulated losses with available capital.

At its meeting on 29 May 2015, the Annual General Meeting of Volksbank Wien-Baden AG (VB Wien-Baden) unanimously agreed to take on the central organisation part of VBAG. The meeting also agreed a capital increase at VB Wien-Baden and approved the spin-off and transfer agreement.

The restructuring of the Association of Volksbanks, division of VBAG and associated transfer of business to VB Wien-Baden is currently being examined and remains subject to approval by the banking regulator, the European Commission and other authorities and institutions.

Wind-down measures during the restructuring process

Loans totalling approximately euro 250 million have already been sold or repaid early in 2015 as part of the restructuring process. The investment in Marangi Immobiliare s.r.l. (Marangi) was sold on 11 June 2015 and the refinancing of euro 36 million repaid by Marangi.

Further sales transactions were being implemented in real estate business at the time that the financial statements were being prepared. Sales processes were commenced for holdings in the VB Leasing International Group, VB Factoring Bank AG, Volksbank Invest Kapitalanlagegesellschaft mbH, Immo Kapitalanlage AG, VB Leasing Finanzierung Group and the start:group. No reclassifications were carried out for these participations in accordance with IFRS 5, owing to the uncertainties relating to the sales.

Swiss National Bank (SNB) abolishes minimum rate

On 15 January 2015, the SNB unexpectedly abolished its minimum rate of 1.20 Swiss francs per euro. At the same time, it lowered the interest rate for balances in its current accounts by 0.5 percentage points to –0.75%. The Swiss franc underwent a massive revaluation on the foreign exchange markets that very day (the EUR/CHF exchange rate reached a low of 0.8500), before stabilising at a level close to parity.

As the association did not have any substantial trading positions at that time, there was no significant impact on net trading income. There were effects on liquidity, particularly as a result of additional funding obligations relating to collateral agreements (CSA) and risk-weighted assets. The association has sufficient liquidity for the additional funding obligations, and measures to generate own funds are taking into account the increase in RWAs.

Debt moratorium for Heta Asset Resolution AG (HETA)

When the Austrian Financial Market Authority decreed a debt moratorium on 1 March 2015, the association held a senior unsecured bond from HETA with a nominal price of euro 20 million, due to mature on 9 April 2043, and a further bond with a nominal price of euro 5.5 million, due to mature on 24 January 2017. The existing allowance was increased in 2014, and the bond due to mature on 9 April 2043 was sold without a loss in March 2015.

The association of Volksbank also holds bonds of euro 60.4 million from Pfandbriefstelle der österreichischen Landes-Hypothekenbanken (Pfandbriefstelle), a public-law institution in Vienna. In accordance with section 2 of the Pfandbriefstelle Act, member institutions (with the exception of HETA) and the guarantors of member institutions are jointly and severally liable for liabilities of Pfandbriefstelle. In view of the existing liability structure, no risk provisions were made for these bonds as at 31 December 2014.

Other relevant events after the balance sheet date

Fitch downgraded VBAG's rating from BBB– to B at the beginning of February 2015. This step had been anticipated in view of the decision to convert VBAG into a company in wind-down and the consequent withdrawal of government support for the rating.

Fitch downgraded the Association of Volksbanks in mid-May 2015. The rating agency examined the Association of Volksbanks' rating and those of other Austrian banks with regard to the likelihood of continued state support. This led to the association’s rating being downgraded from A to BB-.

Moody's downgraded VBAG's rating from B2 to Caa1 on 15 June 2015. The downgrade was explained by the new bank rating methodology used by Moody's.

The rating downgrades of Fitch and Moody’s since the beginning of 2014 had no significant negative impact on the association’s liquidity.

Report on the company’s future development and risks

Future development of the company

Economic environment

The Austrian Institute of Economic Research (WIFO) revised its forecast for real growth of Austrian GDP this year down to 0.5% in December 2014 (September: 1.2%) and reaffirmed this forecast in March 2015. The European Commission is somewhat more optimistic, anticipating 0.8% for Austria and 1.5% for the euro zone in its spring forecast published in May 2015. While there was little sign of an upturn in the high-frequency indicators at the start of 2015, the Austrian economy should recover in the course of the year through export demand. International trade should benefit from robust US growth and low energy prices. The euro's fall in value against the US dollar (and Swiss franc) is helping to make companies in the euro zone more price competitive, while low interest rates should also boost investment. Increasing unemployment and sluggish real wage development are likely to further limit consumer spending's (positive) contribution to economic growth in Austria, and to have a detrimental effect on the savings ratio. Given the ongoing budgetary consolidation, little growth impetus is likely to come from government spending. Monetary policy was loosened further in January 2015, when the ECB decided to include government bonds in its securities purchases from March onwards and to extend these purchases to euro 60 billion a month. Despite an emerging upward trend in yields in the US (an increase in the country's key interest rate is possible as early as this year), yields on European government bonds should remain comparatively low, facilitating consolidation of government budgets and investment.

Risk factors that could disrupt this gradual moderate upturn include the elevated geopolitical risks that still exist, as well as the lack of agreement on Greek government financing that had not yet been resolved in the spring.

The main risk factors for future economic development in Austria and Romania are the possible escalation of the Ukraine conflict and its consequences for international economic and political cooperation, as well as uncertainty with regard to the negotiations on future financial policies in Greece.

Material risks and uncertainties

Please refer to the remarks in the Notes (particularly the Risk Report in note 51) for details of disclosures required by law on the use of financial instruments, risk management objectives and methods and existing pricing, default, liquidity and cash flow risks.

General

Owing to the losses sustained in the 2011 business year, a decision was taken together with the bank's owners and the Republic of Austria to stabilise VBAG, mainly through a capital increase and the creation of a joint liability scheme (Association of Volksbanks in accordance with section 30a of the Austrian Banking Act). The restructuring plan that has been approved by the European Commission includes the winding down of large parts of the loan portfolio in Austria and abroad (essentially excluding the syndicate business with Volksbanks) and of large parts of the bank book, as well as the sale of participations, such as VB Romania S.A. and VB-Leasing International Holding GmbH.

These requirements set by the European Commission have been implemented quickly and purposefully. As a result, the association's total assets fell from euro 59.8 billion as at 31 December 2011 to euro 36.7 billion as at 31 December 2014.

The Managing Board of VBAG has also initiated a series of measures to strengthen VBAG's capital base at individual bank and Group level, and thus also the capital base of the Association of Volksbanks by virtue of its role as the central organisation of the Association of Volksbanks in accordance with the banking association agreement as per section 30a of the Austrian Banking Act. In particular, these measures include:

- the conversion or repurchase of supplementary, hybrid and subordinated capital, in each case after obtaining approval from the regulator and the European Commission, with an impact of more than euro 350 million on common equity Tier 1 (CET1),
- the introduction of a base amount of 95% for cooperative capital, which prevented its phasing-out and thus secured over euro 110 million in CET1 for the association,
- adjustments to issuing conditions for various types of Tier I and Tier II capital, to ensure that they are compliant with Basel III and thus retain over euro 100 million of equity within the association,
- various RWA reduction measures,
- the implementation of substantial wind-down measures, which significantly improved VBAG's risk position (at individual bank and Group level) and thus indirectly that of the association,
- a substantial improvement in the quality and significance of risk management.

The VBAG Managing Board nevertheless pointed out in the 2013 association’s financial statements that it saw risks in the medium term regarding the ability of VBAG and the association to continue as a going concern, on account of the increasingly stringent capital requirements imposed by the supervisory authorities and the simultaneous loss of capital components due to the phase-out in connection with Basel III.

Outcome of the comprehensive assessment and capital plan

Prior to taking over the supervision of 130 European credit institutions, the European Central Bank (ECB) submitted these banks to an asset quality review followed by extensive stress tests ("comprehensive assessment") in 2014. The Austrian Association of Volksbanks, was one of six Austrian banking groups to undergo this assessment. The ECB calculated that the Association of Volksbanks had an aggregate capital shortfall of euro 865 million based on the figures for 2013. However, this stress test, which was based on the reporting date of 31 December 2013, did not take into account the wind-down measures already implemented in 2014, the impairments that had already been made, or the reorganisation of the Association of Volksbanks presented by the Managing Board on 2 October 2014, as these measures were undertaken after the cut-off date for the comprehensive assessment (31 December 2013). The ECB's recommendations for dealing with deviations found in the asset quality review had no direct impact for VBAG Group in terms of accounting, as the asset quality review was based on regulatory requirements on the part of ECB, which are not congruent with the IFRS requirements.

A capital plan was submitted to the ECB on 10 November 2014, which presented the measures planned to cover the capital shortfall identified by the comprehensive assessment.

The key element in this capital plan is the reorganisation of the Association of Volksbanks and the associated restructuring of VBAG:

Subject to approval by regulatory and supervisory authorities and governing bodies, the VBAG's Managing Board resolved to reorganise VBAG's structures. VBAG, the top institution, is to be divided. The duties that VBAG is statutorily required to perform as the central organisation of the Volksbanks' joint liability scheme are to be transferred to Volksbank Wien-Baden AG. The service functions that VBAG provides to the Association of Volksbanks and that are necessary to ensure orderly bank operations will also be transferred. The aim of the vestigial VBAG is to continue with the swift implementation of the wind-down process, which has been running successfully since 2012, to service creditor obligations as scheduled when due and thus definitively wind down VBAG. The division of VBAG is planned for early July 2015. VBAG will then leave the joint liability scheme.

In addition to this restructuring of the Association of Volksbanks and of VBAG, the capital plan essentially contains the following measures:

- further wind-down of the non-core portfolio,
- sale of securities causing RWA,
- implementation of a securitisation transaction,
- liquidation of hidden reserves from real estate, and
- other RWA reduction measures.

These measures are currently being implemented and are should be largely completed by the end of June 2015.

JRAD order

Based on the capital shortfall calculated by the ECB, and pursuant to the order transmitted to VBAG, VBAG, in its current role as the central organisation of the Association of Volksbanks, is to maintain a SREP ratio of 14.63% in CET1 on a consolidated basis for the Association of Volksbanks starting 26 July 2015. The latest forecasts show that this ratio will not be achieved under the current structure. The planned measures, particularly the conversion of VBAG into a company in wind-down pursuant to section 162 of the Federal Act on the Reorganisation and Winding-up of Banks (BaSAG) and the associated transfer of central organisation functions to Volksbank Wien-Baden, are intended to materially improve the risk structure of the new association. The VBAG's Managing Board believes that the CET1 ratios currently envisioned will no longer reflect the association's risk, and therefore expects that the ratio mandated in the order will be substantially smaller, meaning that capital requirements will be able to be satisfied. The ECB's order stipulates that if VBAG determines prior to 26 July 2015 that the restructuring has been successfully completed, the ECB will examine how it can change the current SREP ratio. Against this backdrop, and given the successful completion of the sale of VBRO, the Managing Board of VBAG formally requested an examination of the CET1 ratio of 14.63% prescribed for the association in a letter dated 10 April 2015.

For the purposes of implementing the planned division and creating the company in wind-down, a comprehensive transformation project was launched, which should essentially be completed with the division in July 2015. A project such as this naturally involves numerous risks and uncertainties, particularly in connection with approval from regulatory and supervisory authorities and governing bodies, which could prevent the project from being implemented. In addition, there are numerous legal uncertainties as a result of, inter alia, new European and national statutory frameworks, such as the Single Resolution Mechanism (SRM) and the aforementioned BaSAG. Moreover, the General Meetings of local Volksbanks will need to adopt far-reaching resolutions (the approval rate as a percentage of risk weighted assets is currently 97.8%). However, VBAG's Managing Board currently believes that implementing the measures in the capital plan, particularly the restructuring of the association, is challenging but feasible. Intensive efforts are also being made to ensure that the necessary approval is obtained from the relevant authorities. In view of the material restructuring and significant changes in the risk profile of the new association, VBAG's Managing Board expects the mandated SREP ratio to be revised and believes that the restructured association will be able to comply with the new ratio. The request to operate VBAG as a wind-down company was submitted on 27 March 2015.

Wind-down portfolio

In addition to the risks associated with the transformation project, the remaining business that is being wound down also involves risks. Experience in Austria and abroad has shown that such wind-down processes often involve higher costs than initially anticipated. VBAG is also exposed to this uncertainty in its wind-down segment. In particular, the Managing Board highlights the risks arising from the significantly deteriorating situation in Eastern Europe, particularly in Russia. VBAG has indirect investments in this region with the funding of Sberbank Europe AG and its stake in Raiffeisen Bank International AG (through its holding in Raiffeisen Zentral Bank Österreich AG). In addition, the Association of Volksbanks has a substantial real estate portfolio in Austria, as well as in Central and Eastern Europe. In the event of a sale of parts of this portfolio, credit risks and valuation discounts too could be substantial.

Report on research and development

The Association of Volksbanks is not involved in research and development.

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

Control system

The Association's of Volksbanks uppermost priority with regard to financial reporting is to comply with all relevant statutory requirements. In line with financial reporting a general instruction concerning accounting was issued by the central organisation. The Managing Board of the central organisation is responsible for establishing and defining a suitable internal control and risk management system that encompasses the entire accounting process, and provides a group-wide implementation framework in the "ICS Group Guidelines". Responsibility for implementation lies with the "Process-Oriented Quality Management" group at VBAG.

The respective managing board or management for all companies included in the financial statements is responsible for designing and rolling out an ICS for the respective company, as well as ensuring compliance with group-wide guidelines and regulations. In order to ensure that data supplied by Group subsidiaries is properly recorded, this data is first checked for plausibility. The data is then processed using the consolidation software "Tagetik". Control mechanisms are based on the dual-control principle and are subject to an additional check by the department managers.

Control measures are used in ongoing business processes to ensure that potential errors are prevented and that any discrepancies in financial reporting are discovered and rectified. These control measures range from the inspection of the various results for the reporting period by management to the specific reconciliation of accounts and items and an analysis of ongoing processes in Group accounting. A distinction is made between two types of controls:

- Operational controls include manual controls, which are carried out by employees in specific steps, automatic controls, which are carried out with the aid of IT systems, and preventative controls, which aim to prevent errors and risks in advance through the separation of functions, the regulation of competencies and access authorisation.

- Management controls serve to ensure, on the basis of spot checks, that managers are complying with operational controls. The regularity of checks is determined by the relevant manager (head of division, head of department), in accordance with the level of risk. These spot checks are documented in the control plan in a way that is comprehensible to third parties. The results are reported at half-yearly intervals as part of management reporting.

Internal Auditing also performs independent and regular checks of compliance with internal regulations in accounting. As a department, Internal Auditing is assigned directly to the Managing Board, reports directly to the chairman of the board, and compiles a quarterly report for the Supervisory Board.

Risk assessment

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

For the preparation of the financial statements, estimates must be taken regularly in areas for which there is an intrinsic risk that future development may deviate from these estimates. This applies particularly to the following items in the 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 will be used or external experts will be consulted in order to minimise the risk of misjudgements.

Information ans communication

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

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. Reforms in international accounting are also relayed to employees of the association members.

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

Monitoring

Top management receives regular summarised financial reports, such as quarterly reports on the development of the respective segments and key financial figures. Financial statements that are to be published are checked by management-level employees in accounting, the management of the division and the Managing Board before they are forwarded to the responsible committees. The results of monitoring of accounting processes are included in the management report. The report contains a risk assessment of the processes on a qualitative basis, and documents how many controls are being carried out in relation to control guidelines.

Vienna, 16 June 2015

Stephan Koren
Chairman of the Managing Board
Corporate planning & Finance, Human Resources,
Legal & Compliance, Marketing & Communication
Revision, Credit Services

Michael Mendel
Deputy Chairman of the Managing Board
Risk management, Non-Core Business

Rainer Borns
Member of the Managing Board
Association of Volksbanks,
Distribution Volksbanks, Organisation/IT

Christoph Raninger
Member of the Managing Board
Market
Financial Markets & Group Treasury
Strategy & Capital Measures
Capital Markets, Product & Sales
Commercial Banking

FINANCIAL STATEMENTS

Statement of comprehensive income

Income Statement	Note	1-12/2014 Euro thousand	restated 1-12/2013 Euro thousand	Changes Euro thousand	%
Interest and similar income		1,166,146	1,347,389	-181,243	-13.45 %
Interest and similar expense		-420,291	-614,263	193,973	-31.58 %
Net interest income	4	745,855	733,126	12,729	1.74 %
Risk provisions	5	-65,452	-90,408	24,957	-27.60 %
Fee and commission income		317,362	325,678	-8,316	-2.55 %
Fee and commission expenses		-59,523	-71,383	11,860	-16.61 %
Net fee and commission income	6	257,839	254,295	3,544	1.39 %
Net trading income	7	25,280	-359	25,639	< -200,00 %
General administrative expenses	8	-808,420	-823,150	14,730	-1.79 %
Restructuring cost		-35,515	0	-35,515	100.00 %
Other operating result	9	-55,910	131,058	-186,969	-142.66 %
Income from financial investments	10	-30,106	-90,360	60,255	-66.68 %
Income from companies measured at equity		1,228	539	689	127.95 %
Income from the discontinued operations	2	-275,189	-111,293	-163,896	147.27 %
Result before taxes		-240,390	3,447	-243,837	< -200,00 %
Income taxes	11	-59,809	2,120	-61,929	< -200,00 %
Result after taxes		-300,198	5,568	-305,766	< -200,00 %
Result attributable to shareholders of the parent company		-320,239	-20,835	-299,404	> 200,00 %
thereof from continued operations		-45,050	90,457	-135,507	-149.80 %
thereof from discontinued operations		-275,189	-111,293	-163,896	147.27 %
Result attributable to non-controlling interest		20,041	26,403	-6,362	-24.10 %
thereof from continued operations		20,041	26,403	-6,362	-24.10 %
thereof from discontinued operations		0	0	0	0.00 %

Other comprehensive income

	1-12/2014 Euro thousand	restated 1-12/2013 Euro thousand	Changes Euro thousand	%
Result after taxes	**-300,198**	**5,568**	**-305,766**	**< -200,00 %**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation obligation of defined benefit plans (IAS 19)	-28,079	-1,385	-26,695	> 200,00 %
Deferred taxes of revaluation IAS 19	7,061	345	6,716	> 200,00 %
Total items that will not be reclassified to profit or loss	-21,019	-1,040	-19,979	> 200,00 %
Items that may be reclassified to profit or loss				
Currency reserve	11,274	-11,770	23,044	-195.78 %
Available for sale reserve (including deferred taxes)				
Change in fair value	3,811	75,764	-71,952	-94.97 %
Net amount transferred to profit or loss	-16,428	-20,724	4,295	-20.73 %
Hedging reserve (including deferred taxes)				
Change in fair value (effective hedge)	-711	-1,826	1,116	-61.09 %
Net amount transferred to profit or loss	578	1,058	-480	-45.38 %
Change in deferred taxes of untaxed reserves	998	1,336	-339	-25.33 %
Change from companies measured at equity	-20,277	3,401	-23,677	< -200,00 %
Total items that may be reclassified to profit or loss	**-20,754**	**47,239**	**-67,993**	**-143.94 %**
Other comprehensive income total	**-41,773**	**46,199**	**-87,972**	**-190.42 %**
Comprehensive income	**-341,971**	**51,767**	**-393,738**	**< -200,00 %**
Comprehensive income attributable to shareholders of the parent company	-367,989	29,938	-397,927	< -200,00 %
thereof from continued operations	-73,089	137,830	-210,919	-153.03 %
thereof from discontinued operations	-294,900	-107,892	-187,008	173.33 %
Comprehensive income attributable to non-controlling interest	26,018	21,829	4,189	19.19 %
thereof from continued operations	26,018	21,829	4,189	19.19 %
thereof from discontinued operations	0	0	0	0.00 %

The comparative figures were restated according to IFRS 5 (see note 2).

Statement of financial position as at 31 December 2014

	Note	31 Dec 2014 Euro thousand	31 Dec 2013 Euro thousand	Changes Euro thousand	%
Assets					
Liquid funds	12	1,596,274	2,018,299	-422,025	-20.91 %
Loans and advances to credit institutions (gross)	13	1,365,464	1,871,657	-506,193	-27.05 %
Loans and advances to customers (gross)	14	26,540,816	29,468,699	-2,927,883	-9.94 %
Risk provisions (-)	15	-886,719	-1,478,728	592,009	-40.04 %
Trading assets	16	1,516,364	1,538,239	-21,875	-1.42 %
Financial investments	17	4,106,389	4,484,649	-378,260	-8.43 %
Investment property	18	257,483	305,506	-48,023	-15.72 %
Companies measured at equity	19	45,545	5,626	39,919	> 200,00 %
Participations	20	268,531	376,792	-108,261	-28.73 %
Intangible assets	21	13,124	17,006	-3,882	-22.83 %
Tangible fixed assets	22	549,061	573,532	-24,471	-4.27 %
Tax assets	23	54,635	107,624	-52,989	-49.24 %
Current taxes		28,252	42,889	-14,637	-34.13 %
Deferred taxes		26,383	64,735	-38,352	-59.24 %
Other assets	24	863,444	758,581	104,864	13.82 %
Assets held for sale	25	388,029	554,657	-166,628	-30.04 %
Total Assets		**36,678,439**	**40,602,139**	**-3,923,699**	**-9.66 %**
Liabilities and Equity					
Amounts owed to credit institutions	26	2,088,166	2,888,490	-800,324	-27.71 %
Amounts owed to customers	27	24,129,004	24,900,141	-771,137	-3.10 %
Debts evidenced by certificates	28	3,919,929	6,352,783	-2,432,854	-38.30 %
Trading liabilities	29	1,446,167	1,317,388	128,779	9.78 %
Provisions	30, 31	487,539	420,488	67,051	15.95 %
Tax liabilities	23	109,188	119,211	-10,023	-8.41 %
Current tax liabilities		18,933	22,277	-3,344	-15.01 %
Deferred tax liabilities		90,255	96,933	-6,678	-6.89 %
Other liabilities	32	1,098,398	747,415	350,983	46.96 %
Liabilities held for sale	33	5,509	0	5,509	100.00 %
Subordinated liabilities	34	831,568	891,210	-59,642	-6.69 %
Total nominal value cooperative capital shares	35	60,310	102,478	-42,168	-41.15 %
Subscribed capital	35	827,587	764,792	62,795	8.21 %
Reserves	35	1,549,629	1,958,635	-409,006	-20.88 %
Non-controlling interest	35	125,445	139,108	-13,663	-9.82 %
Total Liabilities and Equity		**36,678,439**	**40,602,139**	**-3,923,699**	**-9.66 %**

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 2013	**687,269**	**1,971,551**	**2,658,820**	**135,242**	**2,794,062**	**144,474**	**2,938,537**
Consolidated net income		-20,835	-20,835	26,403	5,568		5,568
Change in deferred taxes arising from untaxed reserve		1,336	1,336		1,336		1,336
Revaluation obligation of defined benefit plans (IAS 19 including deferred taxes)		-1,011	-1,011	-29	-1,040		-1,040
Currency reserve		-6,940	-6,940	-4,830	-11,770		-11,770
Available for sale reserve (including deferred taxes)		55,040	55,040	0	55,040		55,040
Hedging reserve (including deferred taxes)		-1,053	-1,053	285	-768		-768
Change from companies measured at equity		3,401	3,401		3,401		3,401
Comprehensive income	0	29,938	29,938	21,829	51,767	0	51,767
Dividends paid		-6,954	-6,954		-6,954		-6,954
Introduction of base amount regulation	74,021		74,021		74,021	-74,021	0
Changes scope of consolidation	1,097	-38,468	-37,371		-37,371	32,623	-4,748
Change in cooperative capital and participation capital	2,237		2,237		2,237	-1,678	559
Change in treasury stocks	168		168		168	1,081	1,249
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation		2,568	2,568	-17,963	-15,395		-15,395
As at 31 December 2013	**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		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		7,565		7,565	-6,142	1,423
Change in treasury stocks	-777		-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 December 2014	**827,587**	**1,549,629**	**2,377,216**	**125,445**	**2,502,662**	**60,310**	**2,562,972**

thereof obtained in reserves:

Euro thousand	31/12/2014	31/12/2013
Currency reserve	2,374	4,560
Available for sale reserve	61,270	85,684
thereof deferred taxes	-19,390	-17,824
Hedging reserve	-10,926	2,856
thereof deferred taxes	112	-534

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	1-12/2014
Annual result (before non-controlling interest)	**-300,198**
Non-cash positions in annual result	
Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets	356,289
Allocation to and release of provisions, including risk provisions	79,552
Gains from the sale of financial investments and fixed assets	-54,566
Non-cash changes in taxes	41,091
Changes in assets and liabilities from operating activities	
Loans and advances to credit institutions	126,821
Loans and advances to customers	1,291,426
Trading assets	19,233
Financial investments	14,113
Investment property	9,428
Other assets from operating activities	73,104
Amounts owed to credit institutions	325,432
Amounts owed to customers	-748,269
Debts evidenced by certificates	-2,432,854
Derivatives	102,394
Other liabilities	300,082
Cash flow from operating activities	**-796,923**
Proceeds from the sale or redemption of	
Securities held to maturity	502,191
Participations	67,045
Fixed assets	25,248
Disposal of subsidiaries (net of cash disposed)	250,027
Payments for the acquisition of	
Securities held to maturity	-24,933
Participations	-353,585
Fixed assets	-64,120
Acquisition of subsidiaries - liquid funds	1
Cash flow from investing activities	**401,875**
Change in cooperative capital and participation capital	1,649
Redemption of participation capital	-2,249
Dividends paid	-19,950
Changes in subordinated liabilities	-20,226
Redemption of participation rights	-6,724
Cash flow from financing activities	**-47,501**
Cash and cash equivalents at the end of previous period (= liquid funds)	**2,018,299**
Cash flow from operating activities	-796,923
Cash flow from investing activities	401,875
Cash flow from financing activities	-47,501
Effect of currency translation	20,524
Cash and cash equivalents at the end of period (= liquid funds)	**1,596,274**
Payments of taxes, interest and dividends	
Income taxes paid	18,717
Interest received	1,157,009
Interest paid	-499,675
Dividends received	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

The Österreichische Volksbanken-Aktiengesellschaft (VBAG), which has its registered office at Kolingasse 14-16, 1090 Vienna, is the central organisation of the Austrian Volksbank sector. VBAG 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 (VBAG) to have the right to issue instructions to the member credit institutions.

