VOLKSBANK

ANNUAL REPORT

ASSOCIATION OF VOLKSBANKS

2019

KEY FIGURES OF THE ASSOCIATION OF VOLKSBANKS

Euro million	31 Dec 2019	31 Dec 2018	31 Dec 2017
Balance sheet			
Total assets	**27,496**	**26,603**	**25,361**
Loans and receivables customers	**21,251**	**20,502**	**19,407**
Amounts owed to customers	**21,729**	**21,555**	**20,850**
Debts evidenced by certificates	**1,482**	**529**	**624**
Subordinated liabilities	**598**	**634**	**671**
Own funds according to Basel III for the association of Volksbanks			
Common equity tier 1 capital (CET1)	1,908	1,800	1,673
Additional tier 1 capital (AT1)	224	14	10
Tier 1 capital (T1)	**2,131**	**1,814**	**1,683**
Tier 2 capital (T2)	506	523	553
Own funds	**2,638**	**2,338**	**2,237**
Risk weighted exposure amount - credit risk	13,450	12,400	11,793
Total risk exposure amount market risk	85	86	112
Total risk exposure amount operational risk	1,231	1,288	1,369
Total risk for credit valuation adjustment	44	56	60
Other risk exposure amount	0	845	0
Total risk exposure amount	**14,810**	**14,675**	**13,333**
Common equity tier 1 capital ratio	**12.9 %**	**12.3 %**	**12.6 %**
Tier 1 capital ratio	**14.4 %**	**12.4 %**	**12.6 %**
Equity ratio	**17.8 %**	**15.9 %**	**16.8 %**
Income statement	**1-12/2019**	**1-12/2018**	**1-12/2017**
Net interest income	422.4	419.8	431.8
Risk provision	-22.1	6.3	-45.4
Net fee and commission income	229.6	233.5	236.9
Net trading income	-0.9	-0.7	14.4
Result from financial instruments and investment properties	29.4	-3.1	-2.8
Other operating result	55.2	28.4	-2.8
General administrative expenses	-534.2	-568.2	-585.5
Restructuring result	0.0	-4.2	1.3
Result from companies measured at equity	0.1	11.5	-7.6
Result before taxes	**179.5**	**123.5**	**40.1**
Income taxes	-31.0	-8.3	21.0
Result after taxes	**148.5**	**115.2**	**61.2**
Result attributable to non-controlling interest	0.0	0.0	0.0
Result of the Group	**148.4**	**115.2**	**61.1**
Key ratios	**1-12/2019**	**1-12/2018**	**1-12/2017**
Operating cost-income-ratio	**80.1 %**	**84.7 %**	**85.5 %**
ROE before taxes	**8.5 %**	**6.7 %**	**2.3 %**
ROE after taxes	**4.9 %**	**6.3 %**	**3.5 %**
ROE consolidated net income	**7.0 %**	**6.3 %**	**3.5 %**
Net interest margin	**1.5 %**	**1.6 %**	**1.7 %**
NPL ratio	**2.3 %**	**2.7 %**	**3.7 %**
Leverage ratio	**7.5 %**	**6.4 %**	**6.2 %**
Net stable funding ratio	**133.5 %**	**125.9 %**	**130.0 %**
Loan deposit ratio	**104.7 %**	**95.6 %**	**94.9 %**
Coverage ratio I	**38.6 %**	**35.7 %**	**37.4 %**
Coverage ratio III	**104.4 %**	**103.3 %**	**101.6 %**
Resources	**1-12/2019**	**1-12/2018**	**1-12/2017**
Staff average	**3,604**	**3,904**	**4,203**
Thereof domestic	3,598	3,863	4,139
Thereof abroad	6	41	64
	31 Dec 2019	**31 Dec 2018**	**31 Dec 2017**
Staff at end of period	**3,496**	**3,778**	**4,129**
Thereof domestic	3,496	3,740	4,068
Thereof abroad	0	38	61
Number of branches	**267**	**304**	**343**
Thereof domestic	267	303	340
Thereof abroad	0	1	3
Number of customers	**1,072,639**	**1,109,145**	**1,133,431**

Equity ratios are displayed in relation to total risk.
The operating cost-income-ratio is the ratio between operating income and operating expenses. Operating income includes net interest income, net fee and commission income, net trading income and if positive other operating result and result from discontinued operation. Operating expenses include general administrative expenses and if negative other operating result and result from discontinued operation. Other operating result and result from discontinued operation is displayed net of other taxes, deconsolidation result and valuation result according to IFRS 5.
The ROE before taxes indicates the result before taxes in relation to average equity including non-controlling interest.
The ROE after taxes indicates the result after taxes in relation to average equity including non-controlling interest.
The ROE consolidated net income indicates the consolidated net income in relation to average equity without non-controlling interest.
The net interest margin shows the net interest income in relation to total assets.
The NPL ratio indicates the portfolio of non-performing loans in relation to the total exposure of all loans to and receivables from customers.
The leverage ratio indicates the business volume (CCF-weighted off-balance positions plus derivatives add-on, replacement value of derivatives, disallowance of derivative claims and financial volume) in relation to the tier 1 capital (CET1 + AT1).
The net stable funding indicates the available stable funding in relation to the necessary stable funding.
The loan deposit ratio indicates the total amount of loan accounts, overdraft facilities less syndicated loans in relation to the total amount of savings deposits, demand deposits, fixed term deposits and debts evidenced by certificates.
The coverage ratio I indicates the coverage ratio of non-performing loans by risk provisions.
The coverage ratio III indicates the coverage ratio of non-performing loans by risk provisions and collaterals.
Staff figures are calculated based on full-time equivalent.

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ASSOCIATION MANAGEMENT REPORT

MANAGEMENT REPORT OF THE ASSOCIATION OF VOLKSBANKS

Report on the business development and economic situation

Business development

The members of the Austrian Association of Volksbanks position themselves as strong regional banks with a Retail and Corporate focus in Austria. As central organisation (CO), VOLKSBANK WIEN AG (VBW) assumes extensive management and steering functions within the Association and is also responsible, among others, for risk and liquidity management across the Association.

In 2019, the Association of Volksbanks continued its growth course in its strategic areas of business, namely Private Customers and SME business, in all Austrian regions, increasing regional lending by approximately euro 0.75 billion. Based on the bank's competent local account managers interacting with the executives of the regionally based managing co-operatives, the Association of Volksbanks permanently has its finger on the pulse of entrepreneurs, keeping track of development within the region. At +7.2 %, lending increased the most in Salzburg and in the healthcare professions doctors and pharmacists (+6 %).

Apart from core business growth in all regions of Austria, the positive market environment as well as the disposal of VB Liechtenstein consolidate the result of the Association of Volksbanks, which was increased by 29 % (euro 148 million) in 2019 (2018: euro 115 million).

Co-operation based on a division of responsibilities and the resulting increase in efficiency within the Association is also reflected in a significant reduction of general administrative expenses by euro -34 million, with staff expenses and administrative expenses being reduced by euro 39 million or 7.7 %. In spite of necessary investments (digitisation) and increasing regulatory costs, the cost-cutting endeavours are extremely successful.

The focus on Austria's regional markets, local know-how, as well as the generally very positive market environment are still contributing to keeping the risk costs of the Association very low in 2019 (new allocation rate 0.08 %). The NPL ratio continues to decrease as well and only amounts to 2.3 % (2018: 2.7 %).

The equity positions of the Association were significantly improved again. The equity ratio of the Association amounts to 17.8 % (2018: 15.9 %), the CET1 ratio equally increased to 12.9 % (2018: 12.3 %).

This was made possible, among others, due to VBW as central organisation of the Association successfully performing several capital market transactions in the previous year.

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

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

Early in April, VBW successfully placed an AT1 issue on the market for the first time ever in its history. The total volume of the issue, which was offered to institutional investors exclusively, was euro 220 million, the interest rate 7.75 % p.a. for the first 5 years. This has contributed to further consolidating the Tier 1 capital of VBW and of the Association.

In November, the third capital market transaction of this year was effected in the form of a covered bond issue. Just like the first covered bond, it was issued pursuant to the covered bond act. The benchmark shares with a volume of euro 500 million, a rating of Aaa by Moody's, a fixed coupon of 0.125 % and a 10-year maturity were sold to 54 investors from 9 countries. The extremely successful placement of the bond has made a valuable contribution to building a covered bond curve and to establishing VBW as a covered bond bank.

Economic environment

According to a first estimate by the Austrian Institute of Economic Research (WIFO) (January 2020), Austria's gross domestic product has grown by 0.3 % Q/Q in the fourth quarter of 2019 and hence by 1.6 % Y/Y in the full year 2019. This constitutes a significant decrease in dynamics compared to 2018, when growth had amounted to 2.4 % based on revised data. Accordingly, the growth rate of the Austrian economy was markedly higher in the past year than that of the euro zone, which – according to Eurostat estimates – has grown by 1.2 %. In Austria, growth was based both on high domestic demand and on the dynamic development of the construction sector, with the service sector also positively contributing to growth.

Against the background of the decelerated, but still favourable economic setting, the Austrian unemployment rate continued to decrease in the past year: calculated in accordance with the Eurostat method, it fell from 4.7 % at the beginning of the year to 4.2 % in December. The downward trend was quite significant in the euro zone as well: starting out from much higher values, the employment rate decreased from 7.8 % at the beginning of the year to 7.4 % in December. As in previous years, Austria was one of the countries with the highest inflation rates in the euro zone. According to the Harmonised Index of Consumer Prices, the inflation rate in Austria fluctuated between 1.0 % and 1.8 % in 2019, amounting to 1.5 % for the full year. In the past year, the rates of price increases varied between 0.7 % and 1.7 % in the common currency zone, the most recent value, of December, being 1.3 %.

In the past year (2019), the European Central Bank continued its policy of monetary easing. In the interest rate meeting in June, a decision was made to launch new long-term refinancing operations (TLTRO III). In September, the extension of the term of these TLTRO loans to three years as well as more favourable conditions were announced for banks making use of these loans. Moreover, the ECB resolved to resume bond purchases in the amount of euro 20 billion as of November 2019 and reduce the deposit rate to -0.5 %. However, the deposit rate will be applied to the banks' reserves with the ECB in a staggered fashion, a multiple of the minimum reserve requirement of each credit institute is now exempt, bearing interest at a rate of 0 %. As of 30 October 2019, six times the minimum reserve was deposited with the ECB at a rate of 0 %. Any deposits beyond that will bear interest at a rate of -0.5 %.

In 2019, interest rates on the money market decreased further. The 3-month rate started the year at -0.31 %, ending it at -0.38 %. Capital market yields also decreased in 2019, recording new record lows in August. The yield of the ten-year government bond in Austria fell from 0.48 % to 0.02 % in 2019, with intermediate highs at 0.54 % and lows at -0.46 %. In Germany, it fell from 0.24 % to -0.19 %, with a trough of -0.71 % late in August.

In 2019, there were again signs of monetary easing in the USA; in three steps, the US Federal Reserve decreased the target range for the Fed Funds Rate by a total of 75 basis points, from 2.25 % – 2.50 % to 1.5 % – 1.75 %. In that year, the euro depreciated from 1.146 USD/EUR to 1.121 USD/EUR. The euro also weakened against the Swiss franc, from 1.126 CHF/EUR in January to 1.085 CHF/EUR in December, which was due to a certain extent to the role of the CHF as a safe haven. After a turbulent fourth quarter 2018, the year 2019 went very well at the European equity markets. The ATX ended the past year with a plus of 16.1 %.

Regional development and branches of industry

In Vienna, the construction sector developed at an above-average rate in the first half of the year, while retail sales remained almost the same year-on-year, slightly decreasing in the first months of 2019. Growth in material goods production in Vienna was below the national average and recorded a negative development in the first half of the year. In the area of foreign trade, exports increased substantially, while imports grew only slightly. In Vienna, the number of unemployed persons decreased in the first half of the year, but less significantly so than in Austria overall, although the increase in the number of wage earners in Vienna exceeded the national average. In terms of gross value added, at 1.8 % Y/Y, Vienna undercut the Austrian average of 2.1 % Y/Y. For the full year 2019, Vienna ranked first among all Austrian Länder in terms of the increase of overnight stays.

In Lower Austria, there was above-average growth in the retail sector in the first half of 2019. There was solid growth in construction, especially in the first quarter, with somewhat below-average dynamism in the second quarter. In material goods production, Lower Austria registered a solid, slightly above-average growth trend in the first half of the year. Year-on-year, exports decreased slightly, with above-average growth in imports. Against this background, the increase in the number of wage earners throughout Austria was solid average; unemployment decreased at an above-average rate in the first six months of the year. In the first half of the year, gross value added recorded solid growth (1.9 %), but below the Austrian average. In terms of growth in the tourism sector, Lower Austria held a top position for the full year.

In Burgenland the construction sector stood out in the first quarter and continued to grow dynamically in the second quarter. While material goods production was shrinking in the first half of the year, a small increase in real terms was achieved in retail sales in the first six months of 2019. Equally gross value added developed in a clearly positive way in the first six months (1.4 %), but markedly less so than the Austrian average. Both exports and imports increased at a merely below-average rate. The increase in the number of wage earners flattened during the first half of the year, but remained positive. There was a substantial decrease in the rate of unemployment in the first quarter in particular. Over the full year, the number of overnight stays in tourism increased markedly.

In terms of growth in material goods production, Styria held a top position by national comparison in the first half of the year, and construction recorded some dynamism as well. As for the increase in gross value added, with 3.3 % Styria ranked first by Austrian comparison in the first half of the year. Styria's performance was equally above-average in the first half of the year when it comes to the increase in retail sales. Also exports and imports developed more dynamically than the Austrian average. The decrease in unemployment and the increase in the number of wage earners was quite substantial in the first quarter in particular. However, overnight stays in tourism only grew at a below-average rate throughout 2019.