In accordance with IFRS, a full consolidation can only take place if a company has full authority over decisions, 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 for the wind-down unit taking into account that it is to be wound down, and for the central organisation 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 VBAG on 16 June 2015 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 2014 association financial statements:

IFRS 3 Business Combinations: Given the central organisation's lack of control within the meaning of IAS 10, the equity components of the member credit institutions in the list of included companies in section 52, and of VB Holding eGen, VB-Beteiligung GmbH, VB Wien Beteiligung eG and Schulze Delitzsch Ärzte und freie Berufe eGen are combined with the consolidated IFRS financial statements of VBAG. When aggregating the included companies' investments in Volksbanks and VBAG, 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 principles of IFRS 3 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 and the income statement that were not included in the previous year.

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 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

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 that are not included in the statements themselves, are also reported.

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 statements.

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 rate 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

No statement of cash flows was provided.

The following exception applied to the member institutions with regard to IAS 39 Financial Instruments – impairments of loans measured at amortised cost: when calculating the impairment of loans measured at amortised cost, the value of loans at the member institutions showing objective evidence of impairment is determined by flat-rate impairment applied to the asset group. This process is based on the unsecured exposure and simplified assumptions on the probability of default and loss given default. No unwinding effect is currently taken into account. A portfolio-based allowance is calculated for all loans that do not show objective evidence of impairment. The calculation is also based on unsecured exposure, and the probability of default is derived from the relevant credit rating.

b) Going concern

Owing to the losses sustained in the 2011 business year, a decision was taken together with the bank's owners and the Republic of Austria to stabilise VBAG, mainly through a capital increase and the creation of a joint liability scheme (Association of Volksbanks in accordance with section 30a of the Austrian Banking Act). The restructuring plan that has been approved by the European Commission includes the winding down of large parts of the loan portfolio in Austria and abroad (essentially excluding the syndicate business with Volksbanks) and of large parts of the bank book, as well as the sale of participations, such as VB Romania S.A. and VB-Leasing International Holding GmbH.

These requirements set by the European Commission have been implemented quickly and purposefully. As a result, the association's total assets fell from euro 59.8 billion as at 31 December 2011 to euro 36.7 billion as at 31 December 2014.

The Managing Board of VBAG has also initiated a series of measures to strengthen VBAG's capital base at individual bank and Group level, and thus also the capital base of the Association of Volksbanks by virtue of its role as the central organisation of the Association of Volksbanks in accordance with the banking association agreement as per section 30a of the Austrian Banking Act. In particular, these measures include:

- the conversion or repurchase of supplementary, hybrid and subordinated capital, in each case after obtaining approval from the regulator and the European Commission, with an impact of more than euro 350 million on common equity Tier 1 (CET1),
- the introduction of a base amount of 95 % for cooperative capital, which prevented its phasing-out and thus secured over euro 110 million in CET1 for the association,
- adjustments to issuing conditions for various types of Tier I and Tier II capital, to ensure that they are compliant with Basel III and thus retain over euro 100 million of equity within the association,
- various RWA reduction measures,
- the implementation of substantial wind-down measures, which significantly improved VBAG's risk position (at individual bank and Group level) and thus indirectly that of the association,
- a substantial improvement in the quality and significance of risk management.

The VBAG Managing Board nevertheless pointed out in the 2013 association’s financial statements that it saw risks in the medium term regarding the ability of VBAG and the association to continue as a going concern, on account of the increasingly stringent capital requirements imposed by the supervisory authorities and the simultaneous loss of capital components due to the phase-out in connection with Basel III.

Outcome of the comprehensive assessment and capital plan

Prior to taking over the supervision of 130 European credit institutions, the European Central Bank (ECB) submitted these banks to an asset quality review followed by extensive stress tests ("comprehensive assessment") in 2014. The Austrian Association of Volksbanks, and thus also VBAG and VBAG Group, was one of six Austrian banking groups to undergo this assessment. The ECB calculated that the Association of Volksbanks had an aggregate capital shortfall of euro 865 million based on the figures for 2013. However, this stress test, which was based on the reporting date of 31 December 2013, did not take into account the wind-down measures already implemented in 2014, the impairments that had already been made, or the reorganisation of the Association of Volksbanks presented by the Managing Board on 2 October 2014, as these measures were undertaken after the cut-off date for the comprehensive assessment (31 December 2013). The ECB's recommendations for dealing with deviations found in the asset quality review had no direct impact for VBAG Group in terms of accounting, as the asset quality review was based on regulatory requirements on the part of ECB, which are not congruent with the IFRS requirements.

A capital plan was submitted to the ECB on 10 November 2014, which presented the measures planned to cover the capital shortfall identified by the comprehensive assessment. The key element in this capital plan is the reorganisation of the Association of Volksbanks and the associated restructuring of VBAG:

Subject to approval by regulatory and supervisory authorities and governing bodies, the VBAG's Managing Board resolved to reorganise VBAG's structures. VBAG, the top institution, is to be divided. The duties that VBAG is statutorily required to perform as the central organisation of the Volksbanks' joint liability scheme are to be transferred to Volksbank Wien-Baden AG. The service functions that VBAG provides to the Association of Volksbanks and that are necessary to ensure orderly bank operations will also be transferred. The aim of the vestigial VBAG is to continue with the swift implementation of the wind-down process, which has been running successfully since 2012, to service creditor obligations as scheduled when due and thus definitively wind down VBAG. The division of VBAG is planned for early July 2015. VBAG will then leave the joint liability scheme.

In addition to this restructuring of the Association of Volksbanks and of VBAG, the capital plan essentially contains the following measures:

- further wind-down of the non-core portfolio,
- sale of securities causing RWA,
- implementation of a securitisation transaction,
- liquidation of hidden reserves from real estate and
- other RWA reduction measures.

These measures are currently being implemented and should largely be completed by the end of June 2015.

JRAD order

Based on the capital shortfall calculated by the ECB, and pursuant to the order transmitted to VBAG, VBAG, in its current role as the central organisation of the Association of Volksbanks, is to maintain a SREP ratio of 14.63 % in CET1 on a consolidated basis for the Association of Volksbanks starting 26 July 2015. The latest forecasts show that this ratio will not be achieved under the current structure. The planned measures, particularly the conversion of VBAG into a company in wind-down pursuant to section 162 of the Federal Act on the Reorganisation and Winding-up of Banks (BaSAG) and the associated transfer of central organisation functions to Volksbank Wien-Baden, are intended to materially improve the risk structure of the new association. The VBAG's Managing Board believes that the CET1 ratios currently envisioned will no longer reflect the association's risk, and therefore expects that the ratio mandated in the order will be substantially smaller, meaning that capital requirements will be able to be satisfied. The ECB's order stipulates that if VBAG determines prior to 26 July 2015 that the restructuring has been successfully completed, the ECB will examine how it can change the current SREP ratio. Against this backdrop, and given the successful completion of the sale of VBRO, the

Managing Board of VBAG formally requested an examination of the CET1 ratio of 14.63 % prescribed for the association in a letter dated 10 April 2015.

For the purposes of implementing the planned division and creating the company in wind-down, a comprehensive transformation project was launched, which should essentially be completed with the division in July 2015. A project such as this naturally involves numerous risks and uncertainties, particularly in connection with approval from regulatory and supervisory authorities and governing bodies, which could prevent the project from being implemented. In addition, there are numerous legal uncertainties as a result of, inter alia, new European and national statutory frameworks, such as the Single Resolution Mechanism (SRM) and the aforementioned BaSAG. Moreover, the General Meetings of local Volksbanks will need to adopt far-reaching resolutions (the approval rate as a percentage is currently 97.8 %). However, VBAG's Managing Board currently believes that implementing the measures in the capital plan, particularly the restructuring of the association, is challenging but feasible. Intensive efforts are also being made to ensure that the necessary approval is obtained from the relevant authorities. In view of the material restructuring and significant changes in the risk profile of the new association, VBAG's Managing Board expects the mandated SREP ratio to be revised and believes that the restructured association will be able to comply with the new ratio. The request to operate VBAG as a wind-down company was submitted on 27 March 2015.

Wind-down portfolio

In addition to the risks associated with the transformation project, the remaining business that is being wound down also involves risks. Experience in Austria and abroad has shown that such wind-down processes often involve higher costs than initially anticipated. VBAG is also exposed to this uncertainty in its wind-down segment. In particular, the Managing Board highlights the risks arising from the significantly deteriorating situation in Eastern Europe, particularly in Russia. The Association of Volksbanks has indirect investments in this region with the funding of Sberbank Europe AG and its stake in Raiffeisen Bank International AG (through its holding in Raiffeisen Zentral Bank Österreich AG). In addition, the Association of Volksbanks has a substantial real estate portfolio in Austria, as well as in Central and Eastern Europe. In the event of a sale of parts of this portfolio, credit risks and valuation discounts could be substantial too.

Impact on accounting policies

The extraordinary general meeting of VBAG resolved on 23 December 2014 to change the business model with a view to creating a company in wind-down in accordance with section 162 of the Federal Act on the Recovery and Resolution of Banks (BaSAG), and thus approved the strategy adopted by the Managing Board of VBAG. To create this company in wind-down, VBAG's functions as the central organisation and top institution will be separated and transferred to VB Wien-Baden. In accounting for the associated assets and liabilities, we shall continue to assume that the business is a going concern.

The assets remaining after the split are expected to be largely wound down by the end of 2017. Provisions have had to be made for the costs associated with restructuring. Future losses from the early winding down of the loan portfolio that arise due to the fact that proceeds from disposals are lower than amortised cost minus impairment may not be taken into account in accordance with IAS 37 and 39.

2) Presentation and changes in the scope of consolidation

On 17 October 2014 further 75 % of shares of Duna Tower Ingatlanhasznositó és Kereskedelmi Kft. (Duna Tower) were acquired. The seller can make use of the option of repurchase of the shares until 31 March 2015, which the association considers to be not substantial, as the economic requirement for the right to exercise the option would indicate an increase of the value of the property of 40 % within a time frame of six months. Thereby the association holds 100 % of shares of Duna Tower; the initial consolidation took place in October 2014. In view of negative equity of euro 4,873 thousand, the purchase price for the 75 % shares was euro 1.00. The initial consolidation includes an investment property worth euro 38,000 thousand that is refinanced by the association. The association's provision of euro 11,570 thousand was released and offset against the difference from initial consolidation. The balance of euro 6,696 thousand is shown in the other operating result.

In the Real Estate segment, one company was established and two companies were newly included in the scope of consolidation, as they are no longer immaterial for the presentation of the consolidated financial statements for the association. Furthermore, eight companies were added by mergers of non consolidable companies in companies which are included in the consolidated financial statements for the association. Results from previous years in the amount of euro 11,229 thousand were recognised directly in equity, whereby euro -3,431 thousand of this amount was recorded under retained earnings and euro 14,660 thousand in the available for sale reserve. Through the inclusion of these companies in the scope of consolidation, essentially investment property assets in the amount of euro 8,300 thousand as well as holdings in the amount of euro 21,390 thousand increased, which were refinanced by the association with an amount of euro 5,157 thousand and by third parties with an amount of euro 11,997 thousand.

Investment structures were further adjusted in the 2014 business year and a total of nine fully consolidated companies were merged with companies included in the consolidated financial statements for the association. These reorganisation measures had no impact on the consolidated financial statements for the association.

The Volksbank sector saw a number of restructurings in the 2014 business year. All changes resulting from these restructurings are summarised in the statement of changes in equity under changes in the scope of consolidation.

Volksbank Gailtal eG was merged into Volksbank Osttirol-Westkärnten eG in April 2014. The merger was registered on 26 April 2014.

Volksbank Vöcklamarkt-Mondsee reg. GenmbH was merged into Volksbank Friedburg reg. GenmbH in May 2014 and the company renamed Volksbank Strasswalchen-Vöcklamarkt-Mondsee e.G. The merger and name change were registered on 17 May 2014.

In June 2014, Volksbank Altheim-Braunau reg. GenmbH was merged into Volksbank Schärding eG and the company renamed Volksbank Schärding-Altheim-Braunau eG. The merger and name change were registered on 21 June 2014.

The banking business of Volksbank Niederösterreich-Mitte e.G. was transferred to Volksbank Krems-Zwettl Aktiengesellschaft by means of a contribution in kind agreement dated 5 June 2014. The company's name was changed to Volksbank Niederösterreich St. Pölten-Krems-Zwettl Aktiengesellschaft in July 2014. Volksbank Niederösterreich-Mitte e.G. was renamed VB Niederösterreich-Mitte Beteiligung e.G. and retained only a holding function following transfer of the banking business. It left the association consolidation group in the 2014 business year.

The banking businesses of VOLKSBANK für den Bezirk Weiz reg. GenmbH, Volksbank für die Süd- und Weststeiermark eG and VOLKSBANK GRAZ-BRUCK e.Gen. were transferred to the newly founded Volksbank Steiermark Mitte AG by means of a contribution in kind agreement dated 2 September 2014. VOLKSBANK für den Bezirk Weiz reg. GenmbH, which was renamed VB-Beteiligungsgenossenschaft für den Bezirk Weiz eG; Volksbank für die Süd- und Weststeiermark eG, which was renamed VB-Beteiligungsgenossenschaft für die Süd- und Weststeiermark eG; and VOLKSBANK GRAZ-BRUCK e.Gen., which was renamed VB-Beteiligungsgesellschaft Graz-Bruck e.Gen., retained only a holding function following transfer of the banking business. They left the association consolidation group in the 2014 business year.

The banking business of Gärtnerbank reg. GenmbH was transferred to Volksbank Wien-Baden AG by means of a contribution in kind agreement dated 22 September 2014. Gärtnerbank reg.GenmbH was renamed Verwaltungsgenossenschaft Gärtnerbank e.Gen. and retained only a holding function following transfer of the banking business. It left the association consolidation group in the 2014 business year.

Volksbank Laa eGen was merged into Volksbank Weinviertel e.Gen. in October 2014. The merger was registered on 11 October 2014.

Five joint ventures (2013: two) and two associated companies (2013: one) are now measured at equity in the consolidated financial statements for the association for 2014. An available-for-sale reserve of euro 27,283 thousand was reclassified to retained earnings in connection with the initial consolidation of these companies.

In addition, seven companies from the Real Estate segment were sold and two were liquidated during the year.

Calculation of deconsolidation result of Real Estate segment

Euro thousand	
Assets proportional	152,484
Liabilities proportional	98,104
Currency translation reserve proportional	25
Disposal of net assets proportional	**-54,355**
Revenues proportional	56,313
Deconsolidation result	**1,958**

Five companies in the VB Leasing International (VBLI) sub-group were sold in the second half of 2014. The sale of the national companies in Poland and Romania was concluded on 9 September 2014, while the two companies in the Czech Republic were sold on 31 October 2014. In addition to the deconsolidation result stated below, the other operating result includes a result of euro -17,083 thousand from valuations undertaken in accordance with IFRS 5 Assets held for sale.

Calculation of deconsolidation result of the VBLI sub-group

Euro thousand	
Assets proportional	660,299
Liabilities proportional	581,241
Revaluation IAS 19 proportional	-8
Hedging reserve proportional	-91
Currency translation reserve proportional	-6,925
Disposal of net assets proportional	**-86,081**
Revenues proportional	79,528
Deconsolidation result	**-6,553**

The sale of Volksbank Malta Ltd. was concluded on 25 September 2014. A result of euro -20,311 thousand from valuation in accordance with IFRS 5 Assets held for sale, together with the deconsolidation result, is shown in the other operating result.

Calculation of deconsolidation result of VB Malta

Euro thousand	
Assets proportional	80,823
Liabilities proportional	46,841
Disposal of net assets proportional	**-33,982**
Revenues proportional	35,300
Deconsolidation result	**1,318**

Discontinued operations

On 10 December 2014, shareholders in VB Romania S.A. (VBRO) signed a contract to sell 100% of shares in VB RO to Banca Transilvania S.A. The association owns a 51% stake through VBI Beteiligungs GmbH. The contract of sale also regulates refinancing amounting to euro 317 million (Group share). The deal is subject to approval from the competition authorities and the Romanian National Bank, and these were granted on 17 March 2015. The capital increase of euro 227 million (Group share) to be carried out by existing shareholders before the deal is closed was capitalised within its carrying amount in the 2014 business year. The holding, which is measured at equity, is shown as a discontinued operation as at 31 December 2014; the previous year's figures have been adjusted accordingly. An amount of euro -275,189 thousand (2013: euro -126,601 thousand) has therefore been reclassified from the result from companies measured at equity to income from discontinued operations. The result is entirely attributable to the parent company's shareholders. The receivables that were also sold are reported as assets held for sale.

In the result of discontinued operations a purchase price adjustment which was agreed in the contract for the sale Selini Holding GmbH is recorded in the financial year 2013. Detailed information and breakdowns can be found in the consolidated financial statements for the association as at 31 December 2013.

Number of consolidated companies

	31 Dec 2014			31 Dec 2013		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Fully consolidated companies						
Credit institutions	52	2	54	60	4	64
Financial institutions	20	14	34	23	23	46
Other enterprises	37	39	76	42	40	82
Total	**109**	**55**	**164**	**125**	**67**	**192**
Companies measured at equity						
Credit institutions	1	1	2	0	1	1
Other enterprises	3	2	5	2	0	2
Total	**4**	**3**	**7**	**2**	**1**	**3**

Number of unconsolidated companies

	31 Dec 2014			31 Dec 2013		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Affiliates	67	25	92	81	41	122
Associated companies	24	11	35	33	15	48
Companies total	**91**	**36**	**127**	**114**	**56**	**170**

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 2014.

The complete list of companies included in the consolidated financial statements for the association, companies measured at equity, as well as the unconsolidated companies including detailed information, can be found 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

In May 2011 with IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities as well as subsequent amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures the IASB published its improvements to accounting and disclosure requirements on the topics of consolidation, off-balance sheet activities and joint arrangements.

IFRS 10 replaces the rules for consolidated financial statements in IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. Based on the currently applicable principles IFRS 10 sets out, using a comprehensive controlling concept, which companies are to be included in the consolidated financial statements for the association. The pronouncement additionally offers guidelines on the interpretation of the principle of control in doubtful cases. Accordingly, an investor controls another entity when it has rights to variable returns from its involvement with the investee and has the ability to influence the business activities of the investee which are significant for economic success. Substantial changes to the current rules can occur in situations in which an investor holds less than half of the voting rights in an entity, but due to other methods has the possibility to determine the significant business activities of the other entity. The application of IFRS 10 did not lead to any changes in the scope of consolidation in these financial statements.

IFRS 11 deals with the accounting of joint arrangements and relates this to the type of rights and obligations within the arrangement rather than to its legal form. IFRS 11 classifies joint arrangements in two groups: joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. In accordance with IFRS 11 a party to a joint operation shall account for the assets and liabilities (and corresponding income and expenditure) appropriate to his interest. A party to a joint venture accounts for his investment using the equity method. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. The application of IFRS 11 for the first time did not result in any changes in the accounting treatment of associated companies.

As a new and comprehensive pronouncement IFRS 12 deals with the disclosure requirements for all types of interests in other entities including joint arrangements, associated, structured entities and off-balance sheet units. It requires the disclosure of information to enable users of financial statements to evaluate the nature of and risks associated with the interest in other entities and the effects of those interests on its financial position, net assets and results. IFRS 12 replaces disclosure requirements from IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures.

As part of the adoption of IFRS 10 the rules for the controlling principle and the requirements for the preparation of consolidated financial statements were removed from IAS 27 and subsequently dealt with by IFRS 10. As a result, in future IAS 27 will only contain the rules for accounting for subsidiaries, joint ventures and associates in IFRS separate financial statements.

In accordance with the amended IAS 28 an entity shall account for investments or parts of investments in associates or in joint ventures as held for sale to the extent the relevant criteria are fulfilled. A remaining part of an associate or joint venture which is not classified as held for sale shall be accounted for under the equity method until the part classified as held for sale is disposed of.

b) New accounting standards

New accounting standards already endorsed by the European Union

As at the day of publishing this consolidated financial statement for the association there were no standards published by the IASB and adopted by the EU, those application has not yet been mandatory for the financial year 2014.

New accounting standards not yet adopted by the European Union

IFRS 9 Financial Instruments was published in November 2009, regulating the classification and measurement of financial assets, and is to replace IAS 39 Financial Instruments: Recognition and Measurement in future. There will only be two categories in future – amortised cost and fair value. A financial asset is measured at amortised cost if it is held in the context of a business model with the objective of holding financial assets and collecting the contractual cash flows resulting from these financial assets. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. If assets are neither to be held nor sold in the short term in accordance with the business model, they are measured at fair value and reported directly in equity under other comprehensive income. All other financial assets that do not satisfy these criteria are to be measured at fair value through profit or loss. For an investment in an equity instrument that is not held for trading, an entity may elect irrevocably at initial recognition to present all fair value changes from the investment directly in equity in other comprehensive income. Sales or impairments are not reclassified to profit or loss. If embedded derivatives are contained in a financial instrument, these are not separated. Instead, the financial instrument is measured in its entirety at fair value through profit or loss.

In addition to measurement of financial instruments, the measurement of financial liabilities in line with IFRS 9 was published in October 2010. The main change to the former guideline in IAS 39 is the representation of changes in fair value, caused by the own credit risk, for financial liabilities in the category at fair value through profit or loss. In future those changes in the fair value should be recognised directly in equity in other comprehensive income, except it would create an accounting mismatch. The rules for measurement at amortised costs and derivatives are unchanged. The standard is not endorsed by the European Union yet and is applicable for business years beginning on or after 1 January 2018. Based on the business activities of the association, this standard will have a considerable impact on the consolidated financial statements for the association.

IFRS 14 - Regulatory Deferral Accounts was issued in January 2014 and sets out financial reporting requirements for regulatory deferral accounts. These arise when a company provides goods or services at prices that are subject to rate regulation. IFRS 14 allows a company that is applying IFRS for the first time to continue reporting regulatory deferral accounts that were recognised in its financial statements in accordance with the accounting principles that it previously applied, with a few limited restrictions. This applies both to the first set of financial statements prepared in accordance with IFRS and to subsequent financial statements. Regulatory deferral accounts and changes must be shown separately in the presentation of financial position and the income statement or other comprehensive income. Specific disclosures are also required. Application of the standard is mandatory for business years beginning on or after 1 January 2016; it will not be applied early and will not have any impact.

IFRS 15 - Revenue from Contracts with Customers was issued in May 2014 and stipulates when and in what amount revenue may be recognised. It also requires more detailed disclosures in the Notes. The standard provides a principle-based, five-step model which must be applied to all contracts with customers. Application of the standard is mandatory for business years beginning on or after 1 January 2017; it will not be applied early. The new standard will not have any significant impact.

Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures made by the IASB: Adjustments have been made to the regulations governing the sale or contribution of assets between an investor and its associate or joint venture. Application of the amendment is mandatory for business years beginning on or after 1 January 2016; the standard will not be applied early. This amendment will not have any significant impact.

Amendments to IFRS 11 - Joint Arrangements: The amendments provide clarification regarding the accounting treatment of shares acquired in a joint operation when these constitute a business. Application of these amendments is mandatory for business years beginning on or after 1 January 2016; the association will not apply this addition early. This amendment will not have any significant impact.

Amendments to IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets: The amendments provide clarification as to the methods which can be used for depreciation of property, plant and equipment and amortisation of intangible assets. Application of the amendment is mandatory for business years beginning on or after 1 January 2016; the standard will not be applied early. This amendment will not have any significant impact.

Amendments to IAS 19 - Employee Benefits: The amendments provide clarification on how the allocation of employee contributions or contributions from third parties linked to the term of service relate to periods of service. In addition, the amendments offer a solution that simplifies accounting practices if the amount of the contributions does not depend on the number of years of service. Application of the amendment is mandatory for business years beginning on or after 1 July 2014; the standard will not be applied early. This amendment 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.
- In reporting the asset guarantee and the associated repayment obligation, we have made assumptions about payment and repayment dates and the interest rates used for discounting.
- 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.
- The repayment amount for loss-bearing equity instruments must be regularly adjusted in the following period according to IAS 39 AG 8. Estimated future cash flows are discounted using the original effective interest rate to determine the carrying amount of financial liabilities. The most up-to-date plans are used to calculate future cash flows.

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.

The losses reported in VBAG's individual financial statements for the 2014 business year have breached regulatory requirements. Following a legal analysis, it was decided not to make provisions for potential penalties in the reporting year.

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 2014.

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 with the VBAG consolidated financial statements. When aggregating the included companies' investments in Volksbanks and VBAG, 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. Proportionate consolidation is not applied in the association's consolidated financial statements. 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 (*Besserungsgeld*) issued to some Volksbanks from the common fund, less the discounted repayment obligations. Hire purchase transactions as well as operating expenses and insurance contributions which are passed on to customers are netted and recognised in other operating income, as this procedure presents a fairer view of the economic nature of these transactions.

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 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 monthly 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 basis 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 already 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, which replaces the method used by the association in 2013. With the new CVA tool, the calculation method has been brought in line with current opinion on the most appropriate mathematical procedures. 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 uses cash flow hedges with a view to hedging the interest risk from variable-yield financial instruments and the currency risk from assets and liabilities denominated in foreign currencies.