Carinthia recorded a highly dynamic development in the construction sector in the second quarter of 2019 in particular; in retail sales, Austria's southernmost province come in second among all Austrian Länder in the first half of the year. At 1.9 %, gross value added was somewhat lower than the Austrian average in the first half of the year. Carinthia recorded a decrease in exports and imports. The unemployment rate receded markedly in Carinthia in the first half of the year. Growth was less marked in material goods production, and also the increase in the number of wage earners was below-average in the first half of the year, the same applies to overnight stays for the full year.

As regards the development in the retail and construction sectors, Upper Austria's performance was somewhat below the Austrian average in the first half of 2019, the same is true of gross value added at 1.9 %. Material goods production, too, was not able to keep up with the other federal Länder. Growth in exports and imports was somewhat more pronounced than on average in Austria. The increase in the number of wage earners and the reduction of unemployment were other highly favourable developments in the first half of the year. As regards the increase in the number of overnight stays in tourism, Upper Austria came in second after Vienna under a full-year perspective.

In construction, there was an upward trend in Salzburg in the first half of the year, with Salzburg holding a top position in material goods production in Austria in the entire first half of the year, and at 2.4 % equally in gross value added. However, there was a decrease in retail sales. Imports decreased as well, but exports increased. As for the increase in the number of wage earners, Salzburg remained below the national average in the first half of the year; in the second quarter, in particular, the decrease in unemployment was substantial. In 2019, in tourism, the number of overnight stays in Salzburg increased at a merely below-average rate.

Tyrol achieved top positions in terms of dynamic development in construction and with respect to the decreasing unemployment rate, and also when it comes to the increase in gross value added (2.3 %) in the first half of the year. The increase in exports was more or less average, with the increase in imports being lower. A very substantial increase occurred with respect to the number of wage earners, in the second quarter of 2019 in particular. Dynamism in the retail sector was somewhat more subdued, with Tyrol even recording a decline in the first half of the year. Less pronounced, but still positive: growth in material goods production in the first half of the year, and also in overnight stays in tourism for the full year.

In Vorarlberg, both the increase in the number of wage earners and the decrease in unemployment were rather restrained. The output value in the construction sector shrank in the first half of the year, while that in material goods production increased the most compared to the rest of Austria in the first quarter. The development of retail sales was inconspicuous overall. Exports increased at a below-average rate, imports grew somewhat more. In the first half of the year, gross value added grew by 2.1 %, which corresponds exactly to the Austrian average. Only a small increase was achieved in the number of overnight stays in tourism for the full year 2019.

The favourable development of previous years continued in the Austrian residential real estate market for the major part in 2019. In the third quarter of 2019, annual growth rates for the prices of freehold flats and single-family homes outside Vienna amounted to 1.7 % and 1.5 %, respectively (according to the revised real estate price index of the OeNB); in the fourth quarter, the annual growth rate for freehold flats was reduced to 1.2 %, recovering to 1.3 % for single-family homes. For Vienna, the price trend was revised to 2.7 % in the third quarter and was stated to be 4.3 % in the fourth quarter. In Vienna, this development is determined by the freehold flat market at a rate of 93 % (federal Länder outside Vienna: 70 %). Overall, the prices outside Vienna increased by 2.6 % Y/Y in 2019, and in Vienna by 4.9 %; accordingly, after the converging development of the past two years, prices were diverging somewhat again.

Just like 2018, 2019 was another good year for the Austrian tourism sector. The 2018/2019 winter season was determined by massive snowfalls and resulting blockages of skiing regions and transport connections. Under a full year perspective, however, with 152.64 million overnight stays 2019 saw a new record in tourism, and also in terms of arrivals (46.18 million), with increases being achieved in the number of both domestic and foreign guests. Most overnight stays were recorded by 4- and 5-star hotels (54.3 million); this category also recorded substantial growth of 2.7 %. But the highest growth rates (5.9 %) were achieved by commercial holiday apartments, although this category only accounted for 9.0 % of total overnight stays. In the first two months of the 2019/20 winter season, overnight stays increased by 4.5 % compared to the relevant months of the previous year.

Result of the Association

The result of the Association before taxes amounts to euro 179 million (2018: euro 123 million). The result of the Association after taxes and non-controlling interest amounts to euro 148 million (2018: euro 115 million).

Net interest income for the 2019 business year amounts to euro 422 million, thus exceeding the income for the comparative period (2018: euro 420 million) by euro 3 million. Within interest income, increases were recorded in loans and receivables to customers, whereas interest income from securities is declining. The decrease in interest expenses for customers is not sufficient to completely offset the interest expenditure from leasing liabilities recognised due to the first-time application of IFRS 16 and the valuation result from the market-induced modifications to loan agreements.

In 2019, at euro -22 million, the risk provision item has deteriorated by euro 28 million against the comparative period (euro +6 million). This effect essentially results from a change of methods that required higher allocations to both individual and portfolio risk provisions.

The net fee and commission income in the reporting period amounts to euro 230 million, a slight decrease by euro 4 million compared to the previous period (2018: euro 233 million). The decline is essentially due to the deconsolidation of VB Liechtenstein, which is included in the comparative period with net fee and commission income of euro 7 million. The other banks report slight increases in all areas.

In the current business year, net trading income amounts to euro -1 million and was kept stable by comparison with the previous period (euro -1 million). The decreases in the valuation results of trading book derivatives used for hedging positions in the banking book are offset by improved foreign currency valuation results due to the deconsolidation of VB Liechtenstein.

The result from financial instruments for the reporting period amounts to euro 29 million, and has increased compared to the previous period (euro -3 million) by euro 33 million. The valuation of SPPI non-compliant loans improved by euro 20 million during the reporting period, as opposed to a decline by euro 5 million from the valuation of debts evidenced by certificates that are measured at fair value through profit or loss due to the business model. There are positive valuation results both for securities – improvement by euro 6 million compared to the previous period – and for derivatives with an increase by euro 5 million. Non-recurring effects result from the proceeds of the realisation of a derivative (euro 6 million) and a position in loans and receivables to customers (euro 4 million). In the previous year, the valuation of investment properties included income from the sale of one property in the amount of euro 3 million.

The other operating result for the 2019 business year amounts to euro 55 million (2018: euro 28 million). The biggest effect within that figure is the deconsolidation result of VB Liechtenstein (euro 44 million). Income in the amount of euro 15 million was received from the sale of VB Switzerland in the previous year. In the 2019 business year, provisions for interest claims from loans with floors in the amount of euro 4 million were released with an effect on income. In the previous year, this item included an allocation of euro 7 million. Futhermore income from allocations from the Gemeinschaftsfonds in the amount of euro 10 million were reported here in the previous year. Income from the sale of tangible assets (euro 4 million) decreased by comparison with the previous period (euro 10 million).

General administrative expenses of euro 534 million (2018: euro 568 million) have decreased by euro 34 million compared to the previous year. By comparison with the end of 2018, the headcount decreased by 282 employees from a staff of 3,778 and now amounts to 3,496 employees. This decrease is also reflected in staff expenses that were reduced by euro 15 million compared to the previous period. In administrative expenses, too, a reduction in the same amount was achieved, especially in the sphere of legal and consultancy expenses. The first-time application of the leasing standard (IFRS 16) has an effect on general administrative expenses in the amount of euro 1 million. The cancellation of leasing expenses in the amount of euro 9 million compares to impairments from the rights of use in the amount of euro -8 million. By comparison with the previous period, depreciation on tangible assets decreased by euro 3 million.

Due to the Adler programme that started in the fourth quarter of 2018 and is meant to result in efficiency increases and cost reductions in subsequent years, provisions were formed in the previous year for the reorganisation measures to be carried out in the sphere of HR and retail branches. These provisions were partly used in the current business year. The repeated allocations to these provisions in the 2019 business year are essentially included in general administrative expenses.

In the reporting year, the result from companies measured at equity amounted to euro 0.1 million (2018: euro 12 million). In the previous year, the valuation of the company shares acquired in VB Verbund Beteiligung eG, in the amount of euro 10 million, is included. Moreover, an amount of euro 2 million was reported as current result from VB Verbund Beteiligung eG in the previous year, whereas in the current business the current result only amounts to euro -0.4 million. This year, the value of VB Wien Beteiligung eG increased by euro 0.6 million.

Due to the tax planning of the next four years, it was possible, in the 2019 business year, to recognise deferred tax assets for part of the tax loss carried forward. For tax loss carried forward in the amount of euro 254 million (2018: euro 252 million), no deferred tax assets are recognised. Deferred tax is recognised for the remaining valuation differences, especially in connection with financial instruments.

Financial position

As at 31 December 2019, total assets amount to euro 27.5 billion, increasing by euro 0.9 billion compared to the end of 2018 (euro 26.6 billion), essentially due to the increase in loans and receivables to customers.

As at 31 December 2019, loans and receivables to customers less risk provisions amount to euro 21.3 billion, thus increasing by euro 0.7 billion compared to the previous year (euro 20.5 billion), with VB Salzburg, VB Tyrol and VBW contributing the major part of this increase.

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

The increase in tangible assets is attributed with euro 180 million to the first-time application of the leasing standard (IFRS 16). The offsetting item is reported on the liabilities side under lease liabilities and amounts to euro 183 million at the end of 2019.

As at 31 December 2019, the item assets held for sale shows the carrying amount of commercially used properties and vacant objects the sale of which has already been contractually agreed, or is very likely, as at 31 December 2019. In the 2019 business year, this position primarily shows the carrying amount of the former headquarters of VBW in 1090 Vienna, Kolingasse. From the sale in January 2020, a result in the amount of euro 32 million will be captured in 2020. In the previous year, this also included the assets of VB Liechtenstein, which were sold in the first quarter of 2019. In the previous year, also the liabilities held for sale entirely concern VB Liechtenstein.

The slight decrease in amounts owed to credit institutions was offset by slight increases in amounts owed to customers.

Due to the issue of two covered bonds in February and November 2019, with a volume of euro 500 million each, the debts evidenced by certificates have increased and amount to euro 1.5 billion (31 December 2018: euro 0.5 billion) as at 31 December 2019.

The equity positions (including company shares and non-controlling interest) increased by euro 355 million from euro 1.9 billion to euro 2.2 billion, the main reason being the issue of the AT1 bond in April 2019. Directly attributable costs in the amount of euro 2 million were deducted from the face value of euro 220 million. The increase due to comprehensive income amounting to euro 146 million is countered by an opposing effect from the dividends paid on the AT1 bond in the amount of euro 9 million. The changed estimate with respect to the accounting of deferred taxes on liability reserves formed with fiscal effect is reported as restatement under IAS 8.41, increasing equity by euro 37 million as at 1 January 2018.

Report on branch establishments

The Association does not have any branch establishments.

Financial performance indicators

As at 31 December 2019, the regulatory own funds of the group of credit institutions of the Association amount to euro 2.6 billion (2018: euro 2.3 billion). The total risk exposure amount was euro 14.8 billion (2018: euro 14.7 billion) as at 31 December 2019. The CET1 capital ratio in relation to total risk amounts to 12.9 % (2018: 12.3 %), the equity ratio in relation to total risk is 17.8 % (2018: 15.9 %).

Due to the first-time activation of the rights of use from leasing agreements, there is an increase in the aggregate risk amount. Speculative real estate financing is now reported in credit risk (2018: Other risk positions). Based on the available figures of the Association of Volksbanks, however, the capital ratios continue to be complied with. Regulatory capital requirements were again increased by the ECB and constitute a challenge for the Association of Volksbanks, since meeting them will require capital enhancement measures.

Regulatory own funds, total risk exposure amount and the key indicators calculated therefrom were determined in accordance with the CRR (EU Regulation No. 575/2013). For more detailed information, please refer to the Notes, chapter 3) ff).

Performance indicators	2019	2018	2017
Return on Equity before taxes	8.5 %	6.7 %	2.3 %
Return on Equity after taxes	4.9 %	6.3 %	3.5 %
Cost-income-ratio	80.1 %	84.7 %	85.5 %

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

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

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

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

Non-financial performance indicators

Human Resources

In 2019, the focus in Human Resources was on staff measures within the scope of the Adler programme, the relationship bank concept of the future derived therefrom, and the development of employer values specific to us.

The Adler programme, which introduces the co-operative division of responsibilities within the Association, has far-reaching cultural and HR-related effects. The regionally operating Volksbanks will be responsible for servicing their customers. VB Services will assume control for managing our products throughout the Association via local Service Centers, and the functions related to banking oversight and regulatory matters will be bundled in the central organisation. Internal Audit, Compliance and Legal were concentrated in the central organisation already in 2019; other functions such as Finance, Controlling etc. will follow in the next two years. Human Resources supports these measures through targeted knowledge and competence development as well as HR planning across the Association.

Through targeted redimensioning measures of the Association of Volksbanks, headcount figures are declining overall. The major part of these reductions was achieved through retirement; additionally, a great focus was put on internal mobility (internal job market).

Ongoing training is a key component of HR development within the Association of Volksbanks. It is precisely in periods of transition that the knowledge and skills of the employees required to implement the relationship bank of the future strategy throughout the Association must be ensured and developed. All training formats of Volksbank Akademie take account of the long-term strategic orientation of the Association of Volksbanks and are based on blended learning as well as eLearning scenarios in accordance with the most recent approaches to didactic methodology.

In close co-operation with all banking experts of the Association of Volksbanks, e.g. in the areas of Sales, Human Resources through to digitisation, Volksbank Akademie centrally prepares the contents of the annual training offer, aligning the training courses offered with actual needs. Observance of current regulatory requirements within the learning modules is taken care of by compliance experts of the central organisation of VBW.

In order to support the relationship bank of the future, a great focus in 2019 was on the topic of employer branding. It is essential to present the clear positioning of the Association of Volksbanks, together with our employees, as an attractive, strong and authentic employer brand both internally and externally in future. This positioning constitutes the basis of stringent target group-specific HR communication that allows for suitable candidates to be addressed along the candidate journey at relevant touchpoints. The values identified:

- encounter at eye level
- leeway for creative input
- fit for the future through flexibility

will be validated by all banks of the Association in 2020, and will be communicated both internally and externally under the slogan FIT FOR THE FUTURE (ZUKUNFTSFIT).