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 have a basically maturity of 10 to 20 years, movable goods leasing for the retail section have a basically maturity of 3 to 6 years. The interest rate of the customer for the lease agreement is fixed for the whole maturity at the 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 and 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 other comprehensive income until these financial investments are sold or impaired and the remeasurement result is transferred from other comprehensive income 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 2013 and 2014, 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 of domestic and foreign land and buildings 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. The calculations are earnings calculations based on net present value, the overwhelming majority of which are prepared using the discounted cash flow method 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. Residual value methods are used for properties under construction. 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 almost exclusively by external appraisers. The criteria for selecting appraisers include proven professional qualifications and experience of the locations and categories of the property being valued. Colliers International, Cushman & Wakefield and DTZ were commissioned to act as independent appraisers for foreign investment properties. In Austria, appraisals are carried out by Heimo Kranewitter and PKF Hotelexperts GmbH. 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 lessees; these vary owing to the diversity of the portfolio and its geographical distribution. 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 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. These ranged in 2014 between 5.6 % and 8.1 % (2013: 7.5 % and 9.9 %). Market risk premiums used in these calculations is like in 2013 5.75 %, beta values between 0.66 and 1.1 (2013: 0.97 and 1.25), 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. 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 of VBAG 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 cost. Subsequent measurement is performed at amortised cost in accordance with the effective interest method, unless these liabilities were designated as liabilities at fair value through profit or loss.

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. In VBAG Group, 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.

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

	2014	2013	2012	2011	2010
Expected return on provisions for pensions	1.60 %	3.00 %	3.00 %	4.50 %	4.25 %
Expected return on provisions for severance payments	2.00 %	3.00 %	3.00 %	4.50 %	4.25 %
Expected return on anniversary pensions	1.80 %	3.00 %	3.00 %	4.50 %	4.25 %
Expected return on plan assets	1.60 %	3.00 %	3.00 %	4.25 %	4.25 %
Future salary increase	3.00 % - 3.50 %	3.50 %	3.50 %	3.50 %	3.50 %
Future pension increase	2.00 %	2.00 %	2.00 %	2.00 %	2.00 %
Fluctuation rate	none	none	none	none	none

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

The current retirement age limits are generally taken into account in these calculations. It is assumed that, 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. Other provisions are not discounted.

Risk provisions comprise loan loss provisions for contingent liabilities (in particular financial guarantees). Other provisions contain provisions for legal disputes, restructuring and risks arising from real estate projects. 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 expenses and income 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. The repayment amount of loss-bearing instruments must be regularly adjusted in the subsequent period according to IAS 39 AG 8. To determine the carrying amount of financial liabilities, estimated future cash flows are discounted using the original effective interest rate. Current planning is used to calculate future cash flows for supplementary capital bonds. In the case of instruments which constitute equity according to local legislation and are therefore affected by the capital reduction, the rate following the capital reduction is applied. If future cash flows cannot be reliably determined, the valuation is based on contractual cash flows over the entire term in accordance with IAS 39.9. The difference between the amount originally recorded as a liability and the present value determined in this way is shown under other operating result. The effective interest rate is recorded under interest expense.

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 in accordance with the Austrian Banking Act (BWG) 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 within the meaning of IAS 27. 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 interest.

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. However, as this capital is included as tier I capital in eligible own funds, and capital management takes place on the basis of supervisory capital, it is reported as a separate item alongside equity.

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 deducted from capital reserves, taking into account deferred taxes, to the extent that they contribute incremental costs that are directly attributable to the equity transaction. Furthermore, the difference between the face value and repurchase value of own shares is shown here.

All legal and statutory reserves as well as voluntary reserves, provisions against a specific liability as defined by section 23 (6) 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 capital (T2)

The first two components comprise the Tier I capital.

CET1 comprises the equity and participation capital that meets the CRR requirements. These are as follows: 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. State participation capital is eligible as CET1 until 31 December 2017. CET1 also includes capital reserves, retained earnings, other reserves and non-controlling interests used to meet the regulatory capital requirement. Intangible assets and goodwill, deferred tax assets and interests in other credit institutions constitute significant deductions.

Hybrid capital is allocated either as AT1 or T2 in accordance with the transitional provisions. T2 also includes non-current subordinated liabilities.

The minimum equity ratio (total of Tier I and Tier II) is 8 %, comprised as follows in 2014: CET1 min. 4 %, Tier I min. 5.5 %. The association complied with these relevant supervisory requirements throughout the entire reporting period and its own funds exceeded the minimum requirements.

Minimum core capital requirements of 4.5 % for CET1 and 6 % for Tier I will apply from 2015. 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.

The JRAD process – a periodic process used by the supervisory authorities to assess banks' capital adequacy – may give rise to higher regulatory ratios. The minimum own funds requirement currently applicable to the Association of Volksbanks is 13.6 %. In its most recent JRAD process, the ECB announced a CET1 ratio for the association of 14.63 %, but at the same time raised the prospect of a reduction after the association had been successfully restructured and split up.

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	2014	2013
Interest and similar income	1,166,146	1,347,389
Interest and similar income from	1,113,482	1,287,214
liquid funds	354	1,147
credit and money market transactions with credit institutions	27,520	33,585
credit and money market transactions with customers	836,891	940,361
debt securities	119,587	146,848
derivatives in the investment book	129,131	165,273
Current income from	34,593	38,182
equities and other variable-yield securities	11,891	15,639
other affiliates	4,808	7,801
investments in other companies	17,894	14,742
Income from operating lease and investment property	18,071	21,993
rental income investment property	13,963	15,793
income from operating lease contracts	4,108	6,200
rental income	18,807	23,750
depreciations	-14,699	-17,550
Interest and similar expenses of	-420,291	-614,263
deposits from credit institutions (including central banks)	-48,200	-101,162
deposits from customers	-200,665	-255,490
debts evidenced by certificates	-121,261	-199,022
subordinated liabilities	-34,057	-42,103
derivatives in the investment book	-16,107	-16,486
Net interest income	**745,855**	**733,126**

Net interest income according to IAS 39 categories:

Euro thousand	2014	2013
Interest and similar income	1,166,146	1,347,389
Interest and similar income from	1,113,482	1,287,214
financial investments at fair value through profit or loss	818	3,028
derivatives in the investment book	129,131	165,273
financial investments not at fair value through profit or loss	983,533	1,118,913
financial investments available for sale	98,585	109,393
financial investments at amortised cost	868,130	983,296
of which financial lease	132,750	162,384
of which unwinding of risk provisions	3,147	2,427
financial investments held to maturity	16,819	26,223
Current income from	34,593	38,182
financial investments at fair value through profit or loss	525	731
financial investments available for sale	34,067	37,451
Operating lease operations and investment property	18,071	21,993
Interest and similar expenses of	-420,291	-614,263
derivatives in the investment book	-16,107	-16,486
financial investments at amortised cost	-404,183	-597,777
Net interest income	**745,855**	**733,126**

5) Risk provisions

Euro thousand	2014	2013
Allocation to risk provisions	-339,980	-375,932
Release of risk provisions	350,561	363,449
Allocation to provisions for risks	-34,473	-9,918
Release of provisions for risks	5,086	11,086
Direct write-offs of loans and advances	-52,259	-88,338
Income from loans and receivables previously written off	5,613	9,245
Risk provisions	**-65,452**	**-90,408**

6) Net fee and commission income

Euro thousand	2014	2013
Fee and commission income from	317,362	325,678
lending operations	44,103	66,391
securities businesses	112,295	105,023
payment transactions	105,145	105,879
from foreign exchange, foreign notes and coins and precious metals transactions	13,160	12,435
other banking services	42,658	35,950
Fee and commission expenses from	-59,523	-71,383
lending operations	-21,786	-30,607
securities businesses	-20,582	-25,444
payment transactions	-10,034	-12,937
from foreign exchange, foreign notes and coins and precious metals transactions	-792	-960
other banking services	-6,328	-1,435
Net fee and commision income	**257,839**	**254,295**

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 (2013: euro 7 thousand).

7) Net trading income

Euro thousand	2014	2013
Equity related transactions	7,643	-1,828
Exchange rate related transactions	3,189	6,021
Interest rate related transactions	14,446	-5,792
from others	1	1,240
Net trading income	**25,280**	**-359**

8) General administrative expenses

Euro thousand	2014	2013
Staff expenses	-486,000	-484,937
Wages and salaries	-358,828	-353,487
Expenses for statutory social security	-91,226	-93,227
Fringe benefits	-6,484	-6,576
Expenses for retirement benefits	-10,637	-11,984
Allocation to provision for severance payments and pensions	-18,825	-19,663
Other administrative expenses	-276,439	-291,597
Depreciation of fixed tangible and intangible assets	-45,981	-46,616
Scheduled depreciation (-)	-44,449	-46,216
Impairment (-)	-1,531	-400
General administrative expenses	**-808,420**	**-823,150**

Staff expenses include payments for defined contribution plans totalling euro 9,746 thousand (2013: euro 9,158 thousand).

Other administrative expenses include expenses for managing contracts for investment properties to the amount of euro 3,484 thousand (2013: euro 3,129 thousand).

For the business year, expenses for the auditor KPMG Austria GmbH Wirtschaftsprüfung und Steuerberatungsgesellschaft amounted to euro 3,275 thousand (2013: euro 2,721 thousand). Thereof euro 2,137 thousand (2013: euro 2,236 thousand) fall upon the audit of the consolidated financial statements including financial statements of fully consolidated companies and joint enterprises, euro 424 thousand (2013: euro 354 thousand) upon advisory services, euro 20 thousand (2013: euro 34 thousand) upon tax advisory services and euro 693 thousand (2013: euro 97 thousand) upon other audit services.

Information on compensation to board members

Euro thousand	2014	2013
Total compensation		
Member of the council of delegates	2,534	2,679
Supervisory board VBAG	1,682	1,512
Managing board VBAG	1,948	2,086
Member of the managing board / Managing directors Volksbanks	17,744	14,650
Expenses for severance payments and pensions		
Member of the council of delegates	183	184
Supervisory board VBAG	181	43
Managing board VBAG	820	1,141
Member of the managing board / Managing directors Volksbanks	2,595	2,206

The key management personnel are:

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

If a member of the key management personnel occupies several board positions, he/she has been recorded only once and at the highest applicable level of the hierarchy listed above.

Number of staff employed, including disposal group

	Number of staff at year end	
	2014	2013
Domestic	5,756	5,975
Aboard	348	810
Total number of staff	6,104	6,785

A reduction of 464 employees results from the disposal of subsidiaries.

9) Other operating result

Euro thousand	2014	2013
Other operating income	198,559	328,161
Proceeds from deconsolidation of subsidiaries	-3,276	-7,627
Other operating expenses	-213,062	-130,978
Other taxes	-38,073	-58,441
Impairment of goodwill	-58	-58
Other operating result	**-55,910**	**131,058**

Adaptation of book value of PS 2008 and supplementary capital bond according to IAS 39 AG 8 results into income of euro 49,078 thousand (2013: euro 83,980 thousand) for the reporting period. Other operating expenses also includes the result of repurchase of Tier II capital to the amount of euro 531 thousand (2013: other operating expenses euro 25,989 thousand) as well as repurchase of issues amounted of euro 25,197 thousand.

In accordance with the agreement of 27 February 2012, the Republic of Austria provided VBAG with an asset guarantee on 15 March 2013 up to a maximum amount of euro 100 million. This asset guarantee is effective until 31 December 2015 at the latest. The non-interest bearing receivable arising from the assumption of bad debts is discounted to the reporting date based on its long-term nature. The earn-out clause included in this asset guarantee constitutes a liability that must also be discounted to the relevant reporting date and recognised. The managing board assumes a repayment obligation, given the fact of the planned withdrawal of the banking licence, the transformation of VBAG into a bad bank according to section 162 BaSAG and the intended liquidation. Amounts arising from the discounting of the receivable and the discounting of the liability from the earn-out clause were offset and recognised under the other operating result and totalled euro -56 million in 2014 (2013: euro 69 million). Interest of this discounting effect is shown in net interest income.

Hire purchase transactions as well as operating expenses and insurance contributions which are passed on to customers are netted to the amount of euro 155,960 thousand (2013: euro 186,262 thousand) and recognised in other operating income, as this procedure presents a fairer view of the economic nature of these transactions.

In 2014, the proceeds from deconsolidation of subsidiaries contain the result of the sale or rather liquidation of nine companies of the real-estate segment, companies of the VBLI sub-group and of Volksbank Malta. In the previous year the amount contains the deconsolidation result of ten companies of the real-estate segment. Other operating expenses also include the amount of euro -37,418 thousand for valuation of groups of assets in accordance with IFRS 5.

Other taxes comprise the banking levy amounting to euro 40,474 thousand (2013: 46,751 thousand).

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

10) Income from financial investments

Euro thousand	2014	2013
Result from financial investments at fair value through profit or loss	**-1,849**	**-12,724**
Result from financial investments at fair value through profit or loss	-1,849	-12,724
Debt securities	34	3,261
Equity and other variable-yield securities	-1,882	-15,899
Payables to credit institutes and customers	0	-86
Result from fair value hedges	**12,657**	**8,388**
Result from revaluation of underlying instruments	11,675	76,675
Loans and advances to credit intitutions and customers	4,395	-23,528
Debt securities	151,365	-104,640
Amounts owed to credit institutions and customers	-49,435	78,992
Debts evidenced by certificates	-93,834	125,402
Subordinated liabilities	-816	449
Result from revaluation of derivatives	982	-68,286
Result from valuation of other derivatives in the investment book	**-16,997**	**-67,942**
Exchange rate related transactions	-5,686	5,925
Interest rate related transactions	-6,162	-47,170
Credit related transactions	-534	-5,757
Other transactions	-4,615	-20,940
Result from available for sale financial investments (including participations)	**-6,126**	**13,290**
Realised gains / losses	18,039	36,508
Income from revaluation	236	892
Impairments	-24,401	-24,110
Result from loans & receivables financial investments	**-534**	**-11,140**
Realised gains / losses	-72	-10,758
Income from revaluation	0	13
Impairments	-462	-395
Result from held to maturity financial investments	**12,407**	**2,559**
Realised gains / losses	12,407	2,559
Result from assets for operating lease and investment property assets as well as other financial investments	**-29,664**	**-22,792**
Realised gains / losses	-4,939	10,893
Change in value investment property	-24,725	-33,684
Income from financial investments	**-30,106**	**-90,360**

In 2014, an amount of euro 16,428 thousand (2013: euro 20,724 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	2014	2013
Result from financial investments, which are measured at fair value through profit and loss	**-30,914**	**-105,962**
Financial instruments at fair value through profit or loss	-1,849	-12,724
Fair value hedges	12,657	8,388
Other derivatives in the investment book	-16,997	-67,942
Investment property assets	-24,725	-33,684
Result from financial investments, which are not measured at fair value through profit and loss	**808**	**15,601**
Realised gains / losses	25,435	39,202
Available for sale financial investments	18,039	36,508
Loans & receivables financial investments	-72	-10,758
Held to maturity financial investments	12,407	2,559
Operating lease assets and other financial investments	-4,939	10,893
Income from revaluation	236	905
Available for sale financial investments	236	892
Loans & receivables financial investments	0	13
Impairments	-24,863	-24,505
Available for sale financial investments	-24,401	-24,110
Loans & receivables financial investments	-462	-395
Income from financial investments	**-30,106**	**-90,360**

11) Income taxes

Euro thousand	2014	2013
Current income taxes	-33,155	-27,543
Deferred income taxes	-28,863	31,282
Income taxes for the current fiscal year	**-62,018**	**3,738**
Income taxes from previous periods continued operation	2,209	-1,618
Income taxes from previous periods	2,209	-1,618
Income taxes	**-59,809**	**2,120**

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

Euro thousand	2014	2013
Annual result before taxes - continued operation	34,799	-11,861
Annual result before taxes - discontinued operation	-275,189	15,308
Annual result before taxes - total	**-240,390**	**3,447**
imputed income tax 25 %	-60,097	862
Tax relief resulting from		
tax-exempt investment income	-34,557	-6,994
investment allowances	923	205
other tax-exempt earnings	-6,239	63,529
cancellation of measurement of participation	-82,683	-83,691
measurement of participation	29,714	11,105
non-taxable valuation results	1,724	-50,863
adjustment of deferred tax assets	-987	38,993
non-inclusion of deferred tax assets	282,934	11,267
re-inclusion of deferred tax assets	-67,340	-4,175
changes in tax rates	-4	326
different foreign tax rates	-3,377	-4,845
other differences	2,008	20,541
Reported income taxes	**62,018**	**-3,738**
Effective tax rate - continued operations	**178.22 %**	**31.52 %**
Effective tax rate - including discontinued operations	-25.80 %	-108.44 %

Due to high allowances of deferred taxes and the re-inclusion of deferred tax assets particularly for taxable loss carryforwards the effective tax rates differ strongly from the legal tax rate in Austria.

The changes in tax rates were largely due to changes in Slovakia.

Euro thousand	2014 Result before tax	2014 Income taxes	2014 Result after tax	2013 Result before tax	2013 Income taxes	2013 Result after tax
Revaluation obligation of defined benefit plans (IAS 19)	-28,079	7,061	-21,019	-1,385	345	-1,040
Currency reserve	11,274	0	11,274	-11,770	0	-11,770
Available for sale reserve	-11,208	-1,408	-12,617	61,671	-6,631	55,040
Hedging reserve	-177	44	-133	-1,045	277	-768
Change in deferred taxes of untaxed reserve	0	998	998	0	1,336	1,336
Change from companies measured at equity	-20,740	464	-20,277	4,071	-671	3,401
Other comprehensive income total	**-48,931**	**7,158**	**-41,773**	**51,542**	**-5,343**	**46,199**

Notes to the consolidated statement of financial positions

12) Liquid funds

Euro thousand	31 Dec 2014	31 Dec 2013
Cash in hand	238,297	248,937
Balances with central banks	1,357,976	1,769,362
Liquid funds	**1,596,274**	**2,018,299**

13) Loans and advances to credit institutions

Loans and advances to credit institutions amounting to euro 1,365,464 thousand (2013: euro 1,871,657 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2014	31 Dec 2013
on demand	582,596	91,993
up to 3 months	485,535	541,771
up to 1 year	2,283	144,240
up to 5 years	460	1,070,505
more than 5 years	294,589	23,148
Loans and advances to credit institutions	**1,365,464**	**1,871,657**

14) Loans and advances to customers

Loans and advances to customers amounting to euro 26,540,816 thousand (2013: euro 29,468,699 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2014	31 Dec 2013
on demand	1,822,498	1,397,929
up to 3 months	1,248,802	1,201,532
up to 1 year	2,609,947	3,780,382
up to 5 years	8,275,305	9,983,819
more than 5 years	12,584,264	13,105,036
Loans and advances to customers	**26,540,816**	**29,468,699**

Finance lease disclosures

Euro thousand	until 1 year	until 5 years	more than 5 years	Total
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**
2013				
Total gross investment	1,038,026	1,778,199	265,655	3,081,879
Less paid non-interest-bearing deposits	-7,851	-15,381	-9,860	-33,091
Less unearned financial income	-127,878	-170,940	-30,001	-328,820
Present value of minimum lease payments	**902,297**	**1,591,878**	**225,794**	**2,719,969**
Total unguaranteed residual value				**51,080**

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 2013	**703**	**1,527,437**	**266,463**	**1,794,602**
Changes in the scope of consolidation	0	-3,790	0	-3,790
Currency translation	0	-8,063	-172	-8,235
Reclassification	0	-34,186	-342	-34,528
Unwinding	0	-2,427	0	-2,427
Utilisation	0	-279,378	0	-279,378
Release	0	-234,663	-128,786	-363,449
Addition	0	371,913	4,019	375,932
As at 31 Dec 2013	**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**

Loans and advances to customers include non-interest-bearing receivables amounting to euro 807,814 thousand (2013: euro 854,092 thousand). The additions include an amount of euro 5,482 thousand (2013: euro 20,510 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 2014	31 Dec 2013
Debt securities	32,984	40,645
Equity and other variable-yield securities	14,809	26,380
Positive fair value from derivatives	1,468,571	1,471,213
equity related transactions	26,886	39,401
exchange rate related transactions	5,023	4,434
interest related transactions	1,436,662	1,427,379
Trading assets	**1,516,364**	**1,538,239**

Breakdown by residual term

Euro thousand	31 Dec 2014	31 Dec 2013
up to 3 months	13,999	5,223
up to 1 year	0	16,305
up to 5 years	4,053	19,113
more than 5 years	14,932	5
Debt securities	**32,984**	**40,645**

17) Financial investments

Euro thousand	31 Dec 2014	31 Dec 2013
Financial investments at fair value through profit or loss	20,542	51,976
Debt securities	11,571	42,897
Equity and other variable-yield securities	8,970	9,080
Financial investments available for sale	3,532,092	3,345,303
Debt securities	3,148,341	2,988,111
Equity and other variable-yield securities	383,751	357,191
Financial investments loans & receivables	187,182	255,945
Financial investments held to maturity	366,574	831,425
Financial investments	**4,106,389**	**4,484,649**

Financial investments held to maturity also include deferred interest of euro 4,417 thousand (2013: euro 11,459 thousand).

Breakdown by residual term

Euro thousand	31 Dec 2014	31 Dec 2013
up to 3 months	139,163	279,967
up to 1 year	313,212	531,750
up to 5 years	1,432,081	1,519,977
more than 5 years	1,829,211	1,786,683
Debt securities	**3,713,667**	**4,118,378**

Breakdown of debt securities in accordance with the Austrian Banking Act

Euro thousand	31 Dec 2014
Listed securities	3,685,565
Debt securities	3,612,082
Equity and other variable-yield securities	73,483
Securities allocated to fixed assets	3,557,711
Securities eligible for rediscounting	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 from 1 July 2008. The fair value at the reclassification date was applied as the new carrying amount of these securities.

Euro thousand	31 Dec 2014	31 Dec 2013	01 Jul 2008
Carrying amount	27,120	106,754	1,140,363
Fair value	28,002	108,218	1,140,363
Available for sale reserve with reclassification	-76	-4,724	-79,177
Available for sale reserve without reclassification	-861	-6,009	-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 %
Average effective interest rate 2013	2.54 %	1.69 %	4.17 %	0.00 %	2.07 %

18) Investment property

Euro thousand	Investment properties
Cost as at 1 Jan 2013	425,383
Currency translation	-1,441
Additions, including transfers	93,847
Disposals, including transfers	-100,046
Cost as at 31 Dec 2013	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**

Euro thousand	Investment properties
2013	
Cost as at 31 Dec 2013	417,743
Cumulative write-downs and write-ups	-112,237
Carrying amount as at 31 Dec 2013	**305,506**
Impairments of fiscal year	-39,342
Revaluations of fiscal year	5,657
Carrying amount as at 01 Jan 2013	336,704
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**
Impairment of fiscal year	-33,380
Revaluations of fiscal year	8,656

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 -25,559 thousand (2013: euro -35,801 thousand) at the reporting date.

In 2014, carrying amount of investment property assets to the amount of euro 16,841 thousand (2013: euro 55,492 thousand) was disposed of.

Investment properties contain 118 completed properties (2013: 123) with a carrying amount of euro 225,356 thousand (2013: euro 249,878 thousand), one property under construction with a carrying amount of euro 5,250 thousand (2013: two properties under construction with a carrying amount of euro 17,361 thousand) as well as undeveloped land with a carrying amount of euro 26,877 thousand (2013: euro 38,267 thousand). These properties are located in Austria as well as in countries of Central and Eastern Europe. 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 non-observable input factors are provided by independent external experts and reflect the current market assessment taking into account the specific features of each property. The main input parameters are shown below, with a distinction made between finished properties, properties under construction and undeveloped real estate. The minimum and maximum values are reported for each individual input parameter along with the average value weighted by the book value (average). The parameter values therefore do not generally relate to one and the same property.

Completed properties

	2014			2013		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	1,452	38,000	11,053	133	43,894	10,247
Rentable space in sqm	3,640	32,411	13,066	101	15,817	8,488
Occupancy rate	0.00 %	100.00 %	74.64 %	26.71 %	100.00 %	78.00 %
ERV p.a.* in euro thousand	144	5,052	2,020	11	2,942	1,551
Discount rate	7.40 %	12.00 %	9.20 %	7.20 %	13.49 %	9.19 %

* Estimated rental value

Sensitivity analyses

Euro thousand	Changes in the carrying amount if assumption is increased	if assumption is decreased
31 Dec 2014		
ERV (10 % change)	16,580	-16,580
ERV (5 % change)	8,290	-8,290
Discount rate (0.25 % change)	-4,387	4,632
Discount rate (0.50 % change)	-8,548	9,531
31 Dec 2013		
ERV (10 % change)	19,469	-19,469
ERV (5 % change)	9,734	-9,734
Discount rate (0.25 % change)	-5,157	5,446
Discount rate (0.50 % change)	-10,049	11,205

Properties under construction and undeveloped land

	2014			2013		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	40	9,020	2,998	1,700	10,600	6,414
Plot size in sqm	5,000	706,500	110,444	7,293	280,001	98,122
Value per sqm in euro	1	694	164	24	1,028	366

Sensitivity analyses

Euro thousand	Changes in the carrying amount if assumption is increased	if assumption is decreased
31 Dec 2014		
Land value (10 % change)	4,796	-4,796
Land value (5 % change)	2,398	-2,398
31 Dec 2013		
Land value (10 % change)	5,772	-5,772
Land value (5 % change)	2,886	-2,886

The sensitivity analyses include investment properties that were reclassified as assets held for sale in the business year.

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 2013	0	10,293
Additions	123,200	0
Disposals	0	-4,697
Comprehensive income proportional	-49,585	539
Received dividend	0	-510
Recognition of prior year losses	-73,615	0
Carrying amount as at 31 Dec 2013	0	5,626
Changes in the scope of consolidation	19,854	19,938
Additions	328,660	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**

Joint ventures

The association holds shares in the following joint ventures: VBI Beteiligungs GmbH (VBI Bet), which holds 100 % of the shares in Volksbank Romania S.A. (VB RO) in Bucharest. The association also holds shares in Marangi Immobiliare s.r.l (Marangi), Viktoria-Volksbanken Vorsorgekasse Aktiengesellschaft (VVBVK) and Viktoria-Volksbanken Pensionskassen Aktiengesellschaft (VVBPK).

None of these companies are listed.