The distinctive element Fit for the Future through Flexibility, and especially the compatibility of private life, family and job is getting increasingly important, and is a long-term focus of the Association of Volksbanks. Flexible working time models and, since 2019, also the option of a flexible workplace available in some Volksbanks, as well as the positive attitude towards part-time employment within the organisation – they all indicate our way into the future.

Report on the future development and risks of the Association

Future development of the Association

Economic environment

Towards the end of 2019, the mood indicators and economic data for the European and Austrian industry sectors continued to be situated within the contractionary range, whereas positive growth rates are still expected for the service and construction sectors. According to the economic forecast of the Austrian Institute of Economic Research (WIFO) updated in January, the Austrian economy is expected to grow by 1.2 % in 2020. In December, the ECB decreased its economic growth forecasts for the euro zone in 2019 to 1.1 %. The OeNB forecast for Austria included in that figure is also 1.1 %. The national bank anticipates positive contributions to growth especially from consumption and gross capital investments. With an increasing savings rate of 7.8 %, the OeNB expects real disposable household income to grow by 1.7 %. According to the autumn forecast of the EU Commission, an increase in real household income may be expected in the most important countries of origin, which is likely to support tourism in Austria.

In Austria, the number of building permits has increased continuously in recent years, but has been declining since its peak in 2017. The low interest on borrowings and the continuing increase in demand for housing loans suggest that the dynamic trend in construction is going to continue, which is also supported by demographic trends. However, there appear to be signs of flattening, also suggested by the stagnating number of real estate transactions. Even in case of any flattening of trends on the real estate markets, stable demand for credits is expected against the background of increasing household income. Economic activity, which is expanding, even if its momentum has somewhat decreased since the beginning of the year, is expected to be associated with corresponding demand also for corporate loans.

The OeNB expects that the Austrian inflation rate, which is expected to be around 1.4 % this year, will return to 1.5 % and 1.6 % in the next two years. The forecast of the European Central Bank for the average inflation rate in the euro zone for 2020 amounts to a mean of 1.1 %. Hence, the rate of price increases would clearly miss the target inflation rate of the European Central Bank of a little under 2 % again in 2020, but would achieve the same approximately at 1.6 % in 2022. This together with the recent easing of monetary policy by the ECB suggest that interest rates will remain low in 2020. However, expectations regarding an increase in inflation rates, for instance due to higher energy prices or increasing demand for investments, may cause yield to increase again.

The risks associated with this outlook are manifold. Apart from another interest rate reduction, they include, in particular, the introduction of additional trade obstacles or the deceleration or freezing of the phase-out of existing trade barriers, which may affect Austrian exporters and suppliers and subsequently burden other companies and the employment situation of private households, which would also be reflected in banking business. A modification of growth rates in the neighbouring countries might also affect tourism to a certain extent. Tensions within the European Union, sometimes in connection with the negotiations on the relations with Great Britain after the end of the transitional period, or increasing political uncertainty in the member states, e.g. after elections, constitute a risk for the course of economic development within the region. A rapid rise in interest rates would also have to be classified as a risk for economic activity and the real estate markets. Any abrupt change of the macro-economic environment might also cause corporate bonds with the lowest investment-grade rating of BBB to be downgraded, with sales following rating downgrades possibly causing distortions on the financial markets. These bonds already account for some 45 % of rated corporate bonds in the euro zone. Additionally, geopolitical conflicts may also potentially harm the cautious (by comparison with previous years), but basically positive economic outlook.

Future development of the Association

The focus of the Association of Volksbanks on retail banking is meant to be continued, supported, in particular, by the increasing digitisation of the sales process. In the course of medium-term planning, the Association of Volksbanks has set itself a number of strategic goals, the accomplishment, observance and/or undercutting/exceeding of which will be a management focus in the years to come. Among others, this includes improving the cost-income ratio, a CET1 capital ratio of at least 12 %, a total equity ratio of at least 16 %, an NPL (non-performing loan) ratio of no more than 3 %, as well as a return on equity after taxes (RoE) of 8 %.

In spite of persistently high investments in the systems, in improving data quality and in spite of the still high regulatory cost, the Association of Volksbanks intended to achieve an annual result in the high two-digit million euro range. The not yet accessable impact due to the spread of the virus Covid 19 will affect the result substantially.

The low interest rate environment expected to continue in subsequent years calls for a streamlining of the cost structure and an increase of productivity. For this purpose, additional synergies were evaluated within the Association of Volksbanks.

Significant risks and uncertainties

As regards the legally required disclosures on the use of financial instruments, the risk management targets and methods as well as the existing risk of price changes, default, liquidity and cash flow risks, please refer to the information contained in the Notes (in particular the risk report in chapter 52). Furthermore we refer to note 50) Events after the balance sheet date concering the virus Covid 19.

Report on research and development

The Association is not active in research and development.

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

Control environment

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

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

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

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

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

Risk assessment

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

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

Information and communication

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

The staff of the group accounting function are regularly briefed with respect to amendments in international accounting, in order to identify any risks of unintentional false reporting at an early stage. Moreover, group accounting staff will pass on the information so acquired to employees of the members of the Association.

Twice a year, a management report is prepared that contains statements regarding the completeness, comprehensibility, active implementation and effectiveness of the control system with respect to the accounting process.

Monitoring

Top management regularly receives summary financial reports, such as quarterly reports on the development of the respective segments and the most important financial performance indicators. Financial statements that must be published are subjected to a final check by executive employees within accounting, divisional management and the Managing Board before they are forwarded to the competent bodies. The result of the supervisory activity relating to the accounting processes is stated in the management report, which contains a qualitative risk assessment of the processes as well as a documentation of the number of checks carried out in relation to those specified.

FINANCIAL STATEMENTS

Statement of comprehensive income

INCOME STATEMENT	Note	1-12/2019 Euro thousand	1-12/2018 Euro thousand	Changes Euro thousand	%
Interest and similar income		525,414	520,801	4,613	0.89 %
thereof using the effective interest method		503,141	494,490	8,650	1.75 %
Interest and similar expenses		-103,042	-100,970	-2,073	2.05 %
Net interest income	4	422,371	419,831	2,540	0.61 %
Risk provision	5	-22,050	6,313	-28,363	< -200.00 %
Fee and commission income		257,681	267,271	-9,590	-3.59 %
Fee and commission expenses		-28,113	-33,816	5,702	-16.86 %
Net fee and commission income	6	229,568	233,455	-3,887	-1.67 %
Net trading income	7	-937	-678	-260	38.37 %
Result from financial instruments and investment properties	8	29,430	-3,076	32,505	< -200.00 %
Other operating result	9	55,169	28,432	26,737	94.04 %
General administrative expenses	10	-534,188	-568,157	33,969	-5.98 %
Restructuring result	11	0	-4,170	4,170	-100.00 %
Result from companies measured at equity		119	11,524	-11,405	-98.97 %
Result before taxes		**179,482**	**123,475**	**56,007**	**45.36 %**
Income taxes	12	-31,030	-8,276	-22,754	> 200.00 %
Result after taxes		**148,451**	**115,199**	**33,253**	**28.87 %**
Result attributable to shareholders of the parent company (Consolidated net result)		**148,431**	**115,173**	**33,259**	**28.88 %**
thereof from continued operation		148,431	115,173	33,259	28.88 %
Result attributable to non-controlling interest		20	26	-6	-23.37 %
thereof from continued operation		20	26	-6	-23.37 %

Other comprehensive income

	1-12/2019 Euro thousand	1-12/2018 Euro thousand	Changes Euro thousand	%
Result after taxes	**148,451**	**115,199**	**33,253**	**28.87 %**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation of obligation of defined benefit plans (including deferred taxes)	-10,424	3,858	-14,282	< -200.00 %
Revaluation reserve (including deferred taxes)	952	1,282	-329	-25.70 %
Fair value reserve - equity instruments (including deferred taxes)	17,056	-5,679	22,735	< -200.00 %
Revaluation of own credit risk (including deferred taxes)	-422	-1,836	1,414	-77.02 %
Total items that will not be reclassified to profit or loss	**7,162**	**-2,376**	**9,538**	**< -200.00 %**
Items that may be reclassified to profit or loss				
Currency reserve	-12,498	-4,032	-8,466	> 200.00 %
Fair value reserve - debt instruments (including deferred taxes)				
Change in fair value	-493	-2,361	1,868	-79.12 %
Net amount transferred to profit or loss	0	131	-131	-99.85 %
Change in deferred taxes arising from untaxed reserve	0	80	-80	-100.00 %
Change from companies measured at equity	3,608	-2,481	6,089	< -200.00 %
Total items that may be reclassified to profit or loss	**-9,383**	**-8,662**	**-721**	**8.32 %**
Other comprehensive income total	**-2,221**	**-11,038**	**8,817**	**-79.88 %**
Comprehensive income	**146,230**	**104,161**	**42,070**	**40.39 %**
Comprehensive income attributable to shareholders of the parent company	**146,211**	**104,132**	**42,078**	**40.41 %**
Comprehensive income attributable to non-controlling interest	20	28	-8	-30.14 %

Statement of financial position as at 31 December 2019

	Note	31 Dec 2019 Euro thousand	31 Dec 2018 Euro thousand	Changes Euro thousand	%
ASSETS					
Liquid funds	13	2,071,712	1,731,644	340,068	19.64 %
Loans and receivables credit institutions	14, 15	431,109	469,491	-38,382	-8.18 %
Loans and receivables customers	14, 15	21,250,646	20,502,248	748,399	3.65 %
Assets held for trading	16	56,044	56,312	-268	-0.48 %
Financial investments	15, 17	2,578,976	2,468,431	110,545	4.48 %
Investment property	18	47,533	47,097	436	0.93 %
Companies measured at equity	19	92,234	88,499	3,735	4.22 %
Participations	20	130,479	109,022	21,457	19.68 %
Intangible assets	21	3,377	998	2,379	> 200.00 %
Tangible assets	22	481,864	327,245	154,619	47.25 %
Tax assets	23	130,018	139,676	-9,658	-6.91 %
Current taxes		10,239	7,570	2,669	35.26 %
Deferred taxes		119,779	132,106	-12,327	-9.33 %
Other assets	24	168,127	153,166	14,961	9.77 %
Assets held for sale	25	53,554	509,183	-455,629	-89.48 %
TOTAL ASSETS		**27,495,673**	**26,603,011**	**892,661**	**3.36 %**
LIABILITIES					
Amounts owed to credit institutions	26	412,189	595,091	-182,902	-30.74 %
Amounts owed to customers	27	21,729,089	21,555,395	173,694	0.81 %
Debts evidenced by certificates	28	1,481,917	529,329	952,588	179.96 %
Lease liabillities	29	183,300	0	183,300	100.00 %
Liabilities held for trading	30	76,868	71,785	5,084	7.08 %
Provisions	31, 32	256,136	250,120	6,016	2.41 %
Tax liabilities	23	21,329	19,626	1,703	8.68 %
Current taxes		17,486	8,705	8,781	100.87 %
Deferred taxes		3,843	10,920	-7,078	-64.81 %
Other liabilities	33	487,948	508,850	-20,903	-4.11 %
Liabilities held for sale	34	0	544,420	-544,420	-100.00 %
Subordinated liabilities	35	597,542	634,052	-36,510	-5.76 %
Total nominal value cooperative capital shares	36	4,547	4,249	298	7.02 %
Subscribed capital	36	286,725	299,844	-13,119	-4.38 %
Additional tier 1 capital	36	221,292	0	221,292	100.00 %
Reserves	36	1,734,644	1,588,086	146,557	9.23 %
Non-controlling interest	36	2,146	2,164	-18	-0.85 %
TOTAL LIABILITIES		**27,495,673**	**26,603,011**	**892,661**	**3.36 %**

Changes in equity and cooperative capital shares

Euro thousand	Subscribed capital [1)]	Additional tier 1 capital [3)]	Reserves	Shareholders' equity	Non-controlling interest	Equity	Cooperative capital share [2)]	Equity and cooperative capital shares
As at 1 January 2018	**288,640**		**1,470,516**	**1,759,157**	**2,171**	**1,761,328**	**4,010**	**1,765,337**
Restatement			**37,470**	**37,470**		**37,470**		**37,470**
As at 1 January 2018 restated	**288,640**		**1,507,986**	**1,796,626**	**2,171**	**1,798,798**	**4,010**	**1,802,807**
Consolidated net income			115,173	115,173	26	115,199		115,199
Change in deferred taxes arising from untaxed reserve			80	80		80		80
Revaluation of obligation of defined benefit plans (including deferred taxes)			3,856	3,856	2	3,858		3,858
Currency reserve			-4,032	-4,032		-4,032		-4,032
Revaluation reserve (including deferred taxes)			1,282	1,282		1,282		1,282
Fair value reserve - equity instruments (including deferred taxes)			-5,679	-5,679		-5,679		-5,679
Fair value reserve - debt instruments (including deferred taxes)			-2,229	-2,229		-2,229		-2,229
Own credit risk reserve (including deferred taxes)			-1,836	-1,836		-1,836		-1,836
Change from companies measured at equity			-2,481	-2,481		-2,481		-2,481
Comprehensive income	0	0	104,132	104,132	28	104,161	0	104,161
Dividends paid			-7,347	-7,347	-16	-7,363		-7,363
Changes in base amount regulation	921		0	921		921	-921	0
Changes scope of consolidation	10,328		-16,371	-6,043		-6,043	-38	-6,081
Change in cooperative capital and participation capital	0		0	0		0	760	760
Change in treasury stocks	-45		-389	-435		-435	435	0
Reclassification fair value reserve due to sale				0				
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation	0		75	75	-19	56	3	60
As at 31 December 2018	**299,844**	**0**	**1,588,086**	**1,887,930**	**2,164**	**1,890,094**	**4,249**	**1,894,343**
Consolidated net income			148,431	148,431	20	148,451		148,451
Change in deferred taxes arising from untaxed reserve			0	0		0		0
Revaluation of obligation of defined benefit plans (including deferred taxes)			-10,423	-10,423	0	-10,424		-10,424
Currency reserve			-12,498	-12,498		-12,498		-12,498
Revaluation reserve (including deferred taxes)			952	952		952		952
Fair value reserve - equity instruments (including deferred taxes)			17,056	17,056		17,056		17,056
Fair value reserve - debt instruments (including deferred taxes)			-493	-493		-493		-493
Own credit risk reserve (including deferred taxes)			-422	-422		-422		-422
Change from companies measured at equity			3,608	3,608		3,608		3,608
Comprehensive income	0	0	146,211	146,211	20	146,230	0	146,230
Capital increase		217,722	0	217,722		217,722		217,722
Dividends paid			-9,236	-9,236	-16	-9,252		-9,252
Changes in base amount regulation	164		0	164		164	-164	0
Changes scope of consolidation	-5		0	-5		-5	1	-5
Change in cooperative capital and participation capital	-9,707		9,706	-1		-1	460	459
Change in treasury stocks	0		0	0		0	0	0
Reclassification fair value reserve due to sale			0	0		0		0
Reclassification additional tier 1 capital [3)]	-3,570	3,570	0	0		0		0
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation	0		-124	-124	-22	-146	1	-145
As at 31 December 2019	**286,725**	**221,292**	**1,734,644**	**2,242,661**	**2,146**	**2,244,807**	**4,547**	**2,249,354**

thereof obtained in reserves:

Euro thousand	31 Dec 2019	31 Dec 2018
Currency reserve	0	12,498
thereof through profit or loss	0	112
Fair value reserve	-686,785	-705,987
thereof deferred taxes	228,928	235,329
Own credit risk reserve	2,100	2,523
thereof deferred taxes	-700	-841

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.
3) AT1-capital is shown in Additional tier 1 capital, since 2019.

Details are shown in note 2) and 36).

Cash flow statement

Euro thousand	Note	1-12/2019	1-12/2018
Annual result (before non-controlling interest)		**148,451**	**115,199**
Non-cash positions in annual result and other adjustments			
Net interest income	4	-431,061	-419,554
Income from participations	8	-2,507	-3,168
Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets	8, 10	31,710	9,263
Allocation to and release of provisions, including risk provisions	5, 8, 11	37,736	18,209
Gains from the sale of financial investments and fixed assets	8, 9	-55,305	-25,459
Income taxes	12	30,234	9,027
Changes in assets and liabilities from operating activities			
Loans and advances to credit institutions	14	-106,171	-85,013
Loans and advances to customers	14	-777,550	-1,138,359
Trading assets	16	4,040	3,617
Financial investments	17	217,216	134,886
Other assets from operating activities	24	-3,297	7,469
Amounts owed to credit institutions	26	-89,449	148,369
Amounts owed to customers	27	154,282	1,234,795
Debts evidenced by certificates	28	954,466	-95,606
Derivatives	16, 24, 30, 33	-7,891	24,095
Other liabilities	33	-29,062	-22,937
Interest received		526,726	470,536
Interest paid		-79,401	-75,625
Dividends received		2,507	3,167
Income taxes paid		-20,907	-25,618
Cash flow from operating activities		**504,768**	**287,293**
Proceeds from the sale or redemption of			
Financial investments at amortised cost	17	53,515	0
Participations	20	2,345	315
Intangible and tangible assets	21, 22	39,277	27,260
Investment property	18	4,243	17,300
Disposal of subsidiaries (net of cash disposed)	2	-199,683	7,257
Payments for the acquisition of			
Financial investments at amortised cost	17	-385,954	-366,848
Participations	20	-758	-10,851
Intangible and tangible assets	21, 22	-26,087	-15,287
Investment property	18	-117	-60
Cash flow from investing activities		**-513,220**	**-340,915**
Change in cooperative capital and participation capital	36	459	760
Additional tier 1 capital	36	217,722	0
Dividends paid	36	-9,252	-7,363
Cash outflow of lease liabilities	29	-5,698	0
Cash inflow of subordinated liabilities	35	8,695	4,268
Cash outflow of subordinated liabilities	35	-45,425	-42,651
Cash flow from financing activities		**166,502**	**-44,987**
Cash and cash equivalents at the end of previous period	13	**1,893,054**	**1,990,348**
Cash flow from operating activities		504,768	287,293
Cash flow from investing activities		-513,220	-340,915
Cash flow from financing activities		166,502	-44,987
Effect of currency translation		280	1,316
Cash and cash equivalents at the end of period	13	**2,051,384**	**1,893,054**

Details of the calculation method of cash flow statement are shown in note 3) jj).
As at 31 December 2018, an amount of euro 181,739 thousand from the disposal group VB Liechtenstein is included in the amount of cash and cash equivalents.
Details to the changes in subordinated liabilities are shown in note 35).

NOTES

1) General information

VOLKSBANK WIEN AG (VBW), with its registered office at Dietrichgasse 25, 1030 Vienna, Austria, is the central organisation (CO) of the Austrian Volksbank sector. VBW has concluded a banking association agreement with the primary banks (Volksbanks, VB) in accordance with section 30a of the Austrian Banking Act (Bankwesengesetz, BWG). The purpose of this banking association agreement is to create a joint liability scheme between the primary sector institutions and to monitor and ensure compliance with the standards of the applicable regulatory provisions at association level. Section 30a (10) of the Austrian Banking Act requires an association's central organisation to have the right to issue instructions to the member credit institutions.

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

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

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

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

The present consolidated financial statements were signed by the Managing Board of VBW on 18 March 2020 and then subsequently submitted to the Supervisory Board for notice.

a) Accounting principles for the Association

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

The following exceptions to the application of individual IFRS apply to the 2019 and 2018 Association financial statements:

Exceptions affecting the overall scope of consolidation

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

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

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

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

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

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

The key management personnel are:

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

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

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

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

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

b) Adjustment of comparative figures in accordance with IAS 8

In the 2019 business year, the estimate regarding the accounting of deferred taxes for the liability reserves formed with effect on taxation has changed. Since the case in point is not about deferred taxes from temporary differences, but about the deferral of taxes payable upon the release of said liability reserves, and hence a liability, said liability need not be accounted for in the balance sheet due to the low likelihood of the outflow. In accordance with IAS 8.41, this amendment is made with retrospective effect, increasing both the item of deferred tax assets and equity by euro 39,343 thousand. It has no effect on the statement of comprehensive income.

2) Presentaion and changes in the scope of consolidation

By way of an agreement on a transfer and contribution in kind VB Services für Banken GmbH contributed on 24 October 2019 its undertaking Infrastructure services with the business divisions Facility management and services, Bank logistics and Property management to VB Infrastruktur und Immobilien GmbH (formerly VOME Holding GmbH). VB Infrastruktur und Immobilien GmbH is included in the scope of consolidation since 1 january 2019. The initial consolidation includes a bank deposit worth euro 227 thousand, that is completely consolidated. Results from previous years in the amount of euro -7 thousand were recognised directly in equity under retained earnings.

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

Deconsolidation result VB Liechtenstein

Euro thousand	
Assets proportional	660,713
Liabilities proportional	602,071
Currency reserve proportional	13,366
Disposal of net assets proportional	**-45,276**
Revenue proportional	89,230
Deconsolidation result	**43,954**

On 13 June 2019 the deregistration due to liquidation of VB-Beteiligung GmbH in Liqu. was entered in the Companie's Register. Hence the company was deconsolidated at this point. As the company was no subordinated entity and there was no controlling relationship within the Association, no result of disposal is recorded in the profit or loss statement. The equity disposal is shown in the position changes in the scope of consolidation, without effect on the income statement.

Participation right of the federal government

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

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

According to its contractual obligations towards the federal government, VBW must submit to the Volksbanks a proposal for the total amount to be distributed with respect to the federal government's participation right by RZG in the subsequent calendar year and for the total amount of the primary banks' contributions required for this purpose (indirect contributions of the Volksbanks and direct contribution of VBW to RZG) by 30 November of each year. VBW is charged according to the share of its retail segment in the Association of Volksbanks (total assets UGB/BWG). Of the repayment amount of euro 300 million promised to the federal government, euro 76 million have already been repaid as at 31 December 2019. Accordingly, the threshold existing at 31 December 2019 for the minimum repayment in the amount of euro 75 million was already met.

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

Number of consolidated companies

	31 Dec 2019			31 Dec 2018		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Fully consolidated companies						
Credit institutions	9	0	9	9	1	10
Financial institutions	4	0	4	4	0	4
Other companies	15	0	15	15	0	15
Total	**28**	**0**	**28**	**28**	**1**	**29**
Companies measured at equity						
Credit institutions	0	0	0	0	0	0
Other companies	2	0	2	2	0	2
Total	**2**	**0**	**2**	**2**	**0**	**2**

Number of unconsolidated companies

	31 Dec 2019			31 Dec 2018		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Affiliates	33	2	35	36	2	38
Associated companies	7	0	7	8	0	8
Companies total	**40**	**2**	**42**	**44**	**2**	**46**

The unconsolidated companies in their entirety were deemed immaterial to the presentation of a true and fair view of the net assets, liabilities, financial position and profit or loss of the Association. In addition to quantitative criteria like total assets and result after taxes also the effect of consolidation on specific positions as well as on the true and fair view of the consolidated financial statements for the Association is taken into account for the assessment of materiality. The calculation of the quantitative characteristics was based on the latest available financial statements of the companies and the Association's consolidated financial statements for 2019.

The complete list of companies included in the Association's consolidated financial statements, companies measured at equity, as well as the unconsolidated companies including detailed information, is shown at the end of the notes (see note 53), 54), 55), 56)).

3) Accounting principles

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

The consolidated financial statements for the Association have been prepared based on at cost measurement excluding the following items:

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

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

Initially applied standards and interpretations

Standard	Content	Mandatory application	Significant effects on the Association
New standards and interpretations			
IFRS 16	Leases	As of BY 2019	Yes
IFRIC 23	Uncertainties over income tax treatments	As of BY 2019	No
Amendments to standards and interpretations			
IFRS 9	Prepayment features with negative compensation	As of BY 2019	No
IAS 19	Plan amendment, curtailment or settlement	As of BY 2019	No
IAS 28	Long-term interests in associates and joint ventures	As of BY 2019	No
Annual improvements of the IFRS (cycle 2015-2017)		As of BY 2019	No

Standards and interpretations to be applied in future

Standard	Content	Mandatory application	Significant effects on the Association
Benchmark reform (IFRS 9, IAS 39 and IFRS 7)		As of BY 2020	No
Revising of Conceptual Framework		As of BY 2020	No
IAS 1 and IAS 8	Definition of materiality	As of BY 2020	No
IFRS 17	Insurance contracts	As of BY 2021	No
IAS 1	Classification of liabilities as current or non-current	As of BY 2022	No

BY – business year

a) Initially applied standards and interpretations

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

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

The Association has decided to apply modified retroactive recognition, which means that the previous year’s comparative figures are not adjusted and, accordingly, adjustments are basically reported in retained earnings in the course of the transition. At the time of initial application, the rights of use and corresponding leasing liabilities within the Association are of the same amount; therefore, no effects on equity will result from this at the time of first-time application. Moreover, use was made of the option not to enter any right of use on the assets side for short-term leases, as well as leases with low-value assets. The contracts were not assessed again in terms of whether a certain agreement constitutes or includes a lease. The simplification option allowed by IFRS 16 C10 (b) was exercised.

Accounting at the lessor will change only slightly as compared to IAS 17, except for more comprehensive information in the notes, and therefore no adjustments to the values are required.

Upon initial application of IFRS 16 as at 1 January 2019, rights of use in the amount of euro 153.6 million were posted as assets; correspondingly, leasing liabilities were recognised in the same amount. The rights of use primarily relate to buildings as well as parking and are reported in tangible assets.

In the statement of comprehensive income, a higher burden of expenditure was incurred due to the splitting of leasing expenses into interest and depreciation, compared to linear distribution of expenses, in the amount of euro 1.7 million.

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

Euro thousand	
Operating lease commitments as at 31 Dec 2018	228,171
Discounting	-57,452
Discounted operating lease commitments as at 31 Dec 2018	**170,719**
Recognition exemption for leases of low-value assets	-2,876
Recognition exemption for short-term leases	-951
Adjustments	-13,302
Lease liabilities as at 1 Jan 2019	**153,590**

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

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

IFRIC 23 – Uncertainty regarding income tax treatments: The interpretation clarifies how regulations regarding recognition and measurement under IAS 12 Income taxes must be applied in case of any uncertainties regarding income tax treatments. Application of IFRIC 23 is mandatory for the first time in reporting periods commencing on or after 1 January 2019. The amendments were adopted into European law by the EU in October 2018 and have no material effect on the Association.

Annual improvements to IFRS (2015-2017 cycle): In December 2017, the IASB published several amendments of existing IFRS within the scope of its annual Improvements to IFRS (2015-2017 cycle). These include phrases in need of improvement and clarifications regarding IFRS 3, IAS 12 and IAS 23 effecting the recognition, measurement and reporting of business transactions. Application of the amendments to the standards is mandatory for reporting periods commencing on or after 1 January 2019. Application of the amendments prior to that date is admissible. The amendments have no material effects on the Association.

b) Standards and interpretaions to be applied in the future

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

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 regarding future events that appear reasonable in the particular circumstances. These estimates and assumptions have an influence on the amounts shown for assets and liabilities in the statement of financial position and income and expenses in the income statement.

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

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

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

d) Consolidation principles

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

The financial statements of the fully consolidated companies and the companies consolidated using the equity method were prepared on the basis of the reporting date of 31 December 2019.