The association holds 51 % (2013: 51 %) of the shares in VBI Bet. Based on the syndicate agreement concluded between the shareholders, control may only be exercised together with the other shareholders. In particular, the syndicate agreement governs the appointment of management bodies, the restructuring and the planned sales process for VB RO. The business purpose of VB RO is to operate the banking business in Romania with a focus on the retail segment. VBAG primarily issued mortgage loans in the past. The shareholders of VBI Bet are funding the majority of the refinancing of VB RO on a pro-rata basis. The sale agreement was signed on 10 December 2014. The closing for this sale took place on 7 April 2015 and the investment has therefore been reclassified under assets held for sale (disposal group).

The association holds 50 % of the shares in Marangi with registered office in Aiello del Friuli, Italy. Marangi owns an outlet centre near Udine.

The association holds 50 % of the shares and voting rights in VVBVK. The company collects and invests severance payment contributions from salaried employees and self-employed persons (severance and retirement fund business within the meaning of section 1 (1) no. 21 of the Austrian Banking Act). The association also holds 47.5 % of the shares in VVBPK. Syndicate agreements mean that both companies may only be controlled together with the other partner. The two companies were founded in order to draw upon the customer potential and the sales channels of the syndicate partners and Association of Volksbanks and to broaden the partners' product offering.

Marangi, VVBVK and VVBPK are reported at equity in the association’s consolidated financial statements for the first time in the 2014 business year.

In the following, the financial information of VBI Bet together with VB RO is reported separately and that of the other three immaterial companies in aggregated form. The previous year's figures for the companies not previously included are not shown in the 2013 comparative figures in the following table:

Additional information regarding joint ventures

Euro thousand	VBI Bet + VBRO 2014	2013	Other companies 2014	2013
Assets				
Liquid funds	533,833	569,294	1	0
Loans and advances to credit institutions (gross)	116,464	188,616	3,486	0
Loans and advances to customers (gross)	1,930,989	2,547,103	1,423	0
Risk provisions	-218,399	-665,516	0	0
Financial investments	333,878	377,049	27,980	0
Other assets	63,902	75,564	81,797	0
Total assets	2,760,667	3,092,109	114,687	0
Liabilities and Equity				
Amounts owed to credit institutions	907,803	1,586,870	36,769	0
Amounts owed to customers	1,047,549	995,461	8,925	0
Subordinated liabilities	161,088	161,493	0	0
Other liabilities	483,172	63,499	17,793	0
Equity	161,055	284,786	51,200	0
Total liabilities	2,760,667	3,092,109	114,687	0
Statement of comprehensive income				
Interest and similar income	147,576	188,349	7,553	0
Interest and similar expense	-64,549	-84,256	-809	0
Net interest income	83,027	104,093	6,744	0
Risk provisions	-45,836	-122,456	0	0
Result before taxes	-428,660	-104,524	3,179	0
Income taxes	980	630	-303	0
Result after taxes	-427,681	-103,893	2,876	0
Other comprehensive income	-17,051	6,813	0	0
Comprehensive income	-444,732	-97,080	2,876	0

Not recognised proportional loss

Euro thousand	2014	2013	2014	2013
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	-33,940	0	0
Cumulative other comprehensive income	0	-11,015	0	0

Reconciliation

Euro thousand	2014	2013	2014	2013
Equity	161,055	284,786	51,200	0
Shareholding	51.00 %	51.00 %	n.a.	n.a.
Proportional equity	82,138	145,241	25,194	0
Cumulative write-downs and reversals	-21,950	0	0	0
Not recognised proportional loss	0	44,955	0	0
Valuations previous years	-252,196	-252,196	-5,194	0
Reclassification of the carrying amount	226,950	62,000	0	0
Carrying amount as at 31 Dec 2014	34,942	0	20,000	0
thereof 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.

VB RO is included in the assets held for sale item as at 31 December 2014. The display of the unrecognised proportional share of loss was adapted for comparative figures. This had no effect on the comprehensive income.

Associates

The association holds shares in the following associated companies. VBV delta Anlagen Vermietung Gesellschaft m. b.H (VBV delta) and TPK-24 Sp.z.o.o. (TPK-24).

VBV delta with head office in Vienna, in which the association has a 40 % share (2013: 40 %), and TPK-24 with head office in Warsaw, in which VBAG has a 30 % share (2013: 30 %), are active in the property development business.

TPK-24 is reported at equity in the association's consolidated financial statements for the first time in the 2014 business year.

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. The companies not reported at equity in the previous year are also excluded from the comparative data.

Additional information regarding associates

Euro thousand	2014	2013
Assets		
Loans and advances to credit institutions (gross)	2,720	1,724
Financial investments	65,795	0
Other assets	22,137	22,063
Total assets	90,652	23,787
Liabilities and Equity		
Amounts owed to credit institutions	6,058	6,448
Other liabilites	7,114	3,276
Equity	77,481	14,064
Total liabilities and equity	90,652	23,787
Statement of comprehensive income		
Interest and similar income	4,406	2,674
Interest and similar expense	-192	-193
Net interest income	4,214	2,481
Result before taxes	3,815	1,912
Income taxes	-3,718	-425
Result after taxes	98	1,486
Other comprehensive income	-1,885	0
Comprehensive income	-1,787	1,486

Not recognised proportional loss

Euro thousand	2014	2013
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	2014	2013
Equity	77,481	14,064
Shareholding	n.a.	n.a.
Equity proportional	24,363	5,626
Cumulative impairment and reversals	0	0
Not recognised proportional loss	0	0
Valuation previous years	0	0
Reclassification of the carrying amount	0	0
Carrying amount as at 31 Dec 2014	24,363	5,626

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.

20)Participations

Euro thousand	31 Dec 2014	31 Dec 2013
Investments in unconsolidated affiliates	56,304	62,420
Participating interests	30,052	52,401
Investments in other companies	182,175	261,972
Participations	**268,531**	**376,792**

A list of non-consolidated affiliates can be found in note **Fehler! Verweisquelle konnte nicht gefunden werden.**55).

Shares and investments in companies whose fair value cannot be reliably determined are carried at cost net of any impairment. Participations with a carrying amount of euro 208,171 thousand (2013: euro 310,322 thousand) were measured at market value.

According to the planned restructuring of the association, business operations outside the new core area (non-core business) will be wound down or sold in accordance with their respective repayment profiles. This also includes Participations.

21) Intangible assets

Euro thousand	Software	Goodwill	Other	Total
Cost as at 1 Jan 2013	68,151	5,668	4,155	77,974
Currency translation	-183	-23	-30	-236
Additions, including transfers	3,938	0	701	4,639
Disposals, including transfers	-3,818	-144	-239	-4,202
Cost as at 31 Dec 2013	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**

Euro thousand	Software	Goodwill	Other	Total
2013				
Cost as at 31 Dec 2013	68,089	5,501	4,587	78,176
Cumulative write-downs and write-ups	-52,573	-4,792	-3,805	-61,170
Carrying amount as at 31 Dec 2013	**15,516**	**709**	**782**	**17,006**
of which unlimited useful life	0	709	0	709
of which limited useful life	15,516	0	782	16,297
Amortisation in fiscal year	-4,795	0	-226	-5,021
Impairments in fiscal year	0	-58	0	-58
Carrying amount as at 01 Jan 2013	16,568	766	869	18,203
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
Impairment in fiscal year	-752	-58	-1	-811

Composition of goodwill

Euro thousand	Carrying amount 31 Dec 2014	Impairment 2014	Carrying amount 31 Dec 2013	Impairment 2013
Real Estate segment	0	0	420	0
Total	**0**	**0**	**420**	**0**

Remaining goodwill in the Real Estate segment in the 2013 business year relates to Heilbad Sauerbrunn and is the result of deferred tax liabilities from property valuation. The company was sold with contract of sale at 1 July 2014.

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 2013	701,451	55,339	287,430	120,369	64,606	1,229,196
Currency translation	-485	-89	-112	-967	-140	-1,794
Additions, including transfers	11,531	5,934	12,511	24,927	8,454	63,357
Disposals, including transfers	-86,573	-5,545	-19,608	-45,019	-7,794	-164,540
Cost as at 31 Dec 2013	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**

Euro thousand	Land and buildings	EDP-equipment	Office furniture and equipment	Other operating lease assets	Other	Total
2013						
Cost as at 31 Dec 2013	625,924	55,639	280,221	99,310	65,126	1,126,220
Cumulative write-downs and write-ups	-237,436	-47,756	-203,864	-39,581	-24,052	-552,688
Carrying amount as at 31 Dec 2013	**388,488**	**7,883**	**76,357**	**59,730**	**41,074**	**573,532**
Depreciation in fiscal year	-18,007	-4,954	-15,138	-17,550	-3,096	-58,745
Impairments in fiscal year	0	0	-1	0	-399	-400
Carrying amount as at 1 Jan 2013	-242,994	-46,969	-206,081	-53,037	-23,686	-572,766
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 of fiscal year	-16,081	-4,947	-14,613	-14,604	-2,302	-52,547
Impairment of fiscal year	-321	-28	-429	-95	0	-873

The future minimum lease payments under non-cancellabel operating leases

Euro thousand	31 Dec 2014	31 Dec 2013
up to 3 months	5,465	6,718
up to 1 year	14,738	17,906
up to 5 years	35,707	46,648
more than 5 years	12,785	21,557
Future minimum lease payments	**68,695**	**92,830**

23) Tax assets and liabilities

	31 Dec 2014		31 Dec 2013	
Euro thousand	**Tax assets**	**Tax liabilities**	**Tax assets**	**Tax liabilities**
Current tax	28,252	18,933	42,889	22,277
Deferred tax	26,383	90,255	64,735	96,933
Tax total	**54,635**	**109,188**	**107,624**	**119,211**

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.

	2014		2013		Net deviation 2014		
Euro thousand	**Tax assets**	**Tax liabilities**	**Tax assets**	**Tax liabilities**	**Total**	**In income statement**	**In other comprehen sive inco-me**
Loans and advances to credit institutions	3,088	107	15,421	140	-12,301	662	0
Loans and advances to customers, including risk provisions	10,130	157,457	36,435	86,824	-96,938	-84,729	0
Trading assets	3,966	2,213	4,675	2,151	-771	3,902	0
Financial investments	3,523	116,047	3,919	50,966	-65,476	-76,676	-20,225
Investment property	13	19,351	396	20,909	1,176	-5,441	0
Participations	91,708	14,440	17,108	36,333	96,493	43,625	18,817
Intangible and tangible fixed assets	28,656	145	34,333	364	-5,458	-5,631	0
Amounts owed to credit institutions	18,348	896	19,892	911	-1,529	20,238	0
Amounts owed to customers	33,737	7	31,199	43	2,574	33,730	0
Debts evidenced by certificates and subordinated liabilities	81,774	27,399	70,433	20,671	4,614	44,779	0
Trading liabilities	2,204	129	2,200	935	810	-125	0
Provisions for pensions, severance payments and other provisions	51,310	77,147	43,240	8,085	-60,992	-59,510	7,061
Other assets and liabilities	238,190	188,626	135,628	201,856	115,792	39,066	44
Other balance sheet items	0	63,492	0	64,466	974	-14,567	998
Tax loss carryforwards	36,936	0	47,576	0	-10,640	31,815	0
Deferred taxes before netting	603,582	667,454	462,455	494,653	-31,674	-28,863	6,694
Offset between deferred tax asset and deferred tax liabilities	-577,199	-577,199	-397,720	-397,720	0	0	0
Reported deferred taxes	**26,383**	**90,255**	**64,735**	**96,933**	**-31,674**	**-28,863**	**6,694**

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 2014, tax loss carryforwards and deferred tax assets to the amount of euro -3,946 thousand (tax base) (2013: euro 1,305 thousand) were impaired. Furthermore, no deferred taxes were recognised for taxable loss carryforwards and for deferred tax assets to the amount of euro 1,131,734 thousand (2013: euro -19,378 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 3,491,784 thousand (2013: euro 2,570,327 thousand). Of these taxable loss carryforwards euro 3,455,851 thousand (2013: euro 2,557,718 thousand) are without limitation, and are mainly attributable to the association itself.

24) Other assets

Euro thousand	31 Dec 2014	31 Dec 2013
Deferred items	24,930	35,575
Other receivables and assets	385,043	323,285
Positive fair value from derivatives in the investment book	453,472	399,721
Other assets	**863,444**	**758,581**

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

	31 Dec 2014		31 Dec 2013	
Euro thousand	Fair value hedge	Cash flow hedge	Fair value hedge	Cash flow hedge
Interest rate related transactions	253,839	0	132,956	56
Positive fair value from derivatives	**253,839**	**0**	**132,956**	**56**

25) Assets held for sale

This item summarises assets that are intended for sale in accordance with IFRS 5 (minus liabilities in the previous year). The displayed amount is composed as follows.

Euro thousand	31 Dec 2014	31 Dec 2013
Loans and advances to credit institutions (gross)	317,369	0
Loans and advances to customers (gross)	96,030	397,706
Risk provisions (-)	-64,597	-42,732
Financial investments	0	36,442
Investment property	5,434	0
Companies measured at equity	33,760	0
Participations	0	31,781
Other assets	33	142,722
Other liabilities	0	-11,261
Assets held for sale	**388,029**	**554,657**

Participations are measured at fair value.

26) Amounts owed to credit institutions

Euro thousand	31 Dec 2014	31 Dec 2013
Central banks	99,521	152,100
Other credit institutions	1,988,645	2,736,390
Amounts owed to credit institutions	**2,088,166**	**2,888,490**

Amounts owed to credit institutions are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2014	31 Dec 2013
on demand	557,801	350,051
up to 3 months	695,915	1,009,684
up to 1 year	76,929	285,600
up to 5 years	587,874	901,356
more than 5 years	169,647	341,799
Amounts owed to credit institutions	**2,088,166**	**2,888,490**

27) Amounts owed to customers

Euro thousand	31 Dec 2014	31 Dec 2013
Measured at amortised cost	24,129,004	24,900,141
Saving deposits	12,630,611	13,002,194
Other deposits	11,498,393	11,897,946
Amounts owed to customers	**24,129,004**	**24,900,141**

Breakdown by residual term

Euro thousand	31 Dec 2014	31 Dec 2013
on demand	11,453,473	10,840,895
up to 3 months	2,267,524	2,860,657
up to 1 year	4,348,497	4,852,922
up to 5 years	4,562,684	4,653,657
more than 5 years	1,496,827	1,692,010
Amounts owed to customers	**24,129,004**	**24,900,141**

28) Debts evidenced by certificates

Euro thousand	31 Dec 2014	31 Dec 2013
Bonds	3,431,055	5,752,780
Medium-term notes	488,874	600,003
Debts evidenced by certificates	**3,919,929**	**6,352,783**

Debts evidenced by certificates are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2014	31 Dec 2013
up to 3 months	227,448	481,957
up to 1 year	284,030	990,079
up to 5 years	2,121,508	2,707,737
more than 5 years	1,286,943	2,173,010
Debts evidenced by certificates	**3,919,929**	**6,352,783**

29) Trading liabilities

Euro thousand	31 Dec 2014	31 Dec 2013
Negative fair value from derivatives		
Equity related transactions	36,516	58,755
Exchange rate related transactions	16,115	15,337
Interest rate related transactions	1,392,601	1,242,443
others	935	853
Trading liabilities	**1,446,167**	**1,317,388**

30) Provisions

Euro thousand	Provisions for risk	Other provisions	Total
As at 1 Jan 2013	32,488	78,036	110,524
Currency translation	-54	-6	-61
Reclassification	-4,619	1,559	-3,060
Utilisation	-1,136	-10,223	-11,359
Release	-11,086	-5,008	-16,093
Addition	9,918	39,189	49,107
As at 31 Dec 2013	25,511	103,547	129,058
Change 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**

Provisions for risk include provisions for off-balance transactions particularly for commitments and guarantees. Mainly these provisions are 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 first recognised in the 2011 business year fulfils the criteria given under IAS 37.10. and totalled euro 62,262 thousand (2013: euro 28,841 thousand) as at the reporting date. As most restructuring measures are to be implemented by the end of 2015 the provision is classified as a short-term provision. Provisions in the Real Estate segment and for participation risks amounting to euro 8,584 thousand (2013: euro 33,976 thousand mainly concerning the Real Estate segment) are long-term provisions. Other long-term provisions were recognised for pending litigation amounting to euro 20,006 thousand (2013: euro 28,008 thousand).

31) Long-term employee provisions

Euro thousand	Provisions for pensions	Provisions for severance payments	Provisions for anniversary bonuses	Total
Net present value as at 1 Jan 2013	153,163	157,202	25,159	335,524
Changes in the scope of consolidation	0	502	52	554
Current service costs	1,784	5,922	2,007	9,713
Interest costs	3,949	4,837	768	9,554
Payments	-7,243	-10,526	-1,389	-19,158
Actuarial gains or losses	-632	2,003	-4,150	-2,779
Net present value as at 31 Dec 2013	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 at 31 Dec 2014	**171,609**	**168,476**	**24,007**	**364,091**

Net present value of plan assets

Euro thousand	Provisions for pensions
Net present value of plan assets as at 1 Jan 2013	38,413
Return on plan assets	1,243
Contributions to plan assets	4,696
Payments	-2,375
Actuarial gains or losses	3
Net present value of plan assets as at 31 Dec 2013	41,980
Return on plan assets	4,889
Contributions to plan assets	473
Payments	-2,402
Net present value of plan assets as at 31 Dec 2014	**44,940**

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

Contribution payments to plan assets are expected in the amount of euro 572 thousand in 2015.

Euro thousand	Provisions for pensions	Provisions for severance payments	Provisions for anniversary bonuses	Total
31 Dec 2013				
Long-term employee prvisions	151,021	159,940	22,448	333,409
Net present value of plan assets	-41,980	0	0	-41,980
Net liability recognised in balance sheet	**109,042**	**159,940**	**22,448**	**291,430**
31 Dec 2014				
Long-term employee prvisions	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**

Historical Information

Euro thousand	2014	2013	2012	2011	2010
Net present value of obligation	364,091	333,409	335,524	313,628	302,969
Net present value of plan assets	44,940	41,980	38,413	35,769	40,611

Composition of plan assets

Euro thousand	31 Dec 2014 Plan assets - quoted	Plan assets - non-quoted	Plan assets - total	31 Dec 2013 Plan assets - total
Bond issues regional administration bodies	16,080	469	16,550	15,063
Bond issues credit institutions	2,684	207	2,891	533
Other bond issues	5,949	849	6,798	7,455
Shares European countries	6,138	0	6,138	6,526
Shares USA and Japan	3,820	0	3,820	5,517
Other shares	3,999	22	4,021	1,861
Derivatives	623	1,213	1,836	1,940
Real estate	0	1,341	1,341	1,648
Fixed deposit	0	14	14	0
Cash in hand	0	1,531	1,531	1,437
Total	**39,294**	**5,646**	**44,940**	**41,980**

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.

Euro thousand	Change in the present value increase of assumption	decrease of assumption
31 Dec 2013		
Discount rate (0.75 % modification)	-27,703	32,404
Future wage and alary increases (0.50 % modification)	13,342	-11,789
Future pension increase (0.25 % modification)	3,989	-3,794
Future mortality (1 year modification)	6,042	-6,024
31 Dec 2014		
Discount rate (0.75 % modification)	-31,745	37,052
Future wage and alary 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

As of 31 December 2014, the weighted average term of defined-benefit obligations for pensions was 13.9 years.

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

32) Other liabilities

Euro thousand	31 Dec 2014	31 Dec 2013
Deferred items	15,660	17,659
Other liabilities	753,668	424,842
Negative fair value from derivatives in the investment book	329,070	304,914
Other liabilities	**1,098,398**	**747,415**

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

	31 Dec 2014		31 Dec 2013	
Euro thousand	Fair value hedge	Cash flow hedge	Fair value hedge	Cash flow hedge
Exchange rate related transactions	47,225	0	32,314	0
Interest rate related transactions	47,973	41	43,381	630
Negative fair value from derivatives	**95,198**	**41**	**75,695**	**630**

33) Liabilities held for sale

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

Euro thousand	31 Dec 2014	31 Dec 2013
Amounts owed to customers	3,405	0
Provisions	1,150	0
Tax liabilities	6	0
Other liabilities	948	0
Liabilities held for sale	**5,509**	**0**

Liabilities held for sale are measured at amortised cost.

34) Subordinated liabilities

Euro thousand	31 Dec 2014	31 Dec 2013
Subordinated liabilities	578,466	585,368
Supplementary capital	253,102	305,842
Subordinated liabilities	**831,568**	**891,210**

Subordinated liabilities are measured at amortised cost. 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.

Subordinated liabilities comprise hybrid tier I capital in the amount of euro 57,698 thousand (2013: euro 57,698 thousand).

Breakdown by residual term

Euro thousand	31 Dec 2014	31 Dec 2013
up to 3 months	111	0
up to 1 year	31,840	34,651
up to 5 years	441,356	440,612
more than 5 years	358,262	415,946
Subordinated liabilities	**831,568**	**891,210**

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 249,657 thousand is included without a determined residual term. 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 was 0.82 % (2013: 0.01 %) and was calculated as the ratio of the result after taxes to total assets as at the reporting date.

Non-controlling interest

Company name	Minority interest 2014	Minority interest 2013	Subgroup
"VBL POSREDNIK" d.o.o.; Sarajevo	50.00 %	50.00 %	VBLI
ACP IT-Finanzierungs GmbH; Wien	25.00 %	25.00 %	Other companies
VB Leasing CZ, spol.s.r.o.; Brno	0.00 %	50.00 %	VBLI
VB LEASING d.o.o.; Zagreb	50.00 %	50.00 %	VBLI
VB Leasing doo Beograd; Novi Beograd	50.00 %	50.00 %	VBLI
VB LEASING POLSKA S.A.; Wroclaw	0.00 %	50.00 %	VBLI
VB LEASING ROMANIA IFN S.A.; Bukarest, Sector 1	0.00 %	50.00 %	VBLI
VB Leasing Services, spol. s r.o.; Brno	0.00 %	50.00 %	VBLI
VB LEASING SK, spol. s.r.o.; Bratislava	50.00 %	50.00 %	VBLI
VB LEASING Sprostredkovatelská s.r.o.; Bratislava	50.00 %	50.00 %	VBLI
VB Services für Banken Ges.m.b.H.; Wien	1.11 %	1.11 %	Other companies
VBL BROKER DE ASIGURARE SRL; Bukarest	0.00 %	50.00 %	VBLI
VBL SERVICES DOO BEOGRAD; Beograd	50.00 %	50.00 %	VBLI
VB-Leasing International Holding GmbH; Wien	50.00 %	50.00 %	VBLI
VB-NEPREMICNINE podjetje za promet z nepremicninami, d.o.o.; Ljubljana	40.00 %	40.00 %	Other companies
VBS HISA d.o.o.; Ljubljana	50.00 %	50.00 %	VBLI
VBS Leasing d.o.o.; Ljubljana	50.00 %	50.00 %	VBLI
Verwaltungsgenossenschaft der IMMO-BANK eG; Wien	11.15 %	11.15 %	Other companies
Volksbank Leasing BH d.o.o.; Sarajevo	50.00 %	50.00 %	VBLI

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

Euro thousand	VBLI subgroup 2014	2013	Other companies 2014	2013
Assets				
Liquid funds	4	25	0	0
Loans and advances to credit institutions (gross)	170,390	35,423	15,702	12,916
Loans and advances to customers (gross)	582,645	1,818,242	39,017	38,183
Risk provisions (-)	-42,053	-126,902	-293	-269
Financial investments	0	0	701	661
Other assets	59,851	106,002	20,453	20,768
Total assets	770,837	1,832,790	75,580	72,259
Liabilities and Equity				
Amounts owed to credit institutions	504,053	1,507,908	5,349	5,729
Amounts owed to customers	1,594	4,068	115	86
Other liabilities	23,926	65,057	47,765	47,352
Equity	241,264	255,757	22,350	19,092
Total liabilities and equity	770,837	1,832,790	75,580	72,259
Statement of comprehensive income				
Interest and similar income	102,603	126,932	1,591	1,481
Interest and similar expense	-29,566	-37,878	-655	-623
Net interest income	73,038	89,055	936	858
Risk provisions	-5,725	-5,161	-42	32
Result before taxes	24,867	61,990	4,056	431
Income taxes	-9,940	-12,587	-392	-215
Result after taxes	14,927	49,404	3,664	216
Other comprehensive income	10,522	-10,571	-154	275
Comprehensive income	25,449	38,833	3,511	491

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 2014	30 Jun 2014
Paid-up capital instruments (less own CET1 instruments)	453,583	405,205
Reserves	1,256,035	1,842,266
Transitional adjustments due to grandfathered CET1 Capital instruments	475,173	521,207
Minority interest	225,256	184,853
Deduction and adjustments	-396,531	-161,749
Transitional adjustments to CET1 Capital	382,285	163,197
Common Equity Tier 1 Capital (CET1)	2,395,800	2,954,979
AT 1 capital and qualifying AT 1 instruments issued by subsidiaries	48,234	48,692
Deduction and adjustments	368,949	133,835
Transitional adjustments to AT1 Capital	-417,182	-182,527
Additional Tier 1 Capital (AT1)	0	0
Tier 1 Capital (T1 = CET1 + AT1)	2,395,800	2,954,979
T2 capital and qualifying T2 instruments issued by subsidiaries	1,036,997	1,103,134
Deduction and adjustments	0	0
Transitional adjustments to T2 Capital	0	0
Tier 2 Capital (T2)	1,036,997	1,103,134
Own Funds	**3,432,797**	**4,058,113**

Common equity Tier I capital ratio (Tier I) [1)]	10.27 %	11.16 %
Tier I capital ratio [1)]	10.27 %	11.16 %
Equity ratio [1)]	14.72 %	15.33 %

[1)] in relation to total risk exposure amount

Subordinated liabilities comprise hybrid Tier I capital in the amount of euro 57,698 thousand (2013: euro 57,698 thousand).