Owing to the lack of an ultimate controlling parent company, the equity components reported in the financial statements, converted in accordance with the relevant principles of the credit institutions, included, as stated in the list of companies in section 55), are aggregated. When aggregating the included companies' investments in Volksbanks and VBW, the aggregated carrying amounts of the investments are deducted from the aggregated equity components. Consolidation as a group of companies which are legally separate entities, but under unified control without a parent company means that the capital consolidation does not result in any minority interests. Cooperative shares of the member credit institutions are reported under total nominal value of members' shares.

Business combinations with a contract date on or after 31 March 2004 are accounted for using the purchase method set out in IFRS 3. Accordingly, all identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date. If the cost of acquisition exceeds the fair value of the identifiable assets, liabilities and contingent liabilities, goodwill is recognised as an asset. The full goodwill method is not in use. Goodwill is not amortised over the estimated useful life, but instead is tested for impairment annually in accordance with IAS 36. Negative goodwill is recognised directly in income in accordance with IFRS 3 after re-examination. Any change in contingent consideration recognised as a liability at the acquisition date is recognised in profit or loss. Transactions, which do not lead to a loss of control of the Association, are recognised directly in equity with no impact on profit or loss.

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

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

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 foreign subsidiaries prepared in currencies other than the euro are translated using the modified closing rate method set out in IAS 21. Under this method, all assets and liabilities are translated at the spot exchange mean rate effective on the balance sheet date, while the historical rate is applied for the translation of equity. Differences resulting from this translation are recognised in the currency translation reserve in equity. Any goodwill, disclosed hidden reserves and liabilities arising from the initial consolidation of foreign subsidiaries prior to 1 January 2005 have been translated at historical rates. Any goodwill, disclosed hidden reserves and liabilities arising from business combinations after 1 January 2005 are translated at the spot exchange mean rate. After the sale of VB Liechtenstein, no foreign subsidiary in a foreign currency was included in the consolidated financial statement as of 31 December 2019.

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

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

Net interest income consists of:

- Interest and similar income from credit and money market transactions (including unwinding effect from risk provisions)
- Interest and similar income from fixed-income securities
- Interest and similar expenses for deposits

- Interest and similar expenses for debts evidenced by certificates and subordinated liabilities
- The Interest component of derivatives reported in the investment book
- Interest expenses from leases
- Modifications of financial assets, if they are due to market-induced contract modifications

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

g) Risk provision

The risk provision item includes movements of the impairments reported and risk provisions for financial assets (measured at amortised cost or at fair value through OCI) as well as for off-balance sheet obligations (essentially loan commitments and financial guarantees) based on the IFRS 9 impairment model of expected credit losses. Moreover, direct write-offs of receivables and receipts from receivables written off already are reported in the risk provision item. Gains or losses from modifications of financial assets are equally recognised in this item, if said modifications are related to credit rating.

h) Net fee and commission income

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

i) Net trading income

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

j) Result from financial instruments and investment properites

The result from financial instruments and investment properties consists of:

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

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

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

k) Other operating result

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

l) General administrative expenses

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

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

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

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

m) Restructuring result

In the previous year, the allocation or release of the restructuring provision was reported in the restructuring result. In the 2019 business year, further allocations to these provisions are essentially included in general administrative expenses.

n) Financial assets and liabilities

A financial asset or a financial liability is initially recognised in the balance sheet when the Association becomes party to a contract on the financial instrument and thus acquires the right to receive, or assumes a legal obligation to pay, liquid funds. Financial assets and liabilities are recognised or derecognised on the trading day. The trading day is the date when the Association undertakes to buy or sell the assets concerned, respectively to issue or redeem the financial obligations.

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

Financial liabilities

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

Derecognition and modification

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

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

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

Offsetting

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

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

Measured at amortised cost

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

Measured at fair value through profit or loss

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

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

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

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

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

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

Derivative financial instruments

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

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

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

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

Own equity and debt instruments

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

o) Loans and receivables credit institutions and customers

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

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

p) Risik provision

Based on individual and collective evaluation risk provisions are effected for the special risk of banking business. Risk provisions for off-balance risks are reported under provisions. The valuation models are based on statistically calculated parameters, such as historical default and loss ratios. The methods and parameters used are validated regularly in order to approximate the estimated and actual defaults and losses.

Impairments

The impairment model pursuant to IFRS 9 is based on statistically calculated parameters, such as historical default and loss ratios. The methods and parameters used are validated regularly in order to approximate the estimated and actual defaults and losses. The process for determining the impairment is computer-aided, using an impairment tool specifically developed for the purpose. For further details please refer to note 3) n) Financial assets and liabilities, 3) o) Loans and receivables credit institutions and customers and 52) Risk report b) Credit risk.

Impairments are based on expected credit losses (ECL) and are calculated using probability-weighted future cash flows. The essential model parameters for the measurement of ECL are the term-based probability of default (PD), the term-based loss given default (LGD), and the exposure at default (EAD). The difference between contractually agreed cash flows and anticipated cash flows is recognised as impairment.

Scope

The impairment model must be applied to the following financial instruments:

- Financial assets measured at amortized cost
- Financial assets mandatorily measured at fair value through OCI
- For purchased or originated credit-impaired financial assets (POCI) where the estimated loss amount has changed since addition, this is reported in risk provisions using the credit risk-adjusted effective interest rate.
- Impairments are reported as provisions for irrevocable loan commitments and financial guarantees.

Impairments on debt instruments measured at fair value through profit or loss, as well as on equity instruments must be recognised as part of the fair value changes in the income statement or in OCI.

General approach

For the purpose of measuring the amount of anticipated credit losses, financial instruments are divided into three stages.

Stage 1 includes all financial instruments that have not shown any significant increase in default risk since first-time recognition (except for financial assets already impaired at the time of acquisition or granting). The impairment is recognised in the amount of 12-month ECL.

Stage 2 includes all financial instruments showing a significant increase in default risk since first-time recognition. The impairment recognised is equivalent to lifetime ECL.

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

Stage 3 comprises financial instruments that meet the definition of default. The definition of default within the Group corresponds to the requirements of CRR I Art. 178. The impairment recognised is equivalent to lifetime ECL.

Options

- The option regarding the low credit risk exemption – that is the option available for low-risk instruments to start out from the assumption that the risk of default has not increased significantly since first-time recognition – is exercised. The relevant instruments include loans and receivables to customers and securities with a rating in the investment grade range. In case of securities with several external ratings, the second best rating is used. In this way, we can ensure that at least two rating agencies provide the issuer with an investment grade rating.

- The option to choose a simplified procedure for trade receivables and contractual assets pursuant to IFRS 15 with a significant financing component, as well as leasing receivables was not exercised, as such receivables are of minor importance within the VBW Group.

Information regarding the calculation logic

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

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

According to the instructions contained in the Group credit risk manual, customers with an internal rating of 4C to 4E (watchlist loans) and all other customers where other indications for an increased default risk exist, i.e. where repayment according to the contract appears jeopardised, are subjected to a more thorough examination.

For more detailed information about the impairment model, please refer to the Risk report note 52 b) Credit risk.

q) Assets and liabilities held for trading

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

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

r) Financial investments

Financial investments comprise all securitised debt and equity instruments not classified as participations. Equity instruments are made up of shares of stock for the major part, without any relevance to the core business of the Associaition of Volksbanks, with optimisation of returns being of primary importance. Financial investments are initially recognised at fair value plus incremental direct transaction costs.

Classification of securitised debt instruments

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

Measured at amortised cost

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

Measured at fair value through profit or loss

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

Measured at fair value through OCI

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

Classification of equity instruments

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

s) Investment property

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

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

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

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

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

t) Participations and companies measured at equity

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

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

To the extent that the discounted cash flow method is applied, the discount rates used are based on the respective current recommendations of the Fachsenat der österreichischen Kammer der Wirtschaftstreuhänder as well as of international financial data service providers and, in the 2019 financial year, range between 6.3 - 9.0 % (2018: 6.9 - 8.9 %). The market risk premium used for the calculation is 7.9 % (2018: 7.3 %), the beta values used range between 0.8 - 1.1 (2018: 0.8 - 1.1). Additional country risks did not have to be considered. Discounts due to fungibility and exercise of control in the amount of 10 % in each case are effected for two participating interests.

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

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

u) Intangible and tangible assets

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

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

Rights of use

On the date of provision of the lease object, a right of use is recognised by the lessee in the balance sheet at acquisition cost. The cost of acquisition is made up as follows:

- Lease liability
- Lease payments made upon or prior to provision of the lease object, less lease incentives received
- Initial direct costs
- Any obligations to restore the object to its original condition, if applicable

Subsequent measurement ist performed at amortised cost. Rights of use are depreciated on a straight-line basis over the contract period. For low-value lease objects and for short-term leases (< 12 months), use is made of simplified application, with payments are recognised as expenses on a straight-line basis. For contracts that contain leasing components as well as non-leasing components, in the area of branches, use is made of the option to waive any separation of these components.

For existing leases, an assessment is effected on an ongoing basis as to whether any significant parameters have changed and if this has any effect on the amount of the lease payments or the term of the lease. In cases of rent index adjustments, the lease liability is revalued. If, for instance, any adjustments to the rental index occur, the leasing liability will be assessed anew. The newly determined present value will increase or reduce the original liability. As a rule, these adjustments must be effected to the right of use in the same amount.

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

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

Office furniture 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
Customer relationship	up to 20 years
Strongrooms and safes	up to 20 years
Buildings, reconstructed building	up to 50 years
Rights of use	up to 41 years

v) Tax assets and liabilities

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

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

Deferred tax assets in respect of unutilised tax loss carryforwards are formed and recognised to the extent that it is probable that future taxable profit will be available at the same company against which the unused tax losses can be utilised or if sufficient taxable temporary differences exist. The appraisal period is 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.

w) Other assets

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

x) Assets and liabilities held for sale

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

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

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

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

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

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

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

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

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

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

y) Liabilities

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

Lease liability

The present value of the lease liability is reported in the balance sheet on the date of provision of the lease object. The present value is determined on the basis of the contractual lease payments, the respective residual terms and the incremental borrowing rate. The lease payments include the following components:

- fixed leasing payments, less lease incentives to be provided by the lessor
- variable payments linked to an index or interest rate
- expected residual value payments from residual value guarantees
- the exercise price of a purchase option, provided if the exercise of the option is estimated to be sufficiently certain
- any contractual penalties for terminating the lease, if the lease term takes into account, that a termination option is exercised

In the assesment of lease terms economic disadvantages are considered. Therefore the first option of termination will not be used when determing the lease terms.

Lease payments are discounted at the interest rate implicitly underlying the leasing relationship, if it is possible to determine that interest rate. Otherwise discounting will be effected using the incremental borrowing rate.

In the course of subsequent measurement, the lease liability is increased by the interest expense to the outstanding amount and reduced by lease payments.

For existing leases, an assessment is effected on an ongoing basis as to whether any significant parameters have changed and if this has any effect on the amount of the lease payments or the term of the lease. In cases of rent index adjustments, the lease liability is revalued. If, for instance, any adjustments to the rental index occur, the leasing liability will be assessed anew. The newly determined present value will increase or reduce the original liability.

z) Employee benefits

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

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

For those pension obligations transferred to the BONUS Pensionskasse Aktiengesellschaft, the pension fund has established a structured multi-stage investment process based on risk management considerations. In this context, the pension fund is subject to the requirements of the Austrian Pension Fund Act as well as the Austrian Financial Market Authority's (FMA) Risk Management Regulation (Risikomanagementverordnung) and regularly reports to various boards about the investment.

The risk-bearing capacity, the determination of Strategic Asset Allocation (SAA) as well as a limit system constitute the framework for investment. The investment decisions are based on a thorough-going analysis of markets, asset classes and products, the aim being to achieve a high level of diversification. Apart from monitoring limit utilisation, the risk management function calculates various risk indicators, such as value at risk (VaR) or tracking error, on a current basis. Additionally, scenario analyses are performed regularly for the purpose of evaluating the effects of infrequent extreme market movements.

The respective liabilities side obligations as well as the portfolio structure within the Veranlagungs- und Risikogemeinschaft (VRG; investment and risk association) are checked on a current basis in order to recognise any changes and long-term deviations from the best-estimate actuarial assumptions used. The same applies to the valuation of those obligations that have not been transferred. As standard, the SAA is checked for compatibility with risk-bearing capacity at least once a year or in shorter intervals if necessary. Within the scope of this SAA review, the investment structure is reconciled with the liabilities side, the portfolio information and the respective liquidity requirements. This review is performed by the Risk Management function in close collaboration with the investment team. The ranges of fluctuation resulting from fluctuations of the parameters included are calculated and monitored as part of sensitivity analyses in order to assess the impact of possible fluctuations on the assets side of the balance sheet in a timely manner.

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

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

Parameters for calculating employee benefit obligations

	2019	2018	2017	2016
Expected return on provisions for pensions	0.30 %	1.10 %	1.10 %	1.10 %
Expected return on provisions for severance payments	0.40 %	1.10 %	1.10 %	1.10 %
Expected return on anniversary pensions	0.40 %	1.10 %	1.10 %	1.10 %
Expected return on plan assets	0.30 %	1.10 %	1.10 %	1.10 %
Future salary increase	3.00 %	3.00 %	3.00 %	3.00 %
Future pension increase	2.00 %	2.00 %	2.00 %	2.00 %
Fluctuation rate	none	none	none	none

The fundamental biometric actuarial assumptions of the latest Austrian scheme for calculating pension insurance for salaried employees are applied as the basis of calculation (AVÖ 2008 P – Rechnungsgrundlagen für die Pensionsversicherung – Angestelltenbestand). As the need for provisions for staff not employed in Austria is insubstantial an adjustment of the parameters and biometric acturial assumptions to the conditions in the countries of the affiliated companies has not been made.

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

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

aa) Provisions

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

Risk provisions comprise loan loss provisions for contingent liabilities (in particular financial guarantees). Other provisions contain provisions for legal disputes, interest claims from loans with floors and restructuring. The allocation and release of risk provisions are recorded under risk provisions in the income statement. Amounts allocated to and released from restructuring provision are included in the 2018 under restructuring result, in the actual fiscal year under administrative expenses. Discounting is carried out for risk provisions.

bb) Other liabilities

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

cc) Subordinated liabilities

Subordinated liabilities are initially recognised at fair value plus directly attributable transaction cost. Subsequent measurement is performed at amortised cost using the effective interest method, unless these liabilities were designated at fair value through profit or loss.

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

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

dd) Equity

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

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

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

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

ee) Reserves

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

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

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

ff) Own funds

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

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

Regulatory own funds can be broken down into three elements:

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

The first two components comprise the tier I capital.

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

Just like CET 1 capital, AT1 capital is available for covering losses on an ongoing basis. Core requirement is the subordination, the sustainability of the capital provision and the full discretion of the issuer, whether distributions are made or not. Additionally, it must be possible to convert the instruments into CET 1 capital, or to write them off, at the latest when the CET 1 capital ratio falls below the threshold of 5.125 % in proportion to the risk positions (at the latest).

T2 also includes non-current subordinated liabilities.

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

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

Please refer to note 37) Own funds for the presentation of the regulator equtiy capital.

gg) Trustee transaction

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

hh) Repurchase transactions

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

ii) Contingent liabilities

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

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

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

jj) Cash flow statement

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

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

4) Net interest income

Euro thousand	2019	2018
Interest and similar income from	525,414	520,801
Credit and money market transactions with credit institutions	4,308	4,851
Credit and money market transactions with customers	464,308	453,149
Fixed-income securities	43,413	49,267
Derivative instruments	13,385	13,534
Interest and similar expenses for	-94,353	-101,247
Liquid funds	-5,552	-7,202
Deposits from credit institutions (including central banks)	-4,339	-3,253
Deposits from customers	-17,348	-24,516
Debts evidenced by certificates	-16,328	-15,752
Subordinated liabilities	-16,797	-18,701
Derivative instruments	-30,968	-31,824
Lease liabillities	-3,021	0
Valuation result - modification	-8,806	277
Valuation result - derecognition	116	0
Net interest income	**422,371**	**419,831**

Net interest income according to IFRS 9 categories

Euro thousand	2019	2018
Interest and similar income from	525,414	520,801
Financial assets measured at amortised cost	497,384	481,571
Financial assets measured at fair value through OCI	5,757	12,919
Financial assets measured at fair value through profit or loss - obligatory	8,888	12,777
Derivative instruments	13,385	13,534
Interest and similar expenses for	-94,353	-101,247
Financial liabilities measured at amortised cost	-60,270	-66,278
Financial liabilities measured at fair value through profit or loss - designated	-3,115	-3,146
Derivative instruments	-30,968	-31,824
Valuation result - modification	-8,806	277
Valuation result - derecognition	116	0
Net interest income	**422,371**	**419,831**

Due to the trend of money market interest rates towards negative reference rates, interest income of euro 2,357 thousand (2018: euro 2,579 thousand) and interest expenses of euro -7,293 thousand (2018: euro -8,632 thousand) were realised in the 2019 business year. Negative interest income is reported in interest expenses and negative interest expenses are reported in interest income, so that all results from negative interest rates are shown gross.

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

5) Risk provision

Euro thousand	2019	2018
Changes in risk provision	-23,081	7,123
Changes in provision for risks	-693	1,360
Direct write-offs of loans and receivables	-6,000	-14,781
Income from loans and receivables previously written off	9,205	11,725
Valuation result modification/derecognition	-1,482	885
Risk provision	**-22,050**	**6,313**

6) Net fee and commission income

Euro thousand	2019	2018
Fee and commission income	257,681	267,271
Lending business	18,613	17,691
Securities and custody business	76,787	83,215
Payment transactions	118,612	118,337
Foreign exchange, foreign notes and coins and precious metals transactions	1,664	4,245
Financial guarantees	6,840	7,839
Other services	35,164	35,944
Fee and commission expenses	-28,113	-33,816
Lending business	-5,551	-5,501
Securities and custody business	-9,202	-13,605
Payment transactions	-12,361	-12,480
Foreign exchange, foreign notes and coins and precious metals transactions	-8	-182
Financial guarantees	-355	-827
Other services	-635	-1,220
Net fee and commission income	**229,568**	**233,455**

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 178 thousand (2018: euro 261 thousand).

7) Net trading income

Euro thousand	2019	2018
Equity related transactions	25	34
Exchange rate related transactions	3,462	509
Interest rate related transactions	-4,425	-1,221
Net trading income	**-937**	**-678**

8) Result from financial instruments and investment properties

Euro thousand	2019	2018
Other result from financial instruments	**25,547**	**-10,372**
Result from financial investments and other financial assets and liabilities measured at fair value through profit or loss	9,110	-11,955
Valuation measured at fair value through profit or loss - obligatory	10,777	-15,521
Loans and receivables credit institutions and customers	5,997	-13,868
Securities	4,780	-1,653
Valuation measured at fair value through profit or loss - designated	-3,173	2,025
Debts evidenced by certificates	-3,173	2,025
Income from equities and other variable-yield securities	1,506	1,541
Result from financial investments and other financial assets and liabilities measured at amortised cost	4,851	65
Realised gains from disposal	4,851	65
Result from financial investments and other financial assets and liabilities measured at fair value through OCI	2,507	3,037
Realised gains from disposal	338	24
Realised losses from disposal	-339	-156
Income from participations	2,507	3,168
Result from other derivative instruments	13,791	906
Result from fair value hedge	-4,711	-2,424
Valuation of underlying instruments	73,506	-5,791
Valuation of derivatives	-78,217	3,367
Result from investment properties	**3,882**	**7,296**
Rental income from investment property and operating lease	3,803	4,549
Valuation investment properties	79	2,747
Result from financial instruments and investment properties	**29,430**	**-3,076**

9) Other operating result

Euro thousand	2019	2018
Other operating income	24,036	46,357
Other operating expenses	-8,277	-28,301
Deconsolidation result from consolidated affiliates	43,990	15,302
Taxes and levies on banking business	-4,580	-4,868
Impairment of goodwill	0	-58
Other operating result	**55,169**	**28,432**

Detailed description of other operating income and other operating expenses

Euro thousand	2019	2018
Income from cost allocations	6,300	6,878
Realised gains from disposal of fixed assets and security properties	8,448	16,533
Rental and leasing income	3,376	4,590
Income from allocations from the common fund	0	10,000
Others	5,912	8,356
Other operating income	**24,036**	**46,357**

Euro thousand	2019	2018
Allocation of costs	-2,619	-2,864
Realised losses from disposal of fixed assets and security properties	-3,021	-6,441
Allocation/release of provision for negative interest	3,508	-6,717
Valuation of assets held for sale and disposal groups	-167	-1,845
Others	-5,977	-10,433
Other operating expenses	**-8,277**	**-28,301**

The result from the sale of VB Liechtenstein (2018: VB Schweiz) is shown in the deconsolidation result as well an amendment from the sale of VB Schweiz in 2018 in the amount of euro 36 thousand.

Other taxes include the bank levy in the amount of euro -2,982 thousand (2018: euro -2,953 thousand).

10) General administrative expenses

Euro thousand	2019	2018
Staff expenses	-311,449	-326,423
Wages and salaries	-233,647	-242,972
Expenses for statutory social security	-61,460	-64,154
Fringe benefits	-3,269	-4,237
Expenses for retirement benefits	-7,308	-7,775
Allocation to provision for severance payments and pension funds	-5,764	-7,285
Administrative expenses	-190,832	-214,588
Office space expenses	-19,801	-25,561
Office supplies and communication expenses	-6,848	-5,097
Advertising, PR and promotional expenses	-16,595	-17,283
Legal, advisory and consulting expenses	-30,878	-44,317
IT expenses	-75,320	-80,013
Contribution to the deposit guarantee	-13,431	-13,677
Sundry administrative expenses (including training expenses for staff)	-27,959	-28,640
Depreciation and reversal of impairment	-31,908	-27,146
Depreciation	-22,601	-25,563
Impairment/reversal of impairment	-1,863	-1,583
Right of use - lease depreciation	-7,360	0
Right of use - lease impairment	-83	0
General administrative expenses	**-534,188**	**-568,157**

Staff expenses include payments for defined contribution plans totalling euro 6,960 thousand (2018: euro 7,141 thousand).

Other administrative expenses include expenses for managing contracts for investment properties to the amount of euro 377 thousand (2018: euro 809 thousand).

Expenses from short-term leases in the amount of euro 706 thousand and from low-value assets in the amount of euro 1,128 thousend are included in the administrative expenses.

For the business year, expenses for the auditor KPMG Austria GmbH Wirtschaftsprüfung und Steuerberatungsgesell-schaft amounted to euro 2,225 thousand (2018: euro 2,551 thousand). Thereof euro 1,709 thousand (2018: euro 1,828 thousand) fall upon the audit of the consolidated financial statements including financial statements of fully consolidated companies and joint ventures, euro 367 thousand (2018: euro 537 thousand) upon advisory services and euro 149 thousand (2018: euro 186 thousand) upon other audit services. The auditor does not provide any tax ad-vice.

Information on compensation to board members

Euro thousand	2019	2018
Total compensation		
Supervisory board VBW	474	555
Managing board VBW	1,578	2,061
Member of the managing board / Managing directors Volksbanks	5,167	5,563
Expenses for severance payments and pensions		
Supervisory board VBW	16	33
Managing board VBW	497	761
Member of the managing board / Managing directors Volksbanks	370	420

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

Number of staff employed during the business year

	Average number of staff		Number of staff at end of period	
	2019	2018	31 Dec 2019	31 Dec 2018
Domestic	3,598	3,863	3,496	3,740
Abroad	6	41	0	38
Total number of staff	**3,604**	**3,904**	**3,496**	**3,778**

	Average number of staff		Number of staff at end of period	
	2019	2018	31 Dec 2019	31 Dec 2018
Employees	3,570	3,855	3,476	3,734
Workers	34	49	20	44
Total number of staff	**3,604**	**3,904**	**3,496**	**3,778**

The number auf employees is computed on a full-time equivalent basis.

11) Restructuring result

Due to the “Adler” programme that was started in the 4th quarter of 2018 and which is meant to increase efficiency and reduce costs in subsequent years, provisions had to be formed in the prevous year for the reorganisations to be effected in the sphere of HR and branches. In the previous year, reorganisation provisions in the HR sphere were released. In the 2019 business year, further allocations to these provisions are essentially included in general administrative expenses.

12) Income taxes

Euro thousand	**31 Dec 2019**	**31 Dec 2018**
Current income taxes	-23,722	-17,287
Deferred income taxes	-3,784	10,741
Income taxes for the current fiscal year	**-27,506**	**-6,546**
Income taxes from previous periods continued operation	-3,524	-1,730
Income taxes from previous periods	-3,524	-1,730
Income taxes	**-31,030**	**-8,276**

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

Euro thousand	**31 Dec 2019**	**31 Dec 2018**
Annual result before taxes - continued operation	179,482	123,475
Annual result before taxes - total	**179,482**	**123,475**
Imputed income tax 25 %	44,870	30,869
Tax relief resulting from		
Tax-exempt investment income	-1,022	-406
Investment allowances	-1	0
Other tax-exempt earnings	-2,830	-1,546
Release of untaxed reserve	0	537
Dividend distribution on AT1 capital	-2,131	0
Measurement of participation	-18,631	-3,904
Adjustment of deferred tax assets	6,511	1,021
Re-inclusion of deferred tax assets	0	-21,619
Different foreign tax rates	-158	-279
Other differences	897	1,873
Income taxes for the current fiscal year	**27,506**	**6,546**
Income taxes from previous periods	3,524	1,730
Reported income taxes	**31,030**	**8,276**
Effective tax rate - continued operations	**17.29 %**	**6.70 %**

Due to tax relief resulting from valuation of participations and re-recognition of deferred tax assets, particularly on tax loss carryforwards, the effective tax rates in 2019 and 2018 differ significantly from the statutory tax rate applicable in Austria.

Euro thousand	31 Dec 2019 Result before tax	Income taxes	Result after tax	31 Dec 2018 Result before tax	Income taxes	Result after tax
Valuation of obligation of defined benefit plans	-13,898	3,475	-10,424	5,254	-1,396	3,858
Revaluation reserve	1,270	-317	952	1,709	-427	1,282
Fair value reserve - equity instruments	22,741	-5,685	17,056	-7,573	1,893	-5,679
Valuation of own credit risk	-563	141	-422	-2,449	612	-1,836
Currency reserve	-12,498	0	-12,498	-4,032	0	-4,032
Fair value reserve - debt instruments	-657	164	-493	-2,973	743	-2,229
Change in deferred taxes of untaxed reserve	0	0	0	0	80	80
Change from companies measured at equity	4,810	-1,203	3,608	-3,308	827	-2,481
Other comprehensive income total	**1,205**	**-3,426**	**-2,221**	**-13,371**	**2,332**	**-11,038**

Notes to the consolidated statement of financial positions

13) Liquid funds

Euro thousand	31 Dec 2019	31 Dec 2018
Cash in hand	206,986	220,736
Balances with central banks	1,864,726	1,510,908
Liquid funds	**2,071,712**	**1,731,644**

Transition from liquid funds to cash and cash equivalents

Euro thousand	31 Dec 2019	31 Dec 2018
Liquid funds	2,071,712	1,731,644
Restricted cash and cash equivalents	-20,328	-20,328
Cash and cash equivalents	**2,051,384**	**1,711,316**

Due to contractual obligations within the Association of Volksbanks, cash and cash equivalents are subject to restrictions. Mentioned cash and cash equivalents are allocated to a trust fund (Leistungsfonds) which serves the purpose of performing the services within the scope of joint liability scheme under the association agreement. This trust fund was set up in the 2016 business year. In doing so, a target allocation amount was determined that must be achieved over a period of five years. VBW as CO manages this fund in trust. The amount reported shows the balance of the trust fund in the particular reporting period.