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

Euro thousand	31 Dec 2014	30 Jun 2014
Risk weighted exposure amount - credit risk	19,794,618	22,655,762
Total risk exposure amount for position, foreign exchange and commodities risks	635,192	782,039
Total risk exposure amount for operational risk (OpR)	2,035,884	2,345,136
Total risk for credit valuation adjustment (CVA)	854,165	689,669
Total risk exposure amount	**23,319,860**	**26,472,606**

VBAG 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. The own funds of the Association of Volksbanks are calculated by aggregating VBAG's own funds and those of the member institutions. When aggregating the included companies' investments in Volksbanks and VBAG, the aggregated carrying amounts of the investments are deducted from the aggregated equity components. Superior financial holding companies and Volksbank Regio Invest Bank AG 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.

In accordance with IFRS reporting, the scope of consolidation differs from the scope of consolidation under CRR as the IFRS provides for the inclusion of other entities not belonging to the financial sector. According to CRR, companies in the financial sector that are under the control of the parent or where the Group helds a majority of shares either direct or indirect, are fully consolidated. Therefore VB RO and VBI Bet GmbH are still included in the scope of consolidation under CRR and are fully consolidated for the purpose of calculation of own resources and capital requirements. 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 2014, 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 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 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	**1,969,835**	**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**

Euro thousand	Held for trading	At fair value through profit or loss	Held to maturity	Available for sale	Amortised cost	Carrying amount - total
31 Dec 2013						
Liquid funds	0	0	0	0	2,018,299	2,018,299
Loans and advances to credit institutions	0	0	0	0	1,871,657	1,871,657
Individual impairment to credit institutions	0	0	0	0	-703	-703
Loans credit institutions less individual impairments	0	0	0	0	1,870,954	1,870,954
Loans and advances to customers	0	0	0	0	29,468,699	29,468,699
Individual impairment customers	0	0	0	0	-1,336,844	-1,336,844
Loans customers less individual impairments	0	0	0	0	28,131,855	28,131,855
Trading assets	1,538,239	0	0	0	0	1,538,239
Financial investments	0	51,976	831,425	3,345,303	255,945	4,484,649
Participations	0	0	0	376,792	0	376,792
Derivatives - investment book	399,721	0	0	0	0	399,721
Assets disposal group	0	34,850	0	33,373	354,974	423,196
Financial assets total	**1,937,960**	**86,826**	**831,425**	**3,755,468**	**32,632,026**	**39,243,705**
Amounts owed to credit institutions	0	0	0	0	2,888,490	2,888,490
Amounts owed to customers	0	0	0	0	24,900,141	24,900,141
Debts evidenced by certificates	0	0	0	0	6,352,783	6,352,783
Trading liabilities	1,317,388	0	0	0	0	1,317,388
Derivatives - investment book	304,914	0	0	0	0	304,914
Subordinated liabilities	0	0	0	0	891,210	891,210
Financial liabilities total	**1,622,302**	**0**	**0**	**0**	**35,032,624**	**36,654,925**

As the fair values of financial assets and liabilities could not be reliably determined for all companies included in the association financial statements in 2013, these are not shown.

Financial investments contain securities classified as held to maturity and loans & receivables with a carrying amount of euro 299,750 thousand (2013: euro 498,842 thousand), a total of euro 13,348 thousand (2013: euro 26,881 thousand) above their fair value, as there is no objective evidence of impairment.

Financial investments available for sale in the amount of euro 14,907 thousand (2013: euro 20,021 thousand) and participations in the amount of euro 60,360 thousand (2013: euro 66,470 thousand) are measured at cost as their fair value cannot be reliably determined. Instruments measured at cost with a carrying amount of euro 9,645 thousand (2013: euro 1,063 thousand) were sold in the business year. A result of euro 925 thousand (2013: euro 3,916 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. This mainly involves assets that were issued in the sector. These financial investments will be sold or split off as part of the restructuring process.

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 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
Financial liabilities	**0**	**3,277,894**	**0**	**46,898**
31 Dec 2013				
Loans and advances to credit institutions	0	351,334	0	0
Loans and advances to customers	0	493,068	0	71,731
Financial investments	1,678,588	48,820	96,319	0
Financial assets	**1,678,588**	**893,222**	**96,319**	**71,731**
Amounts owed to credit institutions	0	672,851	0	0
Amounts owed to customers	0	877,578	0	0
Debts evidenced by certificates	0	3,834,462	0	20,241
Financial liabilities	**0**	**5,384,891**	**0**	**20,241**

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 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**
31 Dec 2013				
Trading assets	39,132	1,499,107	0	1,538,239
Financial investments	2,785,020	592,106	132	3,377,258
at fair value through profit or loss	8,253	43,591	132	51,976
available for sale	2,776,767	548,515	0	3,325,282
Participations	0	0	310,322	310,322
Derivatives - investment book	59	399,662	0	399,721
Assets disposal group	0	0	68,222	68,222
Total	**2,824,211**	**2,490,875**	**378,677**	**5,693,763**
Trading liabilities	0	1,317,388	0	1,317,388
Derivatives - investment book	0	304,914	0	304,914
Total	**0**	**1,622,302**	**0**	**1,622,302**

Available for sale financial investments totalling euro 14,907 thousand (2013: euro 20,021 thousand) and participations totalling euro 60,360 thousand (2013: euro 66,470 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 7,071 thousand (2013: euro 132 thousand) and in participations amounting to euro 3,579 thousand (2013: euro 36,749 thousand). In 2013, an amount of euro 34,850 thousand was included in held for sale position. 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.

In 2014, financial instruments with a carrying amount of euro 94,753 thousand (2013: euro 67,083 thousand), which were still measured at Level 2 market value as at 31 December 2013, were reclassified as Level 1 financial instruments due to an increase in trading activity. On the other hand, Level 1 financial instruments in the amount of euro 60,919 thousand (2013: euro 75,135 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 or loss	Participations	Available for sale	Assets held for sale	Total
As at 1 Jan 2013	66,725	312,409	0	0	379,134
Changes in the scope of consolidation	0	5,561	0	0	5,561
Reallocation in Level 3	2,645	67,651	1,592	0	71,887
Additions	1,408	9,100	0	0	10,509
Disposals	-20,115	-17,946	0	0	-38,061
Valuation					
through profit or loss	-15,682	-12,549	0	0	-28,230
through other comprehensive income	0	-22,123	0	0	-22,123
Reclassification	-34,850	-31,781	-1,592	68,222	0
As at 31 Dec 2013	132	310,322	0	68,222	378,677
Changes in the scope of consolidation	0	-45,974	0	0	-45,974
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 or 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**

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 -18,455 thousand (2013: euro -28,649 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 of 5 % to 20 %. In the event of a beneficial movement, market value changes by euro 19,964 thousand (2013: euro 34,961 thousand), while a detrimental movement leads to a change of euro -19,913 thousand (2013: euro -34,990 thousand).

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

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

Euro thousand	Level 1	Level 2	Level 3	Fair value total	Carrying amount 31 Dec 2014
31 Dec 2014					
Liquid Funds		1,596,274		1,596,274	1,596,274
Loans and advances to credit institutions (gross)					1,365,464
Individual impairment credit institutions					-703
Loans 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 customers					-818,897
Loans 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.

Due to the nearly stagnation of trade with own issues by the end of 2014, parameters not based on observable market data had to be used for market valuation. As a consequence, the valuation hierarchy was adapted from level 2 to level 3 for subordinated liabilities and debts evidenced by certificates.

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 2014**	**31 Dec 2013**
up to 3 months	-523	-529
up to 1 year	-1,364	-1,408
up to 5 years	-1,578	-1,667
more than 5 years	0	-1
Total	**-3,466**	**-3,605**

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

	Interest related transactions	
Euro thousand	**31 Dec 2014**	**31 Dec 2013**
up to 3 months	-523	-529
up to 1 year	-1,364	-1,408
up to 5 years	-1,578	-1,667
more than 5 years	0	-1
Total	**-3,466**	**-3,605**

Changes in value in the cash flow hedge reserve in the amount of euro -578 thousand (2013: euro -1,058 thousand) were recognised in income during the reporting period. No material inefficiencies were recorded for these cash flow hedges.

39) Derivatives

Derivative financial instruments

2014		Face value			Fair value
Euro thousand	up to 1 year	1 to 5 years	more than 5 years	Total	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
Forward rate agreements	0	0	0	0	0
Futures	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	975,204	0	1,174,150	-302
Other transactions	495,973	567,138	136,462	1,199,573	-22,235
Futures - index related	14,415	0	0	14,415	0
Options	481,557	567,138	136,462	1,185,157	-22,235
Total	**5,524,089**	**18,994,389**	**9,387,873**	**33,906,352**	**146,806**

2013		Face value			Fair value
Euro thousand	up to 1 year	1 to 5 years	more than 5 years	Total	31 Dec 2013
Interest related transactions	4,075,408	21,461,905	13,171,294	38,708,606	370,553
Caps & Floors	605,519	2,443,179	1,372,644	4,421,343	18,467
Futures	89,200	0	0	89,200	0
Interest rate swaps	3,158,918	18,714,126	11,640,650	33,513,694	359,499
Swaptions	221,770	304,600	158,000	684,370	-7,413
Currency related transactions	3,705,828	1,698,145	516,807	5,920,779	-84,455
Cross currency swaps	380,177	1,646,647	516,249	2,543,073	-94,953
Foreign exchange options	341,625	42,604	558	384,787	2,421
FX Swaps	2,620,776	94	0	2,620,870	8,755
Forward exchange transactions	363,250	8,799	0	372,049	-678
Credit related transactions	569,704	1,256,529	0	1,826,233	1,261
Other transactions	656,496	1,092,969	171,067	1,920,533	-38,726
Futures - index related	17,652	0	0	17,652	0
Options	638,844	1,092,969	171,067	1,902,881	-38,726
Total	**9,007,436**	**25,509,547**	**13,859,168**	**48,376,151**	**248,633**

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 10,852,320 thousand (2013: euro 14,510,054 thousand), whereas liabilities denominated in foreign currencies stood at euro 7,693,777 thousand (2013: euro 7,448,934 thousand).

41) Trust transactions

Euro thousand	31 Dec 2014	31 Dec 2013
Assets from trust transactions		
Loans and advances to customers	175,796	241,682
Financial investments	10,907	1,240
Mutual funds	2,707,750	2,591,550
Liabilities arising from trust transactions		
Amounts owed to credit institutions	3,587	1,658
Amounts owed to customers	182,389	240,238
Debts evidenced by certificates	727	727
Other liabilities	0	300
Mutual funds	2,707,750	2,591,550

42) Subordinated assets

Euro thousand	31 Dec 2014	31 Dec 2013
Loans and advances to credit institutions	743	83,771
Loans and advances to customers	3,737	91,786
Financial investments	22,714	35,120

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

Euro thousand	31 Dec 2014	31 Dec 2013
Assets pledged as collateral		
Loans and advances to customers	342,138	476,662
Financial investments	93,960	86,824
Liabilities for which assets have been pleged as collateral		
Amounts owed to credit institutions	355,050	496,537
Amounts owed to customers	5,115	3,455
Contingent liabilities	2,484	3,080

In the context of corporate funding via Oesterreichische Kontrollbank (OeKB), loans and advances to customers in the amount of euro 95 million (2013: euro 156 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, financial investments in the amount of euro 54 million (2013: euro 71 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 2014	31 Dec 2013
Contingent liabilities		
Acceptances and endorsement liabilities on negotiated bills	865	1,412
Liabilities arising from guarantees	1,454,049	2,037,985
Liabilities arising from assets pledged as collateral	368,312	171,329
Others (amount guaranteed)	14,124	13,231
Commitments		
Obligations from pension business	560	1,042
Unutilised loan commitments	7,245,107	5,795,793
Others	143	18,648

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 53,508 thousand (2013: euro 25,511 thousand).

45) Repurchase transactions and other transferred assets

As at 31 December 2014, as well as at 31 December 2013 the association as pledgor had none buy-back commitments under genuine repurchase agreements.

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 association has a participating interest	Associated companies	Companies which exercise a significant influence on the parent as shareholders
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
Provisions	0	0	0	0
Transactions	170,771	136,513	643,756	3,475
31 Dec 2013				
Loans and advances to credit institutions	0	0	827,161	0
Loans and advances to customers	152,363	176,813	0	0
Risk provisions (-)	-9,820	-44,275	0	0
Debt securities	0	0	0	903,133
Amounts owed to credit institutions	0	7,812	13,829	0
Amounts owed to customers	35,036	30,605	2,318	0
Liabilities arising from guarantees	6,195	2,088	0	25,508
Provisions	292	0	0	0
Transactions	182,132	461,809	1,149,096	2

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 2014	31 Dec 2013
Outstanding loans and advances	11,441	8,771
Redemptions	1,451	1,562
Interest payments	39	527

The key management personnel are:

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

If a member of the key management personnel occupies several board positions, he/she has been recorded only once and at the highest applicable level of the hierarchy listed above.

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 2014			
Covered Bonds	1,814,244	1,507,050	307,194
Total	**1,814,244**	**1,507,050**	**307,194**
31 Dec 2013			
Covered Bonds	1,476,644	1,221,450	255,194
Total	**1,476,644**	**1,221,450**	**255,194**

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 2014	31 Dec 2013
Domestic	492	509
Abroad	2	3
Total number of branches	**494**	**512**

49) Events after the balance sheet date

At the Annual General Meeting on 28 May 2015, the VBAG shareholders unanimously resolved to split up VBAG and convert it into a wind-down company. The part of VBAG that functions as the central organisation will be transferred to Volksbank Wien-Baden AG. The remainder of VBAG will continue to operate as a company in wind-down under the name immigon portfolioabbau ag in accordance with section 162 of the Federal Act on the Reorganisation and Winding-up of Banks (BaSAG). To enable the split, the Annual General Meeting also resolved to carry out a simplified capital reduction at VBAG in order to cover accumulated losses with available capital.

At its meeting on 29 May 2015, the Annual General Meeting of Volksbank Wien-Baden AG (VB Wien-Baden) unanimously agreed to take on the central organisation part of VBAG. The meeting also agreed a capital increase at VB Wien-Baden and approved the spin-off and transfer agreement.

The restructuring of the Association of Volksbanks, division of VBAG and associated transfer of business to VB Wien-Baden is currently being examined and remains subject to approval by the banking regulator, the European Commission and other authorities and institutions.

Loans totalling approximately euro 250 million have already been sold or repaid early in 2015 as part of the restructuring process. The investment in Marangi Immobiliare s.r.l. (Marangi) was sold on 11 June 2015 and the refinancing of euro 36 million repaid by Marangi.

Further sales transactions were being implemented in real estate business at the time that the financial statements were being prepared. Sales processes were commenced for holdings in the VB Leasing International Group, VB Factoring Bank AG, Volksbank Invest Kapitalanlagegesellschaft mbH, Immo Kapitalanlage AG, VB Leasing Finanzierung Group and the start:group. No reclassifications were carried out for these participations in accordance with IFRS 5, owing to the uncertainties relating to the sales.

On 15 January 2015, the SNB unexpectedly abolished its minimum rate of 1.20 Swiss francs per euro. At the same time, it lowered the interest rate for balances in its current accounts by 0.5 percentage points to –0.75%. The Swiss franc underwent a massive revaluation on the foreign exchange markets that very day (the EUR/CHF exchange rate reached a low of 0.8500), before stabilising at a level close to parity.

As the association did not have any substantial trading positions at that time, there was no significant impact on net trading income. There were effects on liquidity, particularly as a result of additional funding obligations relating to collateral agreements (CSA) and risk-weighted assets. The association has sufficient liquidity for the additional funding obligations, and measures to generate own funds are taking into account the increase in RWAs.

When the Austrian Financial Market Authority decreed a debt moratorium on 1 March 2015, the association held a senior unsecured bond from HETA with a nominal price of euro 20 million, due to mature on 9 April 2043, and a further bond with a nominal price of euro 5.5 million, due to mature on 24 January 2017. The existing allowance was increased in 2014, and the bond due to mature on 9 April 2043 was sold without a loss in March 2015.

The Association of Volksbank also holds bonds of euro 60.4 million from Pfandbriefstelle der österreichischen Landes-Hypothekenbanken (Pfandbriefstelle), a public-law institution in Vienna. In accordance with section 2 of the Pfandbriefstelle Act, member institutions (with the exception of HETA) and the guarantors of member institutions are jointly and severally liable for liabilities of Pfandbriefstelle. In view of the existing liability structure, no risk provisions were made for these bonds as at 31 December 2014.

Fitch downgraded VBAG's rating from BBB– to B at the beginning of February 2015. This step had been anticipated in view of the decision to convert VBAG into a company in wind-down and the consequent withdrawal of government support for the rating.

Fitch downgraded the Association of Volksbanks in mid-May 2015. The rating agency examined the Association of Volksbanks' rating and those of other Austrian banks with regard to the likelihood of continued state support. This led to the association’s rating being downgraded from A to BB-.

Moody's downgraded VBAG's rating from B2 to Caa1 on 15 June 2015. The downgrade was explained by the new bank rating methodology used by Moody's.

The rating downgrades of Fitch and Moody's since the beginning of 2014 had no significant negative impact on the association's liquidity.

50) Segment reporting

Segment reporting changed in the 2014 business year. The association now has seven business divisions which correspond to strategic business fields. The Financing, Financial Markets, Volksbanks and Other Operations segments constitute association core business divisions. The Non-core sector is split into divisions of Non-core Business, Non-core Retail and Non-core Investment Book/Other Operations. These divisions provide a variety of products and services and are controlled in varying ways in accordance with the internal management and reporting structure. In this process, a business unit is organised as a profit centre, which means that all results are allocated to the business unit, irrespective of whether these results are generated in the business unit itself or by the central organisation. Future changes due to the transformation process are still not shown here.

The measurement and accounting principles used in the consolidated financial statements are also applied to the segment reporting. The business segments are managed according to the income statement items given in segment reports as well as the carrying amounts recorded. Interest income and interest expenses are not stated separately because the management is carried out on the basis of factors including net interest income.

Financing

The Financing segment comprises the syndicate financing, housing construction financing and model financing profit centres as well as the VB Leasing Finanzierung Group with moveable equipment leasing in Austria and VB Factoring Bank.

Volksbanks

This segment includes all Volksbanks, start:Bausparkasse and Volksbank Regio Invest Bank.

Financial Markets

The Group Treasury profit centre is responsible for liquidity supply on money and capital markets and for managing the VBAG trading book. It offers all standard money market products for customers as part of Treasury Sales. The Volksbank Investments profit centre is also allocated here – which is responsible for areas including managing investment funds and issuing guarantee certificates – as well as Immo KAG and the Investment Book.

Other Operations

All other activities which cannot be clearly allocated to any of the other business segments are included here. This also includes the results of VB Services für Banken GmbH and holding companies which hold shares in the core business.

Non-core Business

In the Non-core Business segment the segments Non-core Corporates and Non-core Real Estate are combined, these segments were disclosed seperatly in 2013. The Non-core Business segment comprises corporate customer, renewable energies profit centres as well as real estate financing and real estate loans, real estate leasing and international project development relating to the VB Real Estate Services Group's commercial real estate. The Europolis Group's real estate asset management is also allocated here, which is recorded as a discontinued operation.

Non-core Retail

The Non-core Retail segment comprises the business areas of CEE moveable goods leasing and CEE banks. The CEE moveable goods leasing business area includes the VB Leasing International Group together with its activities in Central and Eastern Europe. CEE banks includes Volksbank Romania.

Non-core Investment Book/Other Operations

This segment includes the sections of the investment book which are to be wound down or sold in accordance with their repayment profile. Volksbank Malta Limited and holding companies of participations in the non-core business are also allocated here.

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.

Secondary segment reporting is based on markets where the association operates. All activities that focus on Austria and Central and Eastern Europe are presented here. Other markets that do not constitute a major component of operations are grouped within the other segment. In the Central and Eastern Europe segment there are no material countries reported separately. Geographical segment reporting is based on the head office location. Results of the association itself are allocated to the region where the income is generated. Any consolidation processes not performed in the regions of Central and Eastern Europe or Other markets are allocated to Austria. Adjustment to segment reporting based on business areas also resulted in changes to previous-year figures in segment reporting for regional markets.

a) Segment reporting by business segments

Euro thousand	Financing	Volksbanks	Financial Markets	Other Operations	Non-core Business	Non-core Retail	Non-core Investment Book/Other Operations	Consolidation	Total
Net interest income									
1-12/2014	**34,443**	**542,076**	**37,592**	**1,679**	**36,159**	**73,133**	**22,306**	**-1,533**	**745,855**
1-12/2013	32,974	542,706	-58,466	6,747	68,302	89,140	54,580	-2,856	733,126
Risk provisions									
1-12/2014	**-7,532**	**-27,894**	**7,416**	**-55**	**-26,523**	**-5,725**	**-5,139**	**0**	**-65,452**
1-12/2013	-9,709	-66,946	-7,151	8,846	-4,864	-5,161	-5,424	0	-90,408
Net fee and comission income									
1-12/2014	**4,814**	**237,550**	**18,340**	**5,276**	**-909**	**4,228**	**-11,920**	**460**	**257,839**
1-12/2013	6,198	224,049	20,529	6,541	162	5,292	-10,256	1,780	254,295
Net trading income									
1-12/2014	**2**	**169**	**25,608**	**0**	**753**	**-655**	**1,006**	**-1,603**	**25,280**
1-12/2013	198	1,054	-1,482	0	29	2,197	-46	-2,309	-359
General administrative expenses									
1-12/2014	**-47,344**	**-601,808**	**-67,056**	**-38,581**	**-52,637**	**-40,983**	**-11,494**	**51,483**	**-808,420**
1-12/2013	-37,938	-582,297	-58,442	-40,897	-63,478	-47,669	-12,394	19,966	-823,150
Restructuring costs									
1-12/2014	**0**	**0**	**0**	**-35,515**	**0**	**0**	**0**	**0**	**-35,515**
1-12/2013	0	0	0	0	0	0	0	0	0
Other operating result									
1-12/2014	**5,436**	**1,380**	**76,246**	**-323**	**4,044**	**-5,339**	**-97,259**	**-40,095**	**-55,910**
1-12/2013	4,572	5,827	56,333	13,359	11,320	16,983	39,245	-16,580	131,058
of which impairment of goodwill and brand									
1-12/2014	**0**	**-58**	**0**	**0**	**0**	**0**	**0**	**0**	**-58**
1-12/2013	0	-58	0	0	0	0	0	0	-58
Income from financial investments									
1-12/2014	**242**	**46,749**	**-57,453**	**-4,444**	**-18,190**	**299**	**11,403**	**-8,712**	**-30,106**
1-12/2013	366	-44,453	-1,382	10,445	-37,859	1,294	-18,770	0	-90,360
Income from companies measured at equity									
1-12/2014	**0**	**0**	**187**	**-563**	**423**	**1,182**	**0**	**0**	**1,228**
1-12/2013	0	0	0	539	0	0	0	0	539
Income from discontinued operation									
1-12/2014	**0**	**0**	**0**	**0**	**0**	**-275,189**	**0**	**0**	**-275,189**
1-12/2013	0	0	0	0	15,308	-126,601	0	0	-111,293
Annual result before taxes									
1-12/2014	**-9,939**	**198,221**	**40,881**	**-72,527**	**-56,880**	**-249,049**	**-91,097**	**0**	**-240,390**
1-12/2013	-3,340	79,940	-50,062	5,580	-11,080	-64,525	46,934	0	3,447
Income taxes including taxes from discontinued operation									
1-12/2014	**-974**	**-53,035**	**5,294**	**3,297**	**-4,170**	**-9,940**	**-282**	**0**	**-59,809**
1-12/2013	-117	-13,652	17,053	40,464	-9,961	-12,588	-19,079	0	2,120
Annual result after taxes									
1-12/2014	**-10,912**	**145,186**	**46,175**	**-69,229**	**-61,050**	**-258,988**	**-91,379**	**0**	**-300,198**
1-12/2013	-3,457	66,288	-33,008	46,044	-21,041	-77,113	27,855	0	5,568
Total assets									
12/31/2014	**2,089,971**	**30,338,618**	**14,305,653**	**1,871,196**	**1,301,256**	**772,383**	**1,522,566**	**-15,523,205**	**36,678,439**
12/31/2013	2,535,110	32,431,421	16,580,130	1,889,113	2,678,799	2,028,063	2,379,189	-19,919,688	40,602,139
Loans and advances to customers									
12/31/2014	**2,111,340**	**22,414,935**	**1,054,233**	**80**	**1,255,938**	**582,645**	**23,448**	**-901,804**	**26,540,816**
12/31/2013	2,543,842	22,394,260	1,672,728	11	2,298,525	1,818,242	176,947	-1,435,857	29,468,699
Companies measured at equity									
12/31/2014	**0**	**0**	**0**	**9,977**	**34,386**	**1,182**	**0**	**0**	**45,545**
12/31/2013	0	0	0	5,626	0	0	0	0	5,626
Amounts owed to customers									
12/31/2014	**36,484**	**22,308,510**	**2,005,499**	**14**	**64,669**	**1,594**	**0**	**-287,766**	**24,129,004**
12/31/2013	45,592	22,751,910	2,413,756	13	105,566	4,068	10,590	-431,354	24,900,141
Debts evidenced by certificates, including subordinated liabilities									
12/31/2014	**267,408**	**1,711,991**	**3,959,814**	**0**	**217,980**	**0**	**422,511**	**-1,828,207**	**4,751,497**
12/31/2013	356,969	1,874,679	7,031,541	0	482,121	0	605,457	-3,106,775	7,243,993

b) Segment reporting by regional markets

Euro thousand	Austria	Central and Eastern Europe	Other Markets	Total
Net interest income				
2014	**642,365**	**77,819**	**25,671**	**745,855**
2013	574,782	94,317	64,027	733,126
Risk provisions				
2014	**-38,592**	**-19,713**	**-7,146**	**-65,452**
2013	-68,092	-7,402	-14,915	-90,408
Net fee and comission income				
2014	**266,696**	**3,763**	**-12,621**	**257,839**
2013	260,281	4,179	-10,166	254,295
Net trading income				
2014	**22,751**	**1,015**	**1,514**	**25,280**
2013	-2,204	1,901	-56	-359
General administrative expenses				
2014	**-748,525**	**-44,479**	**-15,416**	**-808,420**
2013	-754,698	-51,684	-16,768	-823,150
Restructuring cost				
2014	**-35,515**	**0**	**0**	**-35,515**
2013	0	0	0	0
Other operating result				
2014	**48,147**	**12,048**	**-116,106**	**-55,910**
2013	74,743	16,835	39,481	131,058
Income from financial investments				
2014	**-16,460**	**-26,192**	**12,546**	**-30,106**
2013	-43,064	-23,499	-23,797	-90,360
Income from companies measured at equity				
2014	**805**	**515**	**-91**	**1,228**
2013	539	0	0	539
Income from discontinued operation				
2014	**0**	**-275,189**	**0**	**-275,189**
2013	0	-111,293	0	-111,293
Annual result before taxes				
2014	**141,673**	**-270,414**	**-111,649**	**-240,390**
2013	42,286	-76,644	37,805	3,447

Non-current assets (these are investment property assets, intangible- and tangible fixed assets) to the amount of euro 218,756 thousand (2013: euro 227,496 thousand) are held in Central and Eastern Europe.