14) Loans and recaivables credit institutions and customers

Euro thousand	31 Dec 2019	31 Dec 2018
Loans and receivables credit institutions		
Amortised cost	430,387	468,487
Fair value through profit or loss	770	1,072
Gross carrying amount	431,157	469,560
Risk provisions	-48	-69
Net carrying amount	**431,109**	**469,491**
Loans and receivables customers		
Amortised cost	21,060,083	20,218,871
Fair value through profit or loss	476,748	576,017
Gross carrying amount	21,536,832	20,794,888
Risk provisions	-286,185	-292,640
Net carrying amount	**21,250,646**	**20,502,248**
Loans and receivables credit institutions and customers	**21,681,755**	**20,971,738**

Breakdown by residual term

Euro thousand	31 Dec 2019	31 Dec 2018
On demand	31,831	18,252
Up to 3 months	349,967	358,815
Up to 1 year	432	2,505
Up to 5 years	7,376	7,417
More than 5 years	41,552	82,571
Loans and receivables credit institutions (gross)	**431,157**	**469,560**

Euro thousand	31 Dec 2019	31 Dec 2018
On demand	782,963	717,637
Up to 3 months	612,652	647,016
Up to 1 year	1,736,405	1,715,403
Up to 5 years	5,273,596	5,428,967
More than 5 years	13,131,216	12,285,865
Loans and receivables customers (gross)	**21,536,832**	**20,794,888**

Finance lease disclosures

Euro thousand	Until 1 year	Until 5 years	More than 5 years	Total
2019				
Total gross investment	30,306	179,072	19,750	229,128
Less paid non-interest-bearing deposits	-3,681	-21,509	-3,707	-28,896
Less unearned financial income	-1,236	-6,974	-837	-9,047
Present value of minimum lease payments	**25,389**	**150,589**	**15,206**	**191,184**
Total unguaranteed residual value				**9,623**
2018				
Total gross investment	28,908	161,966	20,143	211,017
Less paid non-interest-bearing deposits	-8,908	-17,837	-3,260	-30,006
Less unearned financial income	-1,353	-6,774	-973	-9,099
Present value of minimum lease payments	**18,647**	**137,355**	**15,909**	**171,911**
Total unguaranteed residual value				**15,082**

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

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

Sensivity analysis

Loans and receivables credit institutions and customers measured at fair value

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

Loans and receivables credit institutions
31 Dec 2019

Euro thousand	Positive change in fair value	Negative change in fair value
Change in risk markup +/- 10 bp	1	-1
Change in risk markup +/- 100 bp	11	-11
Change in rating 1 stage down / up	0	-1
Change in rating 2 stages down / up	1	-1

Loans and receivables credit institutions
31 Dec 2018

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

Loans and receivables customers
31 Dec 2019

Euro thousand	Positive change in fair value	Negative change in fair value
Change in risk markup +/- 10 bp	2,278	-2,351
Change in risk markup +/- 100 bp	24,327	-22,069
Change in rating 1 stage down / up	328	-498
Change in rating 2 stages down / up	539	-1,245

Loans and receivables customers
31 Dec 2018

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

15) Risk provision

Risk provision – loans and receivables credit institutions

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Purchased or originated credit-impaired	Total
As at 01 Jan 2018	42	0	15	0	57
Increases due to origination and acquisition	34	0	0	0	34
Decreases due to derecognition	-39	-1	-15	0	-54
Changes due to change in credit risk	58	2	-1	0	59
Thereof transfer to stage 1	22	-22	0	0	0
Thereof transfer to stage 2	0	0	0	0	0
Thereof transfer to stage 3	0	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0	0
Changes due to update in the institution´s methodology for estimation	0	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0	0
Other adjustments	-26	0	0	0	-26
As at 31 Dec 2018	69	1	0	0	69
Increases due to origination and acquisition	2	0	0	0	2
Decreases due to derecognition	-23	0	0	0	-23
Changes due to change in credit risk	0	2	0	0	1
Thereof transfer to stage 1	0	0	0	0	0
Thereof transfer to stage 2	0	0	0	0	0
Thereof transfer to stage 3	0	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0	0
Changes due to update in the institution´s methodology for estimation	0	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0	0
Other adjustments	0	-1	0	0	-1
As at 31 Dec 2019	**47**	**1**	**0**	**0**	**48**

Risk provision – loans and receivables customers

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Purchased or originated credit-impaired	Total
As at 01 Jan 2018	21,603	33,215	275,157	0	329,975
Increases due to origination and acquisition	6,483	1,222	7,225	0	14,930
Decreases due to derecognition	-4,147	-6,197	-20,899	0	-31,243
Changes due to change in credit risk	-2,869	6,835	10,980	0	14,945
Thereof transfer to stage 1	42,182	-33,935	-8,248	0	0
Thereof transfer to stage 2	-3,986	5,087	-1,101	0	0
Thereof transfer to stage 3	-257	-5,416	5,674	0	0
Changes due to modifications without derecognition	0	0	0	0	0
Changes due to update in the institution´s methodology for estimation	0	0	0	0	0
Decrease in allowance account due to write-offs	0	0	-35,752	0	-35,752
Other adjustments	6	-412	191	0	-215
As at 31 Dec 2018	21,075	34,663	236,902	0	292,640
Increases due to origination and acquisition	7,474	1,848	7,197	0	16,519
Decreases due to derecognition	-3,555	-7,944	-17,004	0	-28,503
Changes due to change in credit risk	-96,017	64,607	68,827	0	37,417
Thereof transfer to stage 1	13,190	-12,421	-769	0	0
Thereof transfer to stage 2	-28,591	33,523	-4,932	0	0
Thereof transfer to stage 3	-37,644	-16,493	54,137	0	0
Changes due to modifications without derecognition	0	0	0	0	0
Changes due to update in the institution´s methodology for estimation	0	0	0	0	0
Decrease in allowance account due to write-offs	0	0	-32,357	0	-32,357
Other adjustments	91,711	-45,172	-46,070	0	469
As at 31 Dec 2019	**20,687**	**48,002**	**217,495**	**0**	**286,185**

Risk provision – financial investments measured at cost

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 01 Jan 2018	737	0	0	737
Increases due to origination and acquisition	78	0	0	78
Decreases due to derecognition	-13	0	0	-13
Changes due to change in credit risk	-61	0	0	-61
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Changes due to update in the institution´s methodology for estimation	-267	0	0	-267
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	0	0	0
As at 31 Dec 2018	474	0	0	474
Increases due to origination and acquisition	32	0	0	32
Decreases due to derecognition	-2	0	0	-2
Changes due to change in credit risk	-53	0	0	-53
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Changes due to update in the institution´s methodology for estimation	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	0	0	0
As at 31 Dec 2019	**451**	**0**	**0**	**451**

Risk provision – financial investments measured at fair value through OCI

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 01 Jan 2018	84	7	0	92
Increases due to origination and acquisition	2	0	0	2
Decreases due to derecognition	-22	-7	0	-30
Changes due to change in credit risk	-24	0	0	-24
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Changes due to update in the institution´s methodology for estimation	-10	0	0	-10
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	0	0	0
As at 31 Dec 2018	30	0	0	30
Increases due to origination and acquisition	2	0	0	2
Decreases due to derecognition	-2	0	0	-2
Changes due to change in credit risk	-20	0	0	-20
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Changes due to update in the institution´s methodology for estimation	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	0	0	0
As at 31 Dec 2019	**9**	**0**	**0**	**9**

16) Assets held for trading

Euro thousand	31 Dec 2019	31 Dec 2018
Fixed-income securities	663	4,657
Equities and other variable-yield securities	0	46
Positive fair values of derivative instruments	55,381	51,609
Exchange rate related transactions	28	26
Interest rate related transactions	55,353	51,583
Assets held for trading	**56,044**	**56,312**

Breakdown by residual term

Euro thousand	31 Dec 2019	31 Dec 2018
Up to 3 months	0	1
Up to 1 year	45	2
Up to 5 years	607	512
More than 5 years	11	4,141
Fixed-income securities	**663**	**4,657**

VBW as the CO maintains a trading book. The volume of the trading book as at 31 December 2019 amounts to euro 3,048,018 thousand (2018: euro 3,560,190 thousand).

17) Financial investments

Euro thousand	31 Dec 2019	31 Dec 2018
Financial investments		
Amortised cost	2,299,832	1,963,148
Fair value through OCI	168,880	390,155
Fair value through profit or loss	110,714	115,602
Gross carrying amount	2,579,427	2,468,905
Risk provision	-451	-474
Net carrying amount	**2,578,976**	**2,468,431**

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

Breakdown by residual term

Euro thousand	31 Dec 2019	31 Dec 2018
Up to 3 months	48,225	213,659
Up to 1 year	143,821	60,734
Up to 5 years	907,316	826,817
More than 5 years	1,377,493	1,261,004
Fixed-income securities	**2,476,854**	**2,362,214**

Breakdown of debt securities in accordance with the Austrian Banking Act

Euro thousand	31 Dec 2019	31 Dec 2018
Listed securities	2,132,640	2,129,478
Fixed-income securities	2,132,131	2,128,941
Equity and other variable-yield securities	509	537
Securities allocated to fixed assets	2,188,218	2,086,207
Securities eligible for rediscounting	2,075,572	2,009,070

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

18) Investment property

Euro thousand	Investment properties
Costs as at 1 Jan 2018	57,130
Reclassification	4,880
Additions	60
Disposals	-9,725
Assets held for sale	-4,098
Costs as at 31 Dec 2018	48,247
Reclassification	1,483
Additions	117
Disposals	-3,142
Assets held for sale	0
Costs as at 31 Dec 2019	**46,706**

Euro thousand	Investment properties
Cumulative valuation 01 Jan 2018	-4,950
Reclassification	44
Disposals	-2,277
Assets held for sale	3,287
Valuation losses	-3,070
Valuation gains	5,817
Cumulative valuation 31 Dec 2018	-1,150
Reclassification	497
Disposals	1,402
Assets held for sale	0
Valuation losses	-1,063
Valuation gains	1,142
Cumulative valuation 31 Dec 2019	**828**

Euro thousand	Investment properties
Carrying amount 01 Jan 2018	52,180
Carrying amount 31 Dec 2018	47,097
Carrying amount 31 Dec 2019	47,533

Valuations shown in the table above are included within result from financial instruments and investment properties. These valuations include investment properties to the amount of euro 134 thousand (2018: euro 756 thousand) still held at the reporting date.

In 2019, investment properties with a carrying amount of euro 1,740 thousand (2018: euro 12,001 thousand) were disposed of.

Investment properties contain 42 completed properties (2018: 47) with a carrying amount of euro 33,387 thousand (2018: euro 32,693 thousand), as well as undeveloped land with a carrying amount of euro 14,146 thousand (2018: euro 14,404 thousand). These properties are located in Austria. In 2019 business year as well as 2018, there was no property under construction. At reporting date, all investment properties are measured at fair value.

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

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

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

Completed properties

	2019			2018		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	13	4,450	795	0	4,450	664
Rentable space in sqm	17	5,060	1,374	8	5,100	1,345
Occupancy rate	0.00 %	100.00 %	86.32 %	0.00 %	100.00 %	88.89 %
Discount rate	2.00 %	7.00 %	4.99 %	2.00 %	8.00 %	4.64 %

Sensitivity analysis

Euro thousand	Changes in the carrying amount if assumption is increased	Changes in the carrying amount if assumption is decreased
31 Dec 2019		
Discount rate (0.25 % change)	-1,594	1,762
Discount rate (0.50 % change)	-3,043	3,721
31 Dec 2018		
Discount rate (0.25 % change)	-1,801	2,006
Discount rate (0.50 % change)	-3,427	4,256

Undeveloped land

	2019			2018		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	25	2,850	1,010	25	2,860	960
Plot size in sqm	540	48,263	14,174	540	48,263	14,278
Value per sqm	5	718	176	5	718	174

Sensitivity analysis

Euro thousand	Changes in the carrying amount if assumption is increased	Changes in the carrying amount if assumption is decreased
31 Dec 2019		
Land value (10 % change)	1,415	-1,415
Land value (5 % change)	707	-707
31 Dec 2018		
Land value (10 % change)	1,440	-1,440
Land value (5 % change)	720	-720

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

19) Companies measured at equity

Euro thousand	Associates
Carrying amount as at 1 Jan 2018	70,456
Changes in the scope of consolidation	-1,000
Additions	10,000
Comprehensive income proportional	-363
Impairment	-286
Reversal of impairment	9,692
Carrying amount as at 31 Dec 2018	88,499
Changes in the scope of consolidation	0
Additions	8
Comprehensive income proportional	3,097
Impairment	0
Reversal of impairment	630
Carrying amount as at 31 Dec 2019	**92,234**

Associates

The Association holds 44.7 % (2018: 44.6 %) of the shares in VB Wien Beteiligungs eG. The company is located in Vienna and holds participations in companies within the financial sector. The equity interest rate decreased mainly due to the deconsolidation of VB Horn.

In addition, the Association holds 77.7 % (2018: 77.6 %) of shares in Verbund Beteiligung eG (VBW Bet). The company is located in Vienna and holds participations in companies within the financial sector.

None of these companies is listed on the stock exchange.