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 Österreichische Volksbanken-AG and the primary institutions of the Volksbank sector, VBAG performs the key tasks of implementing and supporting processes and methods for identifying, managing, measuring and monitoring all risks relating to banking operations.

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

- Credit risks (default, credit-rating, concentration, counterparty default and transfer risk, risk arising from foreign currency loans and loans with repayment vehicles and macroeconomic risk)
- 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, VBAG 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 central organisation’s rights to issue instructions for this purpose took effect at the end of 2012. 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” and is mostly completed in 2014. Another key area for risk management in 2014 was supervisory requirements and tasks relating to the supervisory risk assessment, asset quality review and stress test in the course of the ECB's comprehensive assessment.

Current developments

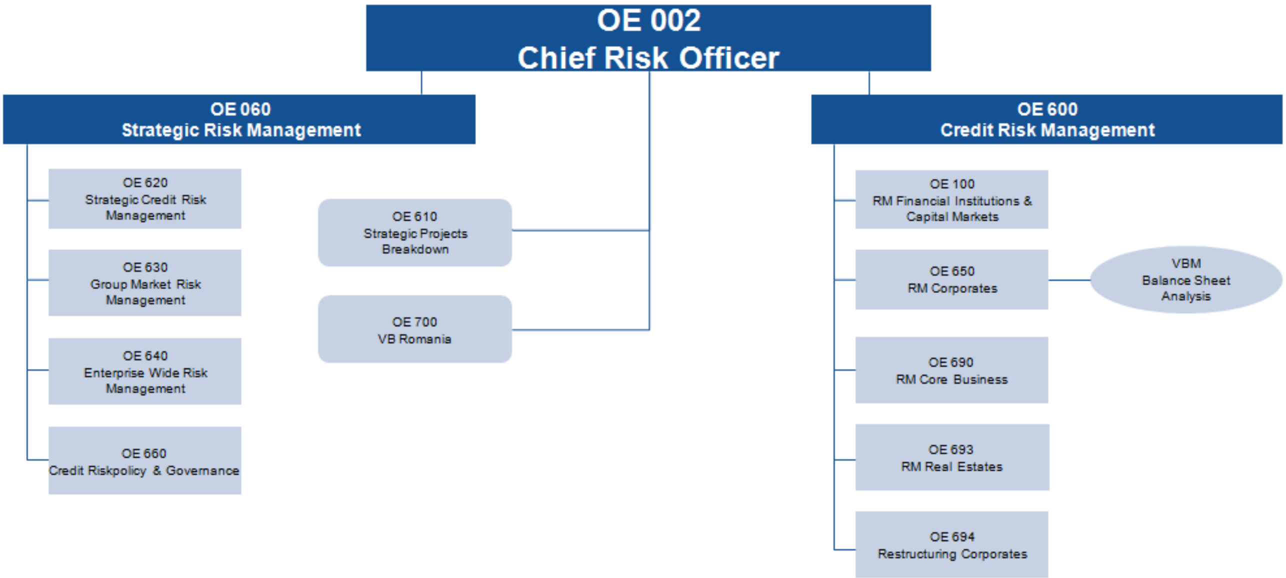
Far-reaching decisions were made about the restructuring of the association, particularly in the fourth quarter of 2014, which also influenced or will influence risk management activities. As well as the acceleration of planned mergers among primary banks, preparations began for the planned division of VBAG in mid-2015. Activities that no longer belong to core business will be wound down (wind-down unit). The remaining parts of VBAG will be transferred to Volksbank Wien-Baden, which will also act as the central organisation for the association in future.

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 and 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. There is clear separation of market and risk assessment, measurement and control. For security reasons and in order to prevent conflicts of interest, these tasks are performed by different organisational units.

The department is headed by Michael Mendel in his capacity as the central organisation's Chief Risk Officer. All centrally managed and regulated strategic and operational risk management activities in the Association of Volksbanks are concentrated in his Managing Board function. The current structure of Mr. Mendel's division is shown in the following organisational chart. As well as Risk Management, division 2 also includes Non-Core Business Corporate Customers, Rundown Real Estate and Workout Real Estate business units.



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 by the central organisation's Managing Board together with risk appetite. 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

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 entities, the Managing Boards and managing directors of all association members must ensure, without exception or limitation, that the General Instructions are applied in their respective entities on both a formal and a de facto basis. The General Instructions on Risk Management find application either through being put into force in their entirety 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 must be agreed in advance with the Strategic Risk Control organisational unit (OE 060) at VBAG as the central organisation, and documented in the relevant local risk manual. In the course of such agreement, deviations in risk management must be reported and justified to the central organisation, the Council of Delegates and within the early identification system (ÖGV).

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 market analysis of compatibility with the association strategy and the profitability analysis, the focus is on sufficient recording of all risks and correct presentation in the association's central systems. Thus ensuring meaningful standardised risk reports and correct external reporting.

An efficient, system-supported approval process for products of VBAG Treasury 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 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, 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 (mild and severe recession 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. Periodic 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

For the implementation of pillar 1 in the association the following methods are currently used to calculate the minimum capital requirements for each type of risk:

- Credit risk: standard approach. The VBAG Group reverted from the IRB approach to the standard approach as of 30 September 2012 in connection with the formation of the banking association pursuant to section 30a of the Austrian Banking Act. When approving this reversion, the FMA stipulated that all risk management systems had to remain "IRB compliant".
- Market risk: standard approach.
- Operational risk: standard approach.

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 in the Association of Volksbanks

The requirements of pillar 3 are met through publication of the qualitative and quantitative disclosure requirements defined under the Austrian Financial market supervisory 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 Investor Relations / Risk management as well as in the annual report.

c) Risk strategy and internal capital adequacy assessment process

The Association of Volksbanks pursuant to section 30a of the Austrian Banking Act 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 Group 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.

In line with this principle and based on the risk inventory conducted across the association as a whole, the association regularly ascertains what risks are present in ongoing banking operations within the association as well as their significance and the danger they potentially pose for the association. This process involves both a quantitative assessment of individual types of risk and an assessment of the existing methods and systems for monitoring and managing risks (qualitative assessment).

The results of the risk inventory are compiled and analysed for the association, each assigned institution and the VBAG Group. The results of the risk inventory also flow into the risk strategy.

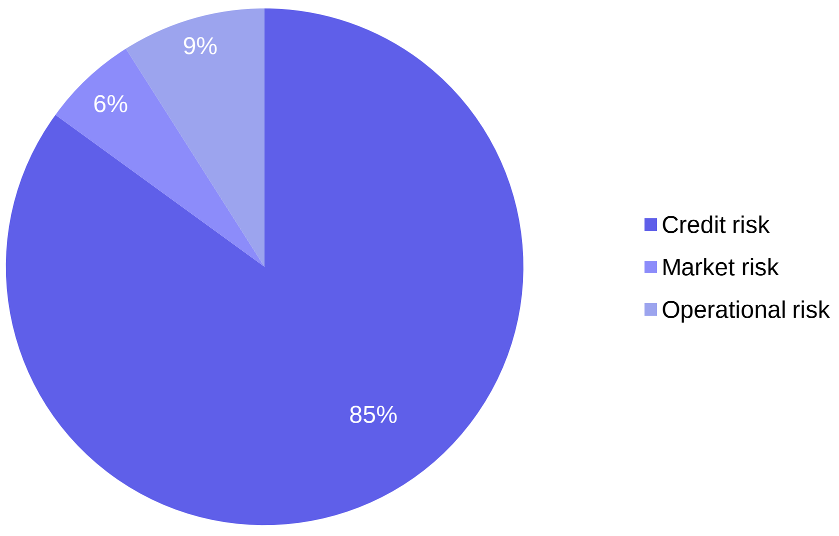
The basis for the quantitative implementation of the ICAAP is the risk sustainability account, which demonstrates that adequate risk-covering capital is in place at all times to provide sufficient cover for risks that have been entered into and which also ensures such cover is available for the future. For this purpose, firstly all relevant individual risks are aggregated. The existing, previously defined risk-covering capital is then compared with this total bank risk, and observance of the total bank risk limit decided 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, solvaV and the Austrian Banking Act). Assurance of regulatory riskbearing ability is a minimum requirement, since it is stipulated by law.

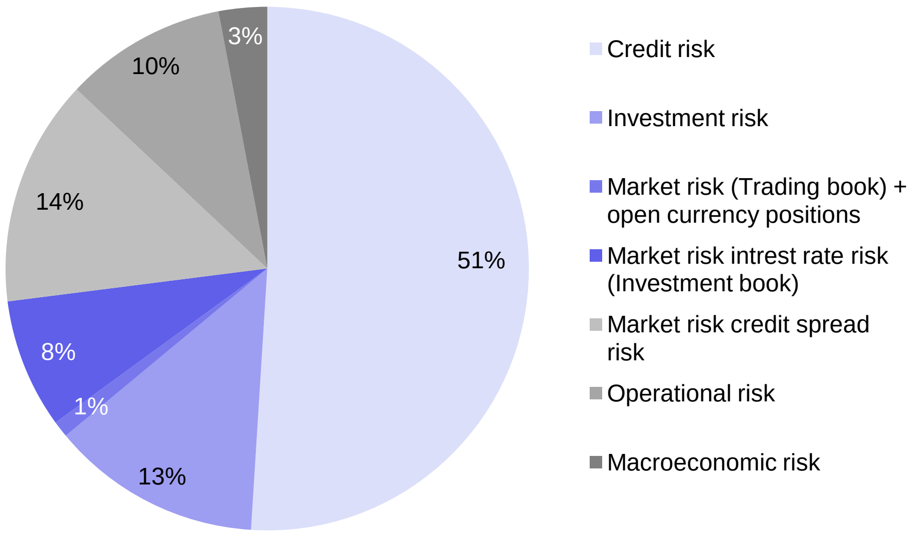
As at 31 December 2014, the regulatory overall risk position for the association is composed as follows:



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. 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 2014, the total risk position for the association in the economic liquidity view was 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 can be accommodated without jeopardizing ongoing business operations. Therefore, the risk-covering capital essentially comprises only hidden reserves, the net profit/loss achieved in the current financial year and the target profit/loss for the next 12 months. 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

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

- General default risk
- Default risk arising from investments (see also section h) Investment risk)
- Counterparty risk in derivative transactions
- Repayment vehicle risk
- Foreign exchange risk of foreign currency loans
- Transfer risk of cross-border financing
- Macroeconomic risk
- Rating migration risk
- Concentration risk

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

The default risk arising from investments means the possible losses that may arise as a result of default on receivables owed to the association in its capacity as an equity investor.

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

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 relevant financing. This shortfall between expected savings volume and outstanding amount at maturity serves as a guide to the potential loss.

The foreign exchange risk of foreign currency loans arises due to a mis-match 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, resulting in additional defaults.

Transfer risk occurs in the case of receivables that cross national borders. in the case of a 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.

Macroeconomic risk quantifies the risk arising from an economic downturn.

Rating migration risk (or credit-rating risk or just migration risk) is responsible for losses resulting from downgrades of credit ratings of receivables affected by default.

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.

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 subsidiaries and risk management at association level. The system of authorisations that applies across the association governs the step-by-step involvement of operational risk management and of the Managing and Supervisory Boards in the risk analysis/lending decision where potential transactions exceed a specific amount. 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. In future, calculation of the economic capital requirements needed for the credit risk will be 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 (new business, EAD, collateral, loss and default rate, risk factor, etc.)

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

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. In this process, particular attention is payed to ensure that the systems primarily serve to support the persons performing the tasks. Thus, in addition to the quality of the methods, great importance is attached to the training, qualifications and experience of the employees.

Risk management and controlling

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 individual customers
- Credit limits for groups of affiliated customers
- Portfolio limits

When limits are defined, with regard to individual customers and groups of affiliated customers a distinction is made between governments, banks and others, with the latter category subsuming both corporate and retail customers. The limits are set depending on the rating category and the counterparty's own funds, the maximum remaining term of the transaction and the Group member's own funds and earnings power. In the Corporates and Retail segments, the limits generally relate to the credit scope granted after deducting collateral (unsecured risk). The setting of limits is monitored at individual transaction level on a continual basis as part of the operational risk management of the sub-institutions and is supported by centrally produced analyses.

At present, when setting limits for portfolios, the association primarily uses country risk limits with the aim of limiting the transfer risk. The countries are divided into risk groups and markets based on external ratings and business strategy.

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 4.1 % of the total portfolio. At euro 1.1 billion, the collateralised EAD for these top 25 companies represents 64 % of the total amount. Of the total figure of euro 1.7 billion, euro 1.2 billion relates to Austria, euro 137 million to Hungary and euro 89 million to Poland. A breakdown of these 25 corporate customers shows that euro 1.4 billion relates to classic corporate financing, euro 271 million to specialist financing and euro 10 million to the category of associations, insurance and leasing.

Please also refer to the risks relating to the wind-down portfolio detailed in note 1).

Rating systems

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

On the basis of the EBA FINAL draft Implementing Technical Standards on supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No 575/2013 (EBA/ITS/2013/03/rev1 as at 24 July 2014), all loans and debt securities and all revocable and irrevocable loan commitments provided in all measurement categories, with the exception of held-for-trading positions, fall within the scope of supervisory reporting on forbearance and non-performing exposures. Forbearance refers to concessions made by the lender to an individual borrower for economic reasons linked to financial difficulties experienced by the borrower, which the lender would not otherwise grant. 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 997,654 thousand. This amount relates to performing forborne credit exposures amounting to euro 371,489 thousand and non-performing forborne credit exposures amounting to euro 626,166 thousand; value adjustments of euro 328,217 thousand have been made for the non-performing forborne credit exposures.

The decision on when a transaction is no longer classed 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 debit 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. 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 for internal risk management 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 Group market risk management department is responsible for monitoring the counterparty limits for trading that are set in line with various maturity bands. As mentioned above, 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.

The inclusion of concluded transactions in the limits naturally takes place in real time. Utilisation reports and any overdraft reports are made available to the credit and trading departments concerned on a daily basis.

Collateral Management im Derivatehandel

As part of internal risk management in the association, a daily comparison of the fair value of derivative transactions is currently performed with 87 partners 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 with 86 contractual partners 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. Independent amounts are occasionally required from contractual partners depending on the VBAG rating level. Euro 15 million in additional cash collateral was deposited in 2014. Further independent amounts may be required in the event of ratings being downgraded.

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

These analyses are presented according to different sizes and ratios: unsecured exposure, total exposure, expected loss, existing risk provisions, standard risk costs, non-performing loans, CVaR, etc. 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.

Euro thousand	Loans and receivables to credit institutions and customers 31 Dec 2014	 31 Dec 2013
Gross carrying amount	28,319,678	31,738,061
Risk provision	951,316	1,521,460
Net carrying amount	**27,368,362**	**30,216,601**
Receivables impaired		
Risk category 1 (1A - 1E)	0	9,473
Risk category 2 (2A - 2E)	0	4,535
Risk category 3 (3A - 3E)	0	320,704
Risk category 4 (4A - 4E)	0	316,920
Risk category 5 (5A - 5E)	1,689,803	2,041,392
Risk category 6 (NR)	0	3,692
Gross carrying amount	1,689,803	2,696,715
Risk provision	884,197	1,380,279
Net carrying amount	**805,606**	**1,316,436**
Receivables not impaired 90 - 180 days		
Risk category 1 (1A - 1E)	0	0
Risk category 2 (2A - 2E)	0	295
Risk category 3 (3A - 3E)	0	14,321
Risk category 4 (4A - 4E)	0	7,870
Risk category 5 (5A - 5E)	28,706	87,769
Risk category 6 (NR)	0	1,000
Gross carrying amount	**28,706**	**111,255**
Receivables not impaired 180 - 365 days		
Risk category 1 (1A - 1E)	0	0
Risk category 2 (2A - 2E)	0	47
Risk category 3 (3A - 3E)	0	5,123
Risk category 4 (4A - 4E)	0	2,649
Risk category 5 (5A - 5E)	26,621	38,465
Risk category 6 (NR)	0	877
Gross carrying amount	**26,621**	**47,162**
Receivables not impaired but past due 365 days		
Risk category 1 (1A - 1E)	0	0
Risk category 2 (2A - 2E)	0	28
Risk category 3 (3A - 3E)	0	7,413
Risk category 4 (4A - 4E)	0	16,398
Risk category 5 (5A - 5E)	107,848	145,462
Risk category 6 (NR)	0	2,575
Gross carrying amount	**107,848**	**171,876**
Receivables neither impaired nor past due		
Risk category 1 (1A - 1E)	606,257	955,028
Risk category 2 (2A - 2E)	3,470,348	3,437,325
Risk category 3 (3A - 3E)	17,904,136	19,423,615
Risk category 4 (4A - 4E)	4,154,818	4,159,142
Risk category 5 (5A - 5E)	264,651	344,897
Risk category 6 (NR)	66,490	391,047
Gross carrying amount	**26,466,701**	**28,711,054**
Portfolio based allowance	67,119	141,181
Total net carrying amount	**27,368,362**	**30,216,601**

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.

Euro thousand	Loans and receivables to credit institutions and customers 31 Dec 2014 Gross	Net	31 Dec 2013 Gross	Net
Receivables impaired				
Rating 5A	62,290	42,356	17,778	9,401
Rating 5B	507,712	271,535	758,967	385,073
Rating 5C	672,098	359,896	701,168	280,652
Rating 5D	413,582	117,631	541,387	113,923
Rating 5E	34,121	14,187	22,093	4,501
Total	1,689,803	805,606	2,041,392	793,551
Receivables not impaired but past due 90 days				
Rating 5A	25,976	25,976	94,154	94,154
Rating 5B	11,574	11,574	16,079	16,079
Rating 5C	82,830	82,830	105,420	105,420
Rating 5D	39,361	39,361	55,752	55,752
Rating 5E	3,434	3,434	290	290
Total	163,175	163,175	271,696	271,696
Receivables neither impaired nor past due				
Rating 5A	19,248	19,248	51,562	51,562
Rating 5B	134,031	134,031	103,183	103,183
Rating 5C	89,198	89,198	152,312	152,312
Rating 5D	18,051	18,051	35,536	35,536
Rating 5E	4,123	4,123	2,305	2,305
Total	264,651	264,651	344,897	344,897
Total sum	**2,117,629**	**1,233,431**	**2,657,985**	**1,410,143**

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[1)]
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**
31 Dec 2013		
Risk category 1 (1A - 1E)	964,501	960,764
Risk category 2 (2A - 2E)	3,442,230	3,440,329
Risk category 3 (3A - 3E)	19,771,175	19,718,520
Risk category 4 (4A - 4E)	4,502,979	4,430,758
Risk category 5 (5A - 5E)	2,657,985	1,410,143
Risk category 6 (NR)	399,191	397,269
Total	**31,738,061**	**30,357,782**

[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.

Euro thousand	Receivables total		Receivables in loss		Receivables alive	
	Exposure	Unsecured	Unsecured	Risk provision	Unsecured	Expected Loss
31 Dec 2014						
Curia A (Lower Austria)	3,647,439	1,218,837	70,371	46,863	1,148,466	17,552
Curia B (Upper Austria)	2,099,041	865,472	68,078	48,991	797,394	11,486
Curia C (Vienna, Burgenland)	6,282,408	863,972	70,205	50,286	793,767	13,495
Curia D (South)	4,145,240	1,346,131	191,966	156,506	1,154,165	21,287
Curia E (West)	6,513,071	2,052,210	117,984	88,438	1,934,226	35,906
VBAG Group - core business						
Financing	1,854,083	330,668	73,549	60,621	257,119	9,210
Financial Markets	1,315,062	804,545	2,209	2,064	802,336	9,624
Investments Book	67,825	67,825	0	0	67,825	27
Other Operations	316	316	0	0	316	0
VBAG Group - non-core business						
Corporates	363,255	231,636	156,810	156,469	74,826	1,561
Real Estates	1,020,562	476,654	322,095	264,844	154,558	3,843
Leasing CEE	734,401	278,928	42,184	8,413	236,744	4,783
Investment book	276,976	276,976	1,744	703	275,232	1,941
Other operations	0	0	0	0	0	0
Total	**28,319,678**	**8,814,169**	**1,117,195**	**884,197**	**7,696,975**	**130,716**
31 Dec 2013						
Curia A (Lower Austria)	3,606,584	1,414,538	98,309	98,594	1,316,229	24,016
Curia B (Upper Austria)	2,147,138	993,477	102,605	99,416	890,872	16,224
Curia C (Vienna, Burgenland)	6,343,178	1,172,738	145,362	147,100	1,027,376	22,489
Curia D (South)	4,288,355	1,556,302	187,710	153,474	1,368,592	29,396
Curia E (West)	6,042,960	2,122,237	146,630	135,369	1,975,607	51,202
VBAG Group - core business						
Financing	2,547,182	960,219	55,898	47,290	904,321	22,243
Financial Markets	1,498,569	1,213,338	3,495	3,948	1,209,843	6,475
Investments Book	66,432	66,432	0	0	66,432	361
Other Operations	19	19	0	0	19	0
VBAG Group - non-core business						
Corporates	723,006	413,226	186,964	176,659	226,262	5,193
Real Estates	2,166,538	1,008,385	351,356	272,020	657,029	17,212
Leasing CEE	1,867,995	489,925	102,652	102,794	387,273	13,039
Investment book	318,216	318,216	10,703	4,210	307,513	2,802
Other operations	121,890	28,271	5,164	6,967	23,108	628
Total	**31,738,061**	**11,757,323**	**1,396,847**	**1,247,842**	**10,360,476**	**211,281**

Across the association, default follows the definition given by the Austrian Solvency Regulation for banks 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, there are also group based impairments and portfolio provisions that 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 2014	Loans and receivables to credit institutions and customers 31 Dec 2013
Collateral for individual impairment loans and receivables		
Liquid funds	18,066	22,491
Securities	8,040	13,692
Mortgages	540,945	914,506
Guarantees	36,776	83,145
Movable Goods	11,976	71,705
Others	36,035	54,180
Collateral for loans and receivables not impaired but past due 90 days		
Liquid funds	2,634	3,048
Securities	1,344	2,599
Mortgages	136,405	196,099
Guarantees	2,004	21,323
Movable Goods	268	823
Others	4,673	5,442
Collateral for loans and receivables neither impaired nor past due		
Liquid funds	613,832	522,470
Securities	417,072	427,096
Mortgages	14,583,898	13,817,193
Guarantees	512,529	535,189
Movable Goods	1,004,605	1,996,444
Others	1,574,406	1,293,292
Total value of collaterals	**19,505,509**	**19,980,738**

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 2014							
Curia A (Lower Austria)	3,620,246	18,607	5,308	649	1,423	1,205	3,647,439
Curia B (Upper Austria)	1,818,783	275,481	3,122	398	888	368	2,099,041
Curia C (Vienna, Burgenland)	6,162,808	95,654	19,815	1,107	1,273	1,750	6,282,408
Curia D (South)	3,957,229	40,652	103,402	42,671	340	945	4,145,240
Curia E (West)	5,705,049	779,973	9,878	2,450	1,192	14,530	6,513,071
VBAG Group - core business							
Financing	1,643,367	130,827	19,138	7,322	69	53,360	1,854,083
Financial Markets	278,038	439,825	570,242	505	19,904	6,549	1,315,062
Investments Book	0	67,825	0	0	0	0	67,825
Other Operations	316	0	0	0	0	0	316
VBAG Group - non-core business							
Corporates	143,486	131,538	73,758	11,253	0	3,220	363,255
Real Estates	82,947	86,029	752,889	82,909	0	15,789	1,020,562
Leasing CEE	91	102,000	368,639	263,458	0	213	734,401
Investment book	0	19,809	0	255,493	971	703	276,976
Other operations	0	0	0	0	0	0	0
Total	**23,412,359**	**2,188,221**	**1,926,191**	**668,215**	**26,059**	**98,633**	**28,319,678**
31 Dec 2013							
Curia A (Lower Austria)	3,579,070	17,786	6,123	546	1,904	1,154	3,606,584
Curia B (Upper Austria)	1,838,773	302,643	4,148	649	676	250	2,147,138
Curia C (Vienna, Burgenland)	6,206,462	109,432	21,648	1,175	1,472	2,990	6,343,178
Curia D (South)	4,028,546	54,685	144,141	59,057	908	1,017	4,288,355
Curia E (West)	5,225,484	776,766	12,340	5,866	331	22,174	6,042,960
VBAG Group - core business							
Financing	2,239,881	192,225	47,340	10,532	0	57,203	2,547,182
Financial Markets	302,893	268,293	904,734	873	10,765	11,012	1,498,569
Investments Book	0	66,432	0	0	0	0	66,432
Other Operations	19	0	0	0	0	0	19
VBAG Group - non-core business							
Corporates	304,392	214,032	160,946	21,667	18,748	3,220	723,006
Real Estates	361,399	221,114	1,440,260	97,456	0	46,310	2,166,538
Leasing CEE	85	4	1,615,697	252,152	0	58	1,867,995
Investment book	0	57,952	725	255,561	864	3,114	318,216
Other operations	154	120,253	214	196	1,072	0	121,890
Total	**24,087,157**	**2,401,619**	**4,358,315**	**705,729**	**36,738**	**148,503**	**31,738,061**

The distribution of the receivables portfolio across the main regions that are used within the association for controlling purposes shows a clear shift in regional distribution. Even in 2013, the bulk of the volume was in Austria. The volume was reduced significantly in 2014, although the regional distribution was maintained.

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	not attributable	Total
31 Dec 2014								
Curia A (Lower Austria)	96,812	4,839	911,383	1,122,208	1,484,304	27,893	0	3,647,439
Curia B (Upper Austria)	71,358	184	552,815	568,884	853,192	52,609	0	2,099,041
Curia C (Vienna, Burgenland)	33,289	12,175	2,090,956	1,081,440	2,955,423	109,125	0	6,282,408
Curia D (South)	62,644	1,774	1,423,140	1,189,947	1,435,226	32,510	0	4,145,240
Curia E (West)	35,794	47,375	2,448,518	1,429,485	2,497,686	54,212	0	6,513,071
VBAG Group - core business								
Financing	33,091	46,056	920,599	363,305	405,367	85,665	0	1,854,083
Financial Markets	551	1,192,518	116,929	3,296	1,769	0	0	1,315,062
Investments Book	67,825	0	0	0	0	0	0	67,825
Other Operations	316	0	0	0	0	0	0	316
VBAG Group - non-core business								
Corporates	6,541	42	208,463	5,864	1,095	141,250	0	363,255
Real Estates	1,697	9,603	379,353	3,165	959	625,785	0	1,020,562
Leasing CEE	2,810	112,773	6,585	459,102	153,127	3	0	734,401
Investment book	703	255,493	20,779	0	0	0	0	276,976
Other operations	0	0	0	0	0	0	0	0
Total	**413,429**	**1,682,833**	**9,079,520**	**6,226,697**	**9,788,148**	**1,129,052**	**0**	**28,319,678**
31 Dec 2013								
Curia A (Lower Austria)	99,878	7,405	894,891	1,079,342	1,513,467	11,598	2	3,606,584
Curia B (Upper Austria)	73,377	612	578,443	611,357	862,896	20,454	0	2,147,138
Curia C (Vienna, Burgenland)	36,034	11,901	2,040,695	1,097,356	3,049,227	107,966	0	6,343,178
Curia D (South)	63,113	8,299	1,351,664	1,240,185	1,539,806	85,225	63	4,288,355
Curia E (West)	31,498	107,341	2,135,734	1,284,274	2,453,936	25,007	5,170	6,042,960
VBAG Group - core business								
Financing	29,509	52,120	1,472,454	396,198	428,005	166,341	2,555	2,547,182
Financial Markets	20,141	1,384,781	87,797	2,416	3,434	0	0	1,498,569
Investments Book	66,432	0	0	0	0	0	0	66,432
Other Operations	19	0	0	0	0	0	0	19
VBAG Group - non-core business								
Corporates	9,052	0	496,561	13,725	1,182	202,485	0	723,006
Real Estates	3,498	4,211	975,390	40,106	959	1,096,063	46,310	2,166,538
Leasing CEE	5,988	30,378	138,870	1,534,489	158,261	9	0	1,867,995
Investment book	1,428	255,561	61,227	0	0	0	0	318,216
Other operations	0	9,048	90,310	0	21,693	840	0	121,890
Total	**439,966**	**1,871,657**	**10,324,038**	**7,299,447**	**10,032,865**	**1,715,989**	**54,100**	**31,738,061**

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 within the association and the way in which these are handled are presented in the general instructions "GW 3. Besicherungsmittel".

These categorise collateral according to both legal hedging transactions and by the type of goods on which they are based. In this process, information is provided for each type of collateral as to whether it is economically suitable collateral or collateral recognised by regulatory requirements and can thus be used to reduce economic risk and/or regulatory minimum equity requirements.

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 association-wide valuation rules. Furthermore, there are clearly defined guidelines and processes for creating, managing and realising loan collateral within each institution. 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 2014	31 Dec 2013
Financial collateral	1,535,241	1,273,747
Real estate collateral	15,261,249	14,927,799
Other tangible collateral	1,150,538	2,158,500
Accounts receivable	98,775	97,546
Life insurance	906,246	883,489
Guarantees	551,310	639,657
Credit derivatives	2,151	0
Total	**19,505,509**	**19,980,738**

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	Allowable amount	
Euro thousand	31 Dec 2014	31 Dec 2013
Abstract guarantee	528,915	281,444
Guarantee	2,858	33,307
Joint security / Guarantee and payer liability (persuant to section 1357 Austrian Civil Code)	5,425	171,757
Second degree security / Deficiency guarantee (persuant to section 1356 Austrian Civil Code)*	981	129,452
Second degree security / Ordinary guarantee (persuant to section 1346 Austrian Civil Code)*	0	7,775
Guarantee of a bill of exchanges acc. Bill of Exchange Act (Joint security)	7,337	11,663
Strict letter of comfort	5,794	4,259
Total	**551,310**	**639,657**

* 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 and section 1346 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
- General credit spread risk
- Foreign currency risk
- Option risks

Organisation and risk strategy

Market risk in the trading book

Only VBAG as the central organisation has a large trading book. Market risks in trading in the VBAG Group are managed and monitored by the central organisation's independent Group market risk management department, which is based in strategic risk management. 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 management 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 (ALCO), which act as coordination bodies for managing ALM processes, are in place at all the association's member institutions. These meet at least quarterly, but usually monthly.

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-group market risk investment book is responsible for specifying risk measurement methods and enhancing them on an ongoing basis. Preparing evaluations and analyses, setting parameters and monitoring limits also fall within its remit. The reports it produces serve as a decisionmaking tool for the ALCO 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.

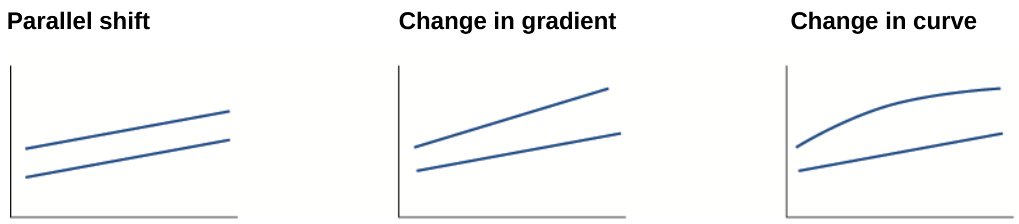
The following interest rate risks are relevant to the association:

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:



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.

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.

Examples of implicit options are

- Bonds with call options – the right to repurchase the bonds prior to maturity
- Bonds with put options – the right to return the bonds prior to maturity
- Deposits with the right to terminate – e.g. non-maturity deposit instruments

Here, the explicit risk of options denotes the risk from standalone, interest rate-related options (asymmetrical interest rate derivatives).

Examples of explicit options are

- Cap & floor
- Options on a bond
- Swaptions

Foreign currency risk

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.

Credit Spread-Risiko

Particular attention is paid to credit spread risk in the strategic investment book and the securities accounts for the Volksbanks' own business investments. This essentially includes all bonds, credit default swaps and securitisations of the entire Association of Volksbanks. It also encompasses credit-linked notes, funds, promissory note bonds, syndicated loans, investment and hedge funds and nostro shares of the association. The Managing Board of the central organisation is notified of the positions in the strategic investment book and securities accounts for own business investments on a quarterly basis as part of the risk reporting process. The strategic investment book 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 structur according to IAS 39 categories

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 und 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**

Euro thousand	Bond	Securisation	Syndicated loans & SSD	Fund & Equity	CLN, LPN & CL-SSD	Total
31 Dec 2013						
At fair value through profit or loss	34,315	13,777	0	2,532	0	50,623
Available for sale	2,895,192	2,680	0	347,657	150,023	3,395,551
Held to maturity und loans & receivables	809,662	261,843	384,364	0	195	1,456,064
Total	**3,739,168**	**278,300**	**384,364**	**350,188**	**150,218**	**4,902,239**

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 riskreport 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.

Exposure financial investments European peripheral countries as at 31 December 2014:

	available for sale		held to maturity		Total	
Euro thousand	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Italy	144,344	144,361	20,000	25,663	164,344	170,024
Hungary	44,710	44,710	0	0	44,710	44,710
Portugal	43,702	43,702	0	0	43,702	43,702
Spain	41,821	41,838	0	0	41,821	41,838
Slovenia	2,254	2,524	0	0	2,254	2,524
Ireland	487	588	0	0	487	588
Greece	6	6	0	0	6	6
Total	**277,323**	**277,729**	**20,000**	**25,663**	**297,323**	**303,392**

Exposure CDS in European peripheral countries as at 31 December 2014:

	Protection sell		Protection buy		Total net	
Euro thousand	**Face value**	**Fair value**	**Face value**	**Fair value**	**Face value**	**Fair value**
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**

Exposure with regard to European peripheral countries (Portugal, Italy, Ireland, Greece and Spain) as well as Hungary and Slovenia is in a single-digit percentage of the total exposure of the strategic investment book positions. The association's greatest exposure here is to Italy, followed by Hungary, Portugal and Spain. The strategic banking book positions contain no exposure in Greece or Ireland.

Portfolio distribution by credit rating

Euro thousand	31 Dec 2014	31 Dec 2013
1A	1,875,105	1,690,346
1B-1C	517,359	445,508
1D-2A	391,366	1,007,488
2B-3A	1,223,202	1,382,393
3B-4E (NIG)	253,214	360,434
5A-5E (Default)	6,325	13,538
no rating	1,900	2,532
Total	**4,268,471**	**4,902,239**

Partial there are no ratings available for Fund & Equity in the established rating agencies. For this reason the positions are located in the line no rating.

Portfolio distribution by sector

Euro thousand	31 Dec 2014	31 Dec 2013
Financial sector	1,807,631	1,695,123
Public sector	1,404,504	1,877,102
Corporates	555,618	701,815
No classification	500,717	628,199
Total	**4,268,471**	**4,902,239**

Securitisations and (in part) fund & equity are not assigned to a sector since their individual components may belong to different sectors.

The risk calculation for the Group has been produced for the bonds and credit default swaps asset classes since 2009. The risk calculation has been performed for the entire section-30a association since 2012, and since 2013 it has additionally included the securitisations, funds, loans, promissory note bonds and credit-linked notes asset classes. The CS VaR is calculated based on a historical simulation. The scope of the underlying market indices has been extended to include individual indices for each country. The credit spread value at risk is used in the risk reporting and risk limitation of the SBBP and also, in the context of total bank risk management, in the risk sustainability account and the total bank risk stress test. A monthly risk limit applied to the asset classes of bonds, credit default swaps, securitisations and CLN in the strategic investment book in 2014. This was absorbed into the risk limitation of the risk sustainability account with effect from 31 December 2014.

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 association's risk report, 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 and loss). A second risk concept involves the performance of a 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 associataion as at 31 December 2014:

Euro thousand 31 Dec 2014	Credit Spread Value at Risk	10 basis point-Shift
Section 30a Austrian Banking Act - 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 management. Uniform association-wide standards based on economic research are vital for risk management here. The implications of the macroeconomic environment for credit spreads is assessed on the basis of historical data using a multivariate factor model. Using this estimated correlation, the stressed characteristics are determined for credit spreads based on the macroeconomic specifications. In this way, stress test results can be provided on an economic basis, which are then included in the economic total bank risk stress test. These stress tests take place every six month. 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.

Risk management and controlling

Market risk 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 calculations are performed using the risk management systems MUREX, KVaR+ and UnRisk 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 applied by VBAG 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 in the trading book for 2014, broken down into risk types.

Euro	31 Dec 2014	Average	Maximum	Minimum
Interest	308,571	324,850	491,798	155,171
Currencies	3,088	4,289	8,928	1,204
Price risk (equity)	57,525	96,769	191,817	57,525
Commodity	40,431	58,254	91,060	33,901
Volatility (option risk)	46,382	58,794	163,639	38,327
Total	**376,063**	**377,158**	**532,628**	**218,896**

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 VBAG 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 2014 there was one backtesting outlier.

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

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

Volume limits for all currencies and product groups limit the liquidity risk. Management action triggers and stop loss limits are also in place. The Kondor+, KVAR+, 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. At least once a quarter, an expert committee analyses the results, which are also subject to limits, and documents then in detail.

These crisis tests are of both a quantitative and qualitative nature. Qualitative tests bring two important objectives of the crisis tests to the fore: 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.

Quantitative standards concern the plausibility of selected scenarios to which the bank may be exposed in the course of critical market events.

VBAG 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 methods attempt to find the least favourable possible impacts for the current portfolio. At VBAG, such scenarios are sought subjectively and empirically. VBAG has established an expert committee comprising representatives from trading and the central organisation’s market risk management that constructs and discusses various scenarios that would have a decisive influence on the portfolio which, although generally unlikely, are still possible. Extreme developments on the market are discussed and analysed in detail in the expert committee of VBAG with a view to identifying any potential need to adjust the expert scenarios.

Valuations

All trading book positions are managed using the front office and risk management systems MUREX, Kondor+, Bloomberg TOMS and UnRisk. These are 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 systems described above ensure a daily, independent valuation of trading book positions.

Well-organised, efficient processes and procedures are an important component of risk management. The process for launching new treasury products, which falls under the remit of the Group market risk management department, also plays an important role in this context.

All the rules and organisational processes connected with measuring and monitoring market risks are compiled in the VBAG market risk manual. The manual also stipulates the limit structure and escalation procedures in the event of limits being exceeded.

Interest rate risk in the investment book

The risk measurement system records all the main forms of interest rate risk, such as basis and option risks. All association positions sensitive to interest rate movements are included. Risk reporting at association level takes place on a monthly or an ad hoc basis whenever necessary. The objective of risk management 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

A 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 or the points at which interest rates are to be fixed. Initial risk ratios are obtained from calculating the net positions and weighting them using the associated weighting factors. A further risk ratio is obtained by then correlating the present value risk calculated in this way with the own funds.

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 that can lead to extraordinary losses for the bank are a fixed component of stress tests in risk management.

Currently, the following stress tests are performed:

- Parallel shift of +100 bp and +200 bp
- Parallel shift of –100 bp and –200 bp
- Tilt/money market +100 bp
- Capital market –100 bp
- Risk stress tests are conducted half-yearly as part of the ICAAP. The scenarios used are determined and examined in advance.

As well as the maximum limit defined by the supervisory Authority of 20 % of eligible qualifying capital with a standardised interest rate curve shift of 200 bp based on interest rate risk statistics, further, and in many cases considerably lower, limits are defined and monitored for the purpose of limiting internal risk across the association.

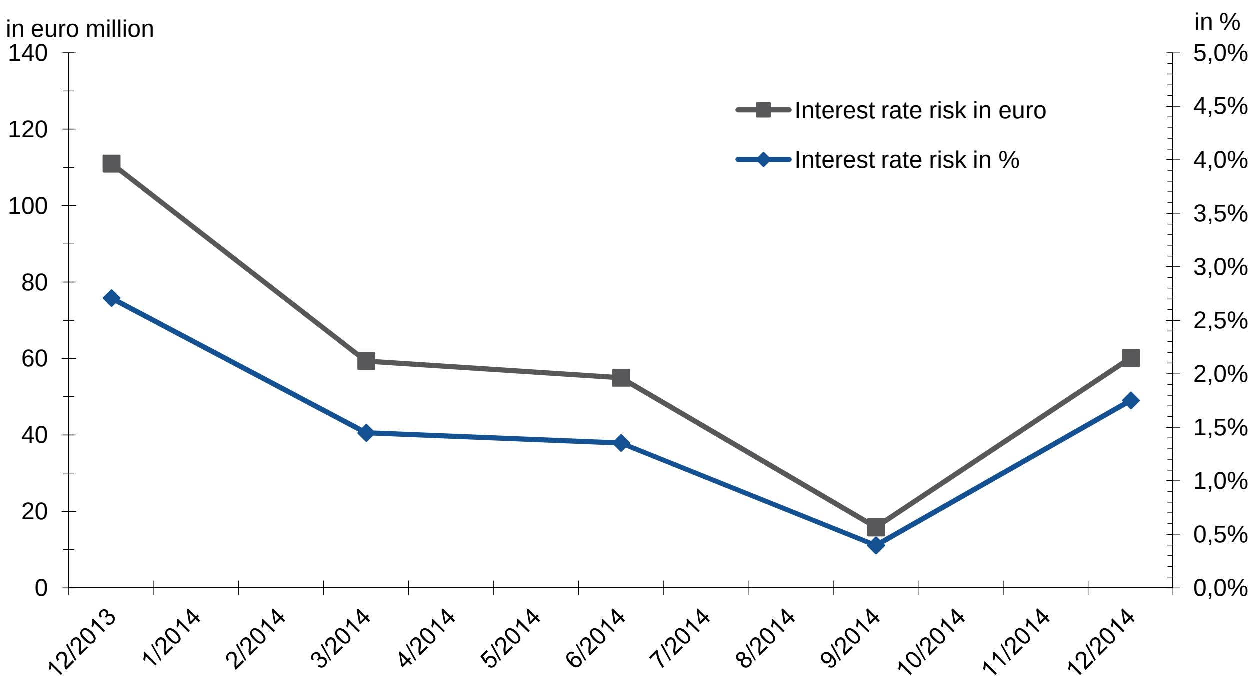
Gap report

Absolute interest rate risk has increased significantly year-on-year from euro 111.05 million (2.71 % own funds) to euro 60.16 million (1.75 % own funds).

In comparison with the previous year, these changes amounted to euro 50.89 million in absolute terms and represented an slight increase of 0.96 percentage points in relation to own funds. The graph shows how interest rate risk is distributed among the four main currencies with a shift of +200 bp. "Other" is a collective item for the positions in other currencies held in the association.

Interest rate risk development

The graph shows the net present value of interest rate risk (regulatory view in accordance with the Austrian National Bank's standard procedures) in millions of euro (left axis) and in relation to eligible own funds (right axis) over time. In the 2014 business year, a stable interest rate risk was apparent which was low in relation to own funds. Maximum utilisation in the 2014 business year was 2.71 % (December 2013), and the smallest utilisation was 0.40 % (September 2014).



Effect of a change of interest rate on interest income:

Euro thousand	Shift +100 bp	Shift -100 bp
31 Dec 2014		
Fiscal year 2014	34,025	-34,025
Average of the period	39,511	-39,511
Maximum of the Period	45,411	-34,025
Minimum of the Period	34,025	-45,411
31 Dec 2013		
Fiscal year 2013	36,555	-36,555
Average of the period	29,763	-29,763
Maximum of the Period	36,555	-24,417
Minimum of the Period	24,417	-36,555

f) Operational risk

Definition

The association defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. Beyond the stipulations of banking law provisions, the association also takes legal risks into account in the risk assessment.

Organisation and risk strategy

Both quantitative and qualitative methods are used to measure operational risks. The line management responsible for managing operational risks receives support from the Operational Risk and Internal Control System (ORICS) contact based in Strategic Risk Control. The ORICS team (made up of nominated individuals from business areas including compliance and legal) meets periodically to discuss OpRisk and event data as well as measures to control risk (e.g. internal control). Close collaboration with security, safety and insurance management enables optimal, comprehensive management of operational risks.

Risk management and -controlling

The following policies and principles derived from the association's 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 the BART platform, in a sufficiently comprehensible manner to enable third-party experts to make use of the documentation.
- 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 using OpRisk tests on a continual basis and at least once a year. Management measures relevant in this context include 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 operational risk management is also confirmed by way of periodic independent audits.

The focus in 2014 was on the implementation of the OpRisk programme in the Association of Volksbanks in accordance with section 30a of the Austrian Banking Act and on the standardisation of the calculation of capital requirements in the association, moving from the previous combined approach to the standard approach (VBAG Group, VB Wien, Immo Bank, Ärzte Bank and start: Bausparkasse used the standard approach, while the remaining members of the association used the basic indicator approach). Jointly with primary bank representatives, a review was carried out of the methods, systems (e.g. a standardised platform for event data gathering, reports on the standardised allocation of operating income to sectors under the Basel framework, etc.) and guidelines. At the same time training and awareness-raising initiatives were conducted through the Volksbank Academy.

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 Financial markets & Group Treasury. Monitoring and limitation of liquidity risk and the methodological principles of risk measurement are the responsibility of VBAG's Risk management.

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 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.

Operational risk management and -controlling

Operational liquidity management

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

Operational liquidity management comprises the following key tasks:

1. 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 VBAG 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.
2. 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.

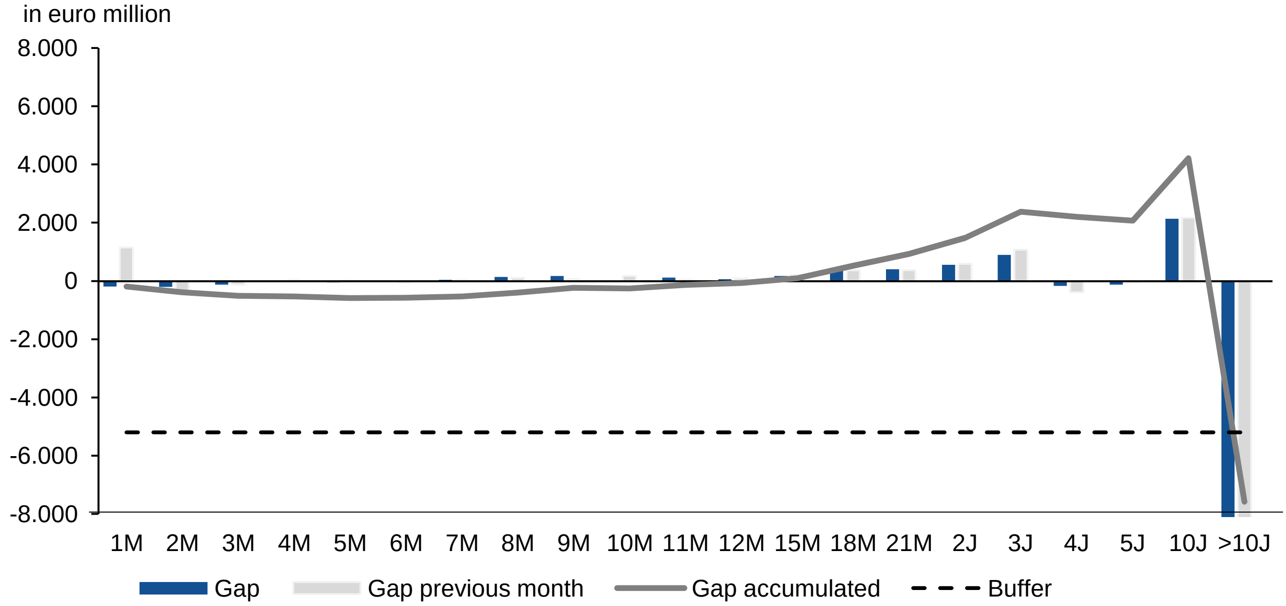
3. A planning tool enables daily liquidity planning for the next 31 days, and weekly planning for the next 12 months for all relevant currencies. This tool also allows for a liquidity outlook covering the Association of Volksbanks, based on net cash flow up to product level. Cash flows are modelled at 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.
4. Compliance with the legal provisions of section 25 of the Austrian Banking Act and CEBS guidelines by the association in connection with managing ECB collateral and monitoring liquid assets is another key part of operational liquidity management.
5. Monitoring the association's refinancing positions in all currencies and the "liquidity control system" for association banks implemented by VBAG 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.
6. 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 managing Board are also part of the task area.

Liquidity risk management

Risk reports

To present the structural liquidity risk management in the bank, the market Risk investment Book department of VBAG 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/collateral deposited and accepted at the central banks as well as cash on hand and the cash reserve at the Austrian National Bank.

Liquidity gap report for the association as at 31 December 2014 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

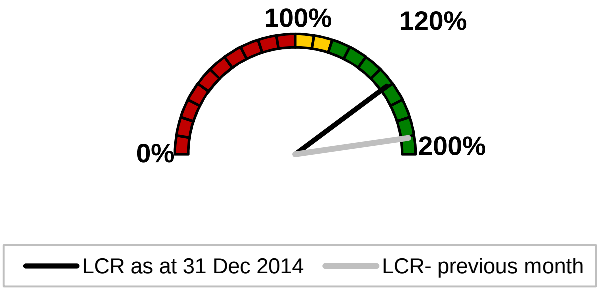
In response to the financial market crisis and the associated liquidity problems faced by banks, the Basel Committee on Banking Supervision developed new minimum standards for liquidity risk in the form of the regulatory framework “Basel III: International framework for liquidity risk measurement, standards and monitoring”. The final version of the framework was published in December 2010. The key elements of Basel III are two liquidity measures: the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). The aim of the LCR is to ensure the short-term solvency of banks in stress situations. The NSFR is aimed at banks' medium to long-term liquidity position and is intended to limit their use of liquidity maturity transformation.

The agreement is being implemented Europe-wide as part of “CRD IV / CRR I”. The European Banking Authority (EBA) is also publishing an implementing technical standard for both liquidity ratios, setting out the regulatory reporting requirements for LCR and NSFR. The implementing technical standard uses report templates to set out the key aspects of reporting.

VBAG 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 2014, LCR in the association stood at 159 % and thus already exceeded the legal requirements. (Note: a ratio of 60% is required from Q3 2015 for regulatory purposes).

Liquidity Coverage Ratio (LCR)



	Euro thousand
High Quality Liquid Assets	4,910,015
Outflows	3,495,843
Interflows	413,351
LCR as at 31 Dec 2014	159 %
LCR-previous month	191 %

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.

The association has a 51 % holding in Volksbank Romania S.A. through the association member, VBAG. Together with Groupe BPCE, DZ Bank AG and WGZ Bank, VBAG sold its shares in VBRO to the Romanian bank Banca Transilvania S.A. and signed the relevant agreements on 10 December 2014. Approval was granted by the Romanian National Bank and competition authority on 17 March 2015 and the deal was closed on 7 April 2015. The refinancing facility for VBRO was reduced by euro 0.3 billion to euro 0.5 billion in the 2014 business year (31 December 2013: euro 0.8 billion). The refinancing facility involves euro 82 million of subordinated debt. The holding, which is measured at equity, is shown as a discontinued operation as at 31 December 2014, while the refinancing facility is reported under assets held for sale.

VBAG and therefore the association have a 4.64 % share in Raiffeisen Zentralbank Österreich Aktiengesellschaft. The carrying amount of this investment corresponds to 58.91 % of the item Participations, and thus represents a concentration risk. This investment will be sold by the end of 2016 in accordance with VBAG's restructuring plan.

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
"VBL POSREDNIK" d.o.o.; Sarajevo	SO	50.00 %	50.00 %	1
"VBV iota" - IEB Holding GmbH; Wien	SO	100.00 %	100.00 %	36
3V-Immobilien Errichtungs-GmbH; Wien	HD	100.00 %	100.00 %	35
ACP IT-Finanzierungs GmbH; Wien	FI	75.00 %	75.00 %	150
AREA Liegenschaftsverwertungs GmbH; Rankweil	SO	100.00 %	100.00 %	35
ARIANA TURIST VILE d.o.o.; Zagreb	SO	100.00 %	100.00 %	1,156
ATIUMCO LIMITED; Limassol	SO	100.00 %	100.00 %	1
AWP Liegenschaftsverwaltung GmbH; Wien	HD	100.00 %	100.00 %	145
Dexagon Ingatlanfejlesztö Kft. "v.a."; Budapest	SO	100.00 %	100.00 %	2
Duna Tower Ingatlanhasznosító és Kereskedelmi Kft.; Budapest	SO	100.00 %	100.00 %	42
Grieshofgasse 11 Liegenschaftsverwaltungs GmbH; Wien	SO	100.00 %	100.00 %	35
Hemera Development Sp. Z o.o.; Warszawa	SO	100.00 %	100.00 %	49
IC Beta d.o.o.; Krapina	FI	100.00 %	100.00 %	3
IC Investment Corporation Limited; Msida, Malta	HD	100.00 %	100.00 %	7
IKIB alpha Beteiligungsholding GmbH; Wien	SO	100.00 %	100.00 %	35
IKIB beta Beteiligungsholding GmbH; Wien	SH	100.00 %	100.00 %	35
IKIB Mittelstandsfinanzierungs GmbH; Wien	SH	100.00 %	100.00 %	35
Immo Kapitalanlage AG; Wien	KIFI	100.00 %	100.00 %	5,000
IMMOINVEST, s.r.o.; Bratislava	SO	100.00 %	100.00 %	33
Immopol Logis Sp.z.o.o.; Warszawa	SO	100.00 %	100.00 %	24
Immopol Omega Sp.z.o.o.; Warszawa	SO	100.00 %	100.00 %	48
IMMOROM ALPHA SRL; Bucharest	SO	100.00 %	100.00 %	9
IMMOROM BETA SRL; Bucharest	SO	100.00 %	100.00 %	2,751
IMMOROM DELTA SRL; Bucharest	SO	100.00 %	100.00 %	3,251
Imobilia Omikron s.r.o.; Praha 8	FI	100.00 %	100.00 %	8
INPROX Karlovac d.o.o.; Krapina	SO	100.00 %	100.00 %	14
INPROX Ústí nad Labem, s.r.o.; Praha 8	FI	100.00 %	100.00 %	4
Investkredit Funding Ltd.; St. Helier - JERSEY	HD	100.00 %	100.00 %	10
Investkredit International Bank p.l.c.; Sliema	SO	100.00 %	100.00 %	7,500
Investkredit-IC Holding alpha GmbH; Wien	SO	100.00 %	100.00 %	35
Investkredit-IC Holding beta GmbH; Wien	SO	100.00 %	100.00 %	35
JML AG in Liquidation; Zug	HD	100.00 %	100.00 %	1,081
JML Holding AG in Liquidation; Zug	HD	100.00 %	100.00 %	250
Kalvin-Center Kft.; Budapest	SO	100.00 %	100.00 %	12
LAND SIBIU TWO s.r.l.; Bucharest	SO	100.00 %	100.00 %	20,396
Leasing - west Gesellschaft m.b.H. & Co. Kommanditgesellschaft; Kufstein	FI	100.00 %	100.00 %	1,124
Leasing-west Gesellschaft m.b.H.; Kufstein	FI	100.00 %	100.00 %	36
Leasing-west GmbH, BRD; Kiefersfelden	FI	100.00 %	100.00 %	51
Markovo Tepe Mall EOOD; Sofia	SO	100.00 %	100.00 %	150
Mithra Holding Gesellschaft m.b.H.; Wien	SO	100.00 %	100.00 %	18
Mithra Unternehmensverwaltung Gesellschaft m.b.H.; Wien	HD	100.00 %	100.00 %	18
ÖVAG FINANCE (JERSEY) LIMITED; St. Helier - JERSEY	HD	100.00 %	100.00 %	0
Piaggio Investments Limited; Limassol	SO	100.00 %	100.00 %	7
PPI ONE Ltd.; Limassol	SO	100.00 %	100.00 %	117
Premium Office One Sp.z.o.o.; Warszawa	SO	100.00 %	100.00 %	3,243
PRI FIVE Limited; Limassol	SO	100.00 %	100.00 %	2
Protea Létesítményszervezö Kft. "v.a."; Budapest	SO	100.00 %	100.00 %	2
R 6 Offices sp.z.o.o.; Warszawa	SO	100.00 %	100.00 %	49
REWO 10 Limited; Limassol	SO	100.00 %	100.00 %	3
REWO Unternehmensverwaltung GmbH; Wien	SO	100.00 %	100.00 %	18
RO REWO 90 Limited; Limassol	SO	100.00 %	100.00 %	2
ROGER jedna s.r.o.; Bratislava	SO	100.00 %	100.00 %	913
Selene Development Sp. z o.o.; Warszawa	SO	100.00 %	100.00 %	49
Skalea Investments Limited; Limassol	SO	100.00 %	100.00 %	2
Themis Development Sp. z o.o.; Warszawa	SO	100.00 %	100.00 %	49
UBG-Bankenbeteiligungs Gesellschaft m.b.H.; Wien	SH	100.00 %	100.00 %	18
Unternehmensbeteiligungs Gesellschaft mit beschränkter Haftung; Wien	SO	100.00 %	100.00 %	73

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
UVB-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
VB Factoring Bank Aktiengesellschaft; Salzburg	KI	100.00 %	100.00 %	2,907
VB LEASING d.o.o.; Zagreb	FI	50.00 %	50.00 %	10,286
VB Leasing doo Beograd; Novi Beograd	FI	50.00 %	50.00 %	5,343
VB Leasing Finanzierungsgesellschaft m.b.H.; Wien	FI	100.00 %	100.00 %	18
VB LEASING SK, spol. s.r.o.; Bratislava	FI	50.00 %	50.00 %	4,149
VB LEASING Sprostredkovatelská s.r.o.; Bratislava	SO	50.00 %	50.00 %	5
VB Real Estate Development Baross Ingatlan Kft.; Budapest	SO	100.00 %	100.00 %	11
VB Real Estate Holding eins GmbH; Wien	SO	100.00 %	100.00 %	18
VB Real Estate Holding Euphemia GmbH; Wien	SO	100.00 %	100.00 %	35
VB Real Estate Holding Zeta GmbH; Wien	SO	100.00 %	100.00 %	18
VB Real Estate Holding zwei GmbH; Wien	SO	100.00 %	100.00 %	18
VB Real Estate Leasing Alpha GmbH; Wien	FI	100.00 %	100.00 %	18
VB Real Estate Leasing Delta GmbH; Wien	FI	100.00 %	100.00 %	36
VB Real Estate Leasing Dike GmbH; Wien	FI	100.00 %	100.00 %	18
VB Real Estate Leasing eins GmbH; Wien	FI	100.00 %	100.00 %	18
VB Real Estate Leasing Gamma GmbH; Wien	FI	100.00 %	100.00 %	36
VB Real Estate Leasing Ismene GmbH; Wien	FI	100.00 %	100.00 %	18
VB Real Estate Leasing Penta GmbH; Wien	FI	100.00 %	100.00 %	35
VB Real Estate Leasing Psi GmbH; Wien	FI	100.00 %	100.00 %	18
VB Real Estate Leasing RAI GmbH; Wien	FI	100.00 %	100.00 %	18
VB Real Estate Leasing sechs GmbH; Wien	FI	100.00 %	100.00 %	18
VB Real Estate Leasing Viribus GmbH; Wien	FI	100.00 %	100.00 %	36
VB Real Estate Leasing Ziel GmbH; Wien	FI	100.00 %	100.00 %	18
VB Real Estate Services Czechia s.r.o.; Praha 8	FI	100.00 %	100.00 %	4
VB Real Estate Services GmbH; Wien	FI	100.00 %	100.00 %	3,270
VB Real Estate Services Polska Spólka z.o.o.; Warszawa	FI	100.00 %	100.00 %	94
VB Real Estate Zeta Ingatlankezelö Bt.; Budapest	FI	100.00 %	100.00 %	0
VB Services für Banken Ges.m.b.H.; Wien	HD	99.00 %	99.00 %	327
VB Technologie Finanzierungs GmbH; Wien	FI	100.00 %	100.00 %	100
VBCS Beteiligungsverwaltung Ges.m.b.H.; Wien	SO	100.00 %	100.00 %	35
VB-Holding Aktiengesellschaft; Wien	SO	100.00 %	100.00 %	73
VBI Holding GmbH; Wien	SO	100.00 %	100.00 %	36
VBKA-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
VBL SERVICES DOO BEOGRAD; Beograd	FI	50.00 %	50.00 %	81
VB-Leasing International Holding GmbH; Wien	SO	50.00 %	50.00 %	5,603
VB-NEPREMICNINE podjetje za promet z nepremicninami, d.o.o.; Ljubljana	SO	60.00 %	60.00 %	956
VBS HISA d.o.o.; Ljubljana	FI	50.00 %	50.00 %	626
VBS Leasing d.o.o.; Ljubljana	FI	50.00 %	50.00 %	28,973
VBV Anlagenvermietungs- und Beteiligungs-GmbH; Wien	SO	100.00 %	100.00 %	35
VBV Holding GmbH; Wien	SO	100.00 %	100.00 %	36
VBZ Váci u. 37 Irodaközpont Kft; Budapest	SO	100.00 %	100.00 %	11
Verwaltungsgenossenschaft der IMMO-BANK eG; Wien	SO	89.00 %	89.00 %	3,915
VIBE-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
Volksbank AG; St.Margarethen	KI	100.00 %	100.00 %	8,317
Volksbank Aktiengesellschaft; Schaan	KI	100.00 %	100.00 %	27,029
Volksbank Invest Kapitalanlagegesellschaft m.b.H.; Wien	KIFI	100.00 %	100.00 %	2,500
Volksbank Leasing BH d.o.o.; Sarajevo	FI	50.00 %	50.00 %	2,124
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
Volksbank Vorarlberg Versicherungs-Makler GmbH; Dornbirn	SO	100.00 %	100.00 %	60
VOME Holding GmbH; Wien	SO	100.00 %	100.00 %	35
Wroclaw Office Park One Sp.z.o.o.; Warszawa	SO	100.00 %	100.00 %	49

1) all fully consolidated companies are under direct or indirect 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
IMMO-Bank Aktiengesellschaft; Wien	KI	11,835
Österreichische Apothekerbank eG; Wien	KI	733
Österreichische Volksbanken-AG IFRS Konzern; Wien	KI	887,552
Schulze-Delitzsch Ärzte und Freie Berufe e.Gen.; Wien	SO	22,908
SPARDA-BANK AUSTRIA Nord eGen; Linz	KI	1,734
SPARDA-BANK AUSTRIA Süd eGen; Villach	KI	2,324
start:bausparkasse e.Gen.; Wien	KI	51,808
VB Wien Beteiligung eG; Wien	SO	24,598
VB-Beteiligung GmbH; Klagenfurt am Wörthersee	SO	100
Volksbank Almtal e. Gen.; Scharnstein	KI	70
Volksbank Alpenvorland e.Gen.; Amstetten	KI	2,868
Volksbank Bad Goisern eingetragene Genossenschaft; Bad Goisern	KI	59
Volksbank Bad Hall e.Gen.; Bad Hall	KI	186
Volksbank Donau-Weinland registrierte Genossenschaft mit beschränkter Haftung; Stockerau	KI	1,001
Volksbank Eferding - Grieskirchen registrierte Genossenschaft mit beschränkter Haftung; Eferding	KI	2,108
Volksbank Enns - St.Valentin eG; Enns	KI	569
Volksbank Feldkirchen eG; Feldkirchen	KI	1,065
Volksbank Fels am Wagram e.Gen.; Fels am Wagram	KI	74
Volksbank Gewerbe- und Handelsbank Kärnten eGen; Klagenfurt	KI	28,374
Volksbank Gmünd eingetragene Genossenschaft; Gmünd	KI	29
Volksbank Kärnten Süd e.Gen.; Ferlach	KI	2,978
Volksbank Kufstein-Kitzbühel eG; Kufstein	KI	4,825
Volksbank Landeck eG; Landeck	KI	1,986
Volksbank Linz-Wels-Mühlviertel AG; Wels	KI	5,000
Volksbank Marchfeld e.Gen.; Gänserndorf	KI	1,366
Volksbank Niederösterreich St. Pölten-Krems-Zwettl Aktiengesellschaft; St. Pölten	KI	8,993
Volksbank Niederösterreich Süd eG; Wiener Neustadt	KI	1,232
VOLKSBANK OBERES WALDVIERTEL registrierte Genossenschaft mit beschränkter Haftung; Heidenreichstein	KI	415
VOLKSBANK OBERKÄRNTEN registrierte Genossenschaft mit beschränkter Haftung; Spittal an der Drau	KI	5,029
Volksbank Oberndorf registrierte Genossenschaft mit beschränkter Haftung; Oberndorf	KI	734
Volksbank Obersdorf - Wolkersdorf - Deutsch-Wagram e.Gen.; Obersdorf	KI	530
Volksbank Obersteiermark e.Gen.; Leoben	KI	7,509
Volksbank Ost registrierte Genossenschaft mit beschränkter Haftung; Schwechat	KI	979
Volksbank Osttirol-Westkärnten eG; Lienz, Tirol	KI	1,287
Volksbank Ötscherland eG; Wieselburg	KI	1,299
Volksbank Regio Invest Bank AG; Wien	KI	5,087
Volksbank Ried im Innkreis eG; Ried im Innkreis	KI	6,731
Volksbank Salzburg eG; Salzburg	KI	8,984
Volksbank Schärding-Altheim-Braunau eG; Schärding	KI	11,440
Volksbank Steiermark Mitte AG; Graz	KI	25,000
Volksbank Steirisches Salzkammergut registrierte Genossenschaft mit beschränkter Haftung; Bad Aussee	KI	122
Volksbank Strasswalchen-Vöcklamarkt-Mondsee e.G.; Vöcklamarkt	KI	1,448
Volksbank Südburgenland eG; Pinkafeld	KI	1,819
Volksbank Süd-Oststeiermark e.Gen.; Hartberg	KI	2,044
Volksbank Tirol Innsbruck-Schwaz AG; Innsbruck	KI	10,000
Volksbank Tullnerfeld eG; Tulln	KI	551
VOLKSBANK VÖCKLABRUCK-GMUNDEN e.Gen.; Vöcklabruck	KI	3,180
VOLKSBANK VORARLBERG IFRS Teilkonzern; Rankweil	KI	630
Volksbank Weinviertel e.Gen.; Mistelbach	KI	566
Volksbank Wien-Baden AG; Wien	KI	56,454
Volksbanken Holding eGen; Wien	SO	320,486
Waldviertler Volksbank Horn registrierte Genossenschaft mit beschränkter Haftung; Horn	KI	771

54) Companies measured at equity

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
Marangi Immobiliare s.r.l.; Milano	SO	50.00 %	50.00 %	10
TPK-24 Sp.z.o.o.; Warszawa	SO	30.00 %	30.00 %	41,084
VBI Beteiligungs GmbH; Wien	SO	51.00 %	51.00 %	35
VBV delta Anlagen Vermietung Gesellschaft m.b.H.; Wien	SO	40.00 %	40.00 %	36
VICTORIA-VOLKSBANKEN Pensionskassen Aktiengesellschaft; Wien	SO	47.50 %	47.50 %	5,087
VICTORIA-VOLKSBANKEN Vorsorgekasse AG; Wien	KIFI	50.00 %	50.00 %	1,500
Volksbank Romania S.A.; Bukarest	KI	51.00 %	51.00 %	643,437

55) Unconsolidated affiliated companies

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
"VB-Real" Projektentwicklungs Gesellschaft m.b.H.; Wels	HD	100.00 %	100.00 %	500
Ärzte Consulting GmbH; Salzburg	SO	100.00 %	100.00 %	35
Atlas Beteiligungsgesellschaft mbH.; Feldkirchen (Ktn.)	SO	65.00 %	65.00 %	87
BBG Beratungs- und Beteiligungsgesellschaft m.b.H.; Salzburg	HD	100.00 %	100.00 %	40
Cetium Immobilien GmbH; St. Pölten	SO	100.00 %	100.00 %	35
Commerce Unternehmens-Consulting GmbH; Leoben	HD	100.00 %	100.00 %	35
Domus IC Leasinggesellschaft m.b.H.; Salzburg	HD	100.00 %	100.00 %	36
Espalier Holdings Ltd., Zypern; Nicosia	SO	100.00 %	100.00 %	2
EURINCASSO Gesellschaft m.b.H.; Salzburg	HD	100.00 %	100.00 %	36
Forum IC Leasinggesellschaft m.b.H.; Salzburg	FI	100.00 %	100.00 %	36
Freizeitcenter Betriebsführungs GmbH; Salzburg	SO	100.00 %	100.00 %	35
Gärtnerbank Immobilien GmbH; Wien	HD	99.00 %	99.00 %	35
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Wien	SO	99.00 %	99.00 %	35
Heli Dunakeszi Kft. "v.a."; Budapest	SO	100.00 %	100.00 %	2
Hotel Erzherzog Johann Betriebsges. m.b.H.; Bad Aussee	SO	100.00 %	100.00 %	1,254
IC Malta A.M. Company Limited; Malta	SO	100.00 %	100.00 %	7
ICL Alpha Vagyonkezelo Kft "v.a."; Budapest	SO	100.00 %	100.00 %	10
IKIB Epsylon GmbH; Wien	HD	100.00 %	100.00 %	54
IMMO - MANAGEMENT ADRIANA S.R.L.; Bukarest	SO	100.00 %	100.00 %	3,931
Immobilien Besitz- und Verwertungsgesellschaft mbH; Judenburg	HD	100.00 %	100.00 %	35
Immoconsult Ares Leasinggesellschaft m.b.H.; Wien	SO	100.00 %	100.00 %	35
Immo-Contract Baden Maklergesellschaft m.b.H.; Baden	SO	100.00 %	100.00 %	175
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
Immopol Alpha Sp.z.o.o.; Warschau	FI	100.00 %	100.00 %	12
IMMOPOL EPSYLON Sp. z o.o. "w likwidacji"; Warschau	SO	100.00 %	100.00 %	1
Immopol Sigma spzoo "w likwidacji"; Warschau	SO	100.00 %	100.00 %	64
IMMO-PROJEKT Bauträger Gesellschaft m.b.H.; Wien	SO	100.00 %	100.00 %	36
Immorent-VBV Grundverwertungsgesellschaft m.b.H.; Wien	FI	100.00 %	100.00 %	36
IMMO-WOHNBAU Service und Beteiligungsges.m.b.H.; Wien	HO	100.00 %	100.00 %	3,050
Imobilia Kappa s.r.o. v likvidaci; Prag	SO	100.00 %	100.00 %	4
Imobilia Zeta spol. s.r.o. v likvidaci; Prag	SO	100.00 %	100.00 %	4
INPROX Martin, spol. s.r.o.; Bratislava	FI	100.00 %	100.00 %	7
INPROX Zilina, spol. s r.o.; Bratislava	FI	100.00 %	100.00 %	7
Invest Equity International Holding Limited; Sliema	SO	100.00 %	100.00 %	150
Invest Mezzanine Capital Management GmbH; Wien	SO	100.00 %	100.00 %	35
Kastanjer d.o.o.; Zagreb	SO	100.00 %	100.00 %	3
Kufstein unlimited Festival GmbH; Kufstein	SO	100.00 %	100.00 %	35
Land Herodot S.R.L.; Bukarest	SO	100.00 %	100.00 %	3,298
Levade S.A.; Luxemburg	HD	100.00 %	100.00 %	70
Meinhardgarage Gesellschaft m.b.H. & Co. KG; Innsbruck	SO	100.00 %	100.00 %	210
Meinhardgarage Gesellschaft m.b.H.; Innsbruck	SO	100.00 %	100.00 %	50
Nordfinanz Vermögensberatung GmbH; Heidenreichstein	SO	100.00 %	100.00 %	150
OBI Eger Ingatlankezelö Kft.; Budapest	FI	80.00 %	80.00 %	10
OBI Miskolc Ingatlankezelö Kft.; Budapest	FI	80.00 %	80.00 %	10
OBI Veszprém Ingatlankezelo Korlátolt Felelosségu Társaság; Budapest	FI	80.00 %	80.00 %	10
Osttiroler Wirtschaftspark GesmbH; Lienz	SO	56.28 %	56.28 %	1,140
Phönix Immobilien- und Bauträger GmbH; Graz	HD	100.00 %	100.00 %	35
PLUYETTE INVESTMENTS LIMITED; Limassol	SO	100.00 %	100.00 %	2
Premium Office Two Sp.z.o.o.; Warschau	SO	100.00 %	100.00 %	59
PREMIUMRED REAL ESTATE MANAGEMENT LIMITED; Limassol	SO	100.00 %	100.00 %	1
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
SHELF INVESTMENT Kft.; Budapest	FI	100.00 %	100.00 %	10

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
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
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 Vermögenstreu-handgesellschaft m.b.H.; Krems an der Donau	SO	100.00 %	100.00 %	727
VB Aktivmanagement GmbH; Klagenfurt	HO	100.00 %	100.00 %	35
VB Kärnten Süd Leasing GmbH; Ferlach	FI	100.00 %	100.00 %	634
VB ManagementBeratung GmbH; Wien	SO	100.00 %	100.00 %	36
VB Real Estate Leasing Beta GmbH; Wien	SO	100.00 %	100.00 %	36
VB Real Estate Leasing FMZ eins GmbH; Wien	FI	100.00 %	100.00 %	35
VB Real Estate Leasing Indigo GmbH; Wien	FI	100.00 %	100.00 %	36
VB Real Estate Services Slovakia, s.r.o.; Bratislava	FI	100.00 %	100.00 %	266
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 %	300
VB-Immobilienverwaltungs- und -vermittlungs GmbH; Klagenfurt	HD	100.00 %	100.00 %	73
VBKS Leasing d.o.o.; Krainburg	FI	100.00 %	100.00 %	542
VBV eins Anlagen Vermietung GmbH in Liqu.; Wien	FI	100.00 %	100.00 %	35
VBV Vermögensverwaltungs GmbH; Wieselburg	SO	99.00 %	99.00 %	36
VBV zeta Beteiligungen Anlagen Vermietung GmbH; Wien	SO	100.00 %	100.00 %	35
Verwaltungsgenossenschaft der Volksbank Wien e. Gen.; Wien	HO	79.86 %	79.86 %	2,602
VOBA Treuhand- und Verwaltungsgesellschaft mbH; Salzburg	SO	100.00 %	100.00 %	37
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	SO	99.00 %	99.00 %	36
Volksbank Immobilien Commerce Unternehmens-Consulting GmbH & Co KG; Leoben	HD	100.00 %	100.00 %	7
Volksbank Immobilien Ges.m.b.H.; Innsbruck	HD	100.00 %	100.00 %	2,233
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 Salzburg Leasing Gesellschaft m.b.H.; Salzburg	FI	100.00 %	100.00 %	73
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
Volksbank Vorarlberg Immobilien GmbH & Co OG; Hohenems	SO	100.00 %	100.00 %	57
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Wien	FI	100.00 %	100.00 %	872
W 23 Immobilien GmbH; Wieselburg	SO	99.00 %	99.00 %	18
Wohn + Wert Realitäten GmbH; Ernstbrunn	HD	100.00 %	100.00 %	100

*Abbreviations Type

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

Vienna, 16 June 2015

Stephan Koren
Chairman of the Managing Board
Corpoate Planning & Finance, Legal & Compliance,
HR Management, Marketing & Communication,
Audit

Michael Mendel
Deputy Chairman of the Managing Board,
Risk Managment

Rainer Borns
Member of the Managing Board
Association of Volksbanks,
Distribution Volksbanks, Organisation/IT

Christoph Raninger
Member of the Managing Board
Market,
Financial Markets & Group Treasury,
Strategy & Capital Measures,
Capital Markets, Product & Sales,
Syndicate Business

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

Österreichische Volksbanken-Aktiengesellschaft,
Vienna, Austria,

for the **year from 1 January 2014 to 31 December 2014**. These consolidated financial statements comprise the Banking Association's consolidated statement of financial position as of 31 December 2014, the consolidated income statement and consolidated statement of comprehensive income and the consolidated statement of changes in equity for the fiscal year 2014 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 Österreichische Volksbanken-Aktiengesellschaft, 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 2014. 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 2014.

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 planned activities under the Capital Plan.

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 2014 and

- their only purpose is to assist Österreichische Volksbanken-Aktiengesellschaft, Vienna, Austria, to meet the regulatory requirements and they shall not be used for any other purpose.

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, 16 June 2015

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:

Martin Wagner Wirtschaftsprüfer	Walter Reiffenstuhl Wirtschaftsprüfer

(Austrian Chartered Accountants)

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