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

Additional information regarding associates

Euro thousand	2019	2018
Assets		
Loans and receivables credit institutions (net)	36,786	42,523
Financial investments	0	1
Other assets	114,584	103,867
Total assets	**151,371**	**146,390**
of which current assets	131,371	146,389
Liabilities and Equity		
Amounts owed to credit institutions	7,193	7,193
Other liabiliites	2,536	755
Equity	141,641	138,442
Total liabilities and equity	**151,371**	**146,390**
of which current liabilities	2,536	755
Statement of comprehensive income		
Interest and similar income	272	1,633
Interest and similar expense	-455	-1,976
Net interest income	-183	-343
Risk provisions	0	-17
Result before taxes	-588	2,996
Income taxes	-333	-184
Result after taxes	-921	2,812
Other comprehensive income	4,216	-3,084
Comprehensive income	**3,295**	**-272**

Not recognised proportional loss

Euro thousand	2019	2018
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	2019	2018
Equity	141,641	138,442
Equity interest	n.a.	n.a.
Equity proportional	97,731	94,634
Cumulative impairment and reversals	-5,809	-6,439
Not recognised proportional loss	0	0
Valuation previous years	312	304
Transfer carrying amount	0	0
Carrying amount as at 31 Dec 2019	92,234	88,499

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

20) Participations

Euro thousand	31 Dec 2019	31 Dec 2018
Investments in unconsolidated affiliates	15,145	16,393
Investments in companies with participating interest	6,799	6,876
Investments in other companies	108,534	85,752
Participations	**130,479**	**109,022**

A list of unconsolidated affiliates can be found in note 56). Participations with a carrying amount of euro 2,345 thousand (2018: euro 315 thousand) were disposed of during the business year.

The most significant participation in Other participations is Volksbanken Holding eGen with a carrying amount of euro 83,837 thousand (2018: euro 62,040 thousand). The dividends of the participations are included in the income statement in the item Result from financial instruments and investment properties.

Sensitivity analysis

Participations valued by DCF method

Euro thousand		Interest rate		
31 Dec 2019		-0.50 %	Actual	0.50 %
	-10.00 %	18,633	17,602	16,738
Income component	Actual	20,514	**19,356**	18,332
	10.00 %	22,394	21,119	19,995
31 Dec 2018		**-0.50 %**	**Actual**	**0.50 %**
	-10.00 %	19,651	18,610	17,735
Income component	Actual	21,617	**20,410**	19,379
	10.00 %	23,598	22,270	21,097

Participations valued by net assets

Euro thousand	Proportional market value		
31 Dec 2019	If assumption is decreased	Actual	If assumption is increased
Net assets (10 % change)	13,407	**14,897**	16,386
31 Dec 2018	**If assumption is decreased**	**Actual**	**If assumption is increased**
Net assets (10 % change)	13,467	**14,963**	16,460

Participations valued by external appraisals

Euro thousand	Proportional market value		
31 Dec 2019	Lower band	Actual	Upper band
Proportional market value	79,699	**88,544**	97,390
31 Dec 2018	**Lower band**	**Actual**	**Upper band**
Proportional market value	59,194	**65,778**	72,329

21) Intangible assets

Euro thousand	Software	Goodwill	Others	Total
Costs as at 1 Jan 2018	42,587	866	650	44,102
Change in the scope of consolidation	-62	0	0	-62
Currency translation	88	0	0	88
Additions	149	0	0	149
Disposals	-1,288	0	0	-1,288
Assets held for sale	-1,153	0	0	-1,153
Costs as at 31 Dec 2018	40,319	866	650	41,835
Change in the scope of consolidation	-44	0	0	-44
Currency translation	44	0	0	44
Additions	3,262	0	0	3,262
Disposals	-2,643	0	-77	-2,720
Assets held for sale	0	0	0	0
Costs as at 31 Dec 2019	**40,938**	**866**	**573**	**42,377**

Euro thousand	Software	Goodwill	Others	Total
Cumulative valuation 01 Jan 2018	-41,411	-808	-292	-42,511
Change in the scope of consolidation	66	0	0	66
Currency translation	-77	0	0	-77
Disposals	1,287	0	0	1,287
Assets held for sale	949	0	0	949
Depreciation	-479	0	-13	-492
Impairment	0	-58	0	-58
Cumulative valuation 31 Dec 2018	-39,666	-866	-305	-40,837
Change in the scope of consolidation	54	0	0	54
Currency translation	-37	0	0	-37
Disposals	2,642	0	72	2,714
Assets held for sale	0	0	0	0
Depreciation	-877	0	-17	-894
Impairment	0	0	0	0
Cumulative valuation 31 Dec 2019	**-37,885**	**-866**	**-249**	**-38,999**

Euro thousand	Software	Goodwill	Others	Total
Carrying amount 01 Jan 2018	1,175	58	358	1,591
Carrying amount 31 Dec 2018	653	0	345	998
Thereof with unlimited useful life		0		0
Thereof with limited useful life	653		345	998
Carrying amount 31 Dec 2019	3,054	0	324	3,377
Thereof with unlimited useful life		0		0
Thereof with limited useful life	3,054		324	3,377

22) Tangible assets

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Costs as at 1 Jan 2018	642,789	33,528	211,436	4,091	891,844
Change in the scope of consolidation	-1,754	44	-48	-555	-2,313
Currency translation	671	38	107	14	830
Reclassification	3,705	-336	-11,237	1,251	-6,617
Additions	8,865	1,652	4,201	421	15,138
Disposals	-25,987	-2,868	-18,307	-508	-47,669
Assets held for sale	-78,455	-1,276	-1,952	-374	-82,057
Costs as at 31 Dec 2018	549,833	30,782	184,201	4,340	769,156
Change in the scope of consolidation	-362	-50	-82	-22	-516
Currency translation	360	49	75	14	497
Reclassification	-1,181	-11	-664	373	-1,483
Additions	8,171	2,856	10,621	1,178	22,825
Disposals	-38,335	-9,329	-13,633	-750	-62,047
Assets held for sale	-13,867	0	-231	0	-14,098
Costs as at 31 Dec 2019	**504,619**	**24,296**	**180,286**	**5,133**	**714,334**

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Cumulative valuation 01 Jan 2018	-269,503	-30,941	-174,831	-2,898	-478,172
Change in the scope of consolidation	1,656	-43	71	530	2,213
Currency translation	-225	-34	-99	-11	-369
Reclassification	-4,112	314	6,758	-600	2,361
Disposals	14,594	2,865	17,470	573	35,502
Assets held for sale	20,184	919	1,801	304	23,208
Depreciation	-15,322	-1,527	-7,545	-678	-25,072
Impairment	-2,695	0	0	0	-2,695
Reversal of impairment	0	0	1,112	0	1,112
Cumulative valuation 31 Dec 2018	-255,421	-28,447	-155,263	-2,779	-441,911
Change in the scope of consolidation	142	61	78	19	300
Currency translation	-125	-36	-69	-12	-241
Reclassification	773	0	181	-181	773
Disposals	22,101	9,318	12,791	643	44,853
Assets held for sale	7,215	0	0	0	7,215
Depreciation	-12,426	-1,496	-7,020	-765	-21,707
Impairment	-1,837	0	-27	0	-1,863
Reversal of impairment	0	0	0	0	0
Cumulative valuation 31 Dec 2019	**-239,577**	**-20,599**	**-149,329**	**-3,076**	**-412,581**

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Carrying amount 01 Jan 2018	373,286	2,587	36,605	1,193	413,672
Carrying amount 31 Dec 2018	294,412	2,335	28,938	1,561	327,245
Carrying amount 31 Dec 2019	265,041	3,697	30,957	2,058	301,753

Right of use

Euro thousand	Vehicles	Rental contracts	Total
Amortised cost 31 Dec 2019	78	187,476	187,554
Thereof additions	0	46,014	46,014
Depreciation	36	7,407	7,443
Carrying amount 31 Dec 2019	**42**	**180,069**	**180,111**

At the Association of Volksbanks buildings were sold, and the branches located therein were subsequently leased back again. This transction leads to an insignificant impact on the result and to a cash inflow in the amount of euro 13,315 thousand.

23) Tax assets and liabilities

	31 Dec 2019		31 Dec 2018	
Euro thousand	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Current tax	10,239	17,486	7,570	8,705
Deferred tax	119,779	3,843	132,106	10,920
Tax total	**130,018**	**21,329**	**139,676**	**19,626**

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

	31 Dec 2019		31 Dec 2018		Net deviation 2019		
Euro thousand	Tax assets	Tax liabilities	Tax assets	Tax liabilities	Total	In income statement	In other comprehen-sive income
Loans and receivables credit institutions	13	149	94	165	-65	-62	0
Loans and receivables customers	38,052	36,365	38,089	31,954	-4,448	-4,987	0
Assets held for trading	33	0	46	0	-13	-13	0
Financial investments	938	80,404	567	65,293	-14,740	-14,904	164
Investment property	510	4,294	432	4,314	98	98	0
Participations	9,294	5,695	5,174	4,808	3,233	8,918	-5,685
Intangible and tangible assets	43,294	47,705	39,650	5,388	-38,673	-38,356	-317
Amounts owed to customers	32	0	3,422	0	-3,389	-3,389	0
Debts evidenced by certificates and subordinated liabilities	20,332	198	17,783	34	2,384	1,484	141
Lease liabilities	45,825	0	0	0	45,825	45,825	0
Liabilities held for trading	0	0	0	2	2	2	0
Provisions for pensions, severance payments and other provisions	37,353	10,237	32,202	12,358	7,273	3,880	3,475
Other assets and liabilities	92,419	28,531	73,382	27,950	18,456	18,458	0
Other balance sheet items	0	223	0	223	0	0	0
Tax loss carryforwards	41,642	0	62,380	0	-20,737	-20,737	0
Deferred taxes before netting	**329,737**	**213,800**	**273,220**	**152,489**	**-4,795**	**-3,784**	**-2,223**
Offset between deferred tax assets and deferred tax liabilities	-209,958	-209,958	-141,114	-141,114	0	0	0
Reported deferred taxes	**119,779**	**3,843**	**132,106**	**11,375**	**-4,795**	**-3,784**	**-2,223**
Of which in assets or liabilities held for sale				454			

The remainder of the net difference in the annual comparison that is not reflected in either the income statement or other comprehensive income is primarily attributable to the reclassification of direct costs from AT1 emission into equity as well as to changes in the scope of consolidation.

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

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

In accordance with IAS 12.39 deferred tax liabilities for temporary differences regarding participations in subsidiaries in the amount of euro 69,849 thousand (2018: euro 65,299 thousand) as well as deferred tax assets in the amount of euro 17,449 thousand (2018: euro 10,146 thousand) were not recognised as a reversal is not expected soon.

For tax loss carryforwards in the amount of euro 253,791 thousand (2018: euro 252,340 thousand) no deferred taxes were recognised. Deferred tax assets for tax loss carryforwards and other deferred tax assets in the amount of euro 26,045 thousand (tax base) (2018: euro 4,086 thousand) were impaired. Deferred tax assets were recognised only if their realisation appeared to be probable within an adequate period of time (4 years). Of these taxable loss carryforwards euro 253,791 thousand (2018: euro 252,340 thousand) can be carried forward without restriction and are mainly attributable to VBW.

24) Other assets

Euro thousand	31 Dec 2019	31 Dec 2018
Deferred items	3,314	2,553
Other receivables and assets	77,308	75,189
Positive fair values of derivative instruments	87,505	75,423
Other assets	**168,127**	**153,166**

Other receivables and assets essentially consist of deferrals of euro 20,249 thousand (2018: euro 21,655 thousand), auxiliary accounts of the banking business and other allocations amounting to euro 33,474 thousand (2018: euro 17,234 thousand), receivables from property sales in the amount of euro 266 thousand (2018: euro 15,323 thousand).

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

Euro thousand	31 Dec 2019 Fair value hedge	31 Dec 2018 Fair value hedge
Interest rate related transactions	48,214	37,154
Positive fair values of derivative instruments	**48,214**	**37,154**

25) Assets held for sale

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

Euro thousand	31 Dec 2019	31 Dec 2018
Liquid funds	0	181,739
Loans and receivables credit institutions	0	104,997
Loans and receivables customers	0	107,004
Financial investments	0	44,633
Investment property	0	2,503
Intangible assets	0	204
Tangible assets	53,554	58,121
Other assets	0	9,982
Assets held for sale	**53,554**	**509,183**

Apart from real estate which is no longer used for operational purposes in the 2019 business year this position includes the carrying amount of the former head office in 1090 Vienna, Kolingasse. From the sale in January 2020 a result in the amount of euro 32,066 thousand will be collected. In the previous year this position mainly showed the result of Volksbank AG, Liechtenstein that was sold in March 2019.

26) Amounts owed to credit institutions

Euro thousand	31 Dec 2019	31 Dec 2018
Central banks	83,437	310,342
Other credit institutions	328,753	284,750
Amounts owed to credit institutions	**412,189**	**595,091**

Amounts owed to credit institutions are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2019	31 Dec 2018
On demand	198,746	224,523
Up to 3 months	48,094	237,821
Up to 1 year	66,653	25,276
Up to 5 years	26,797	43,031
More than 5 years	71,900	64,441
Amounts owed to credit institutions	**412,189**	**595,091**

27) Amounts owed to customers

Euro thousand	31 Dec 2019	31 Dec 2018
Savings deposits	8,201,339	8,750,205
Other deposits	13,527,750	12,805,190
Amounts owed to customers	**21,729,089**	**21,555,395**

Amounts owed to customers are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2019	31 Dec 2018
On demand	17,504,625	15,994,188
Up to 3 months	874,300	1,243,739
Up to 1 year	1,896,987	2,662,161
Up to 5 years	1,208,510	1,353,206
More than 5 years	244,668	302,101
Amounts owed to customers	**21,729,089**	**21,555,395**

28) Debts evidenced by certificates

Euro thousand	31 Dec 2019	31 Dec 2018
Bonds	1,432,724	447,984
Amortised cost	1,322,415	341,409
Fair value through profit or loss - designated	110,308	106,575
Medium-term notes	27,122	57,236
Others	22,072	24,110
Debts evidenced by certificates	**1,481,917**	**529,329**

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

Breakdown by residual term

Euro thousand	31 Dec 2019	31 Dec 2018
Up to 3 months	7,282	22,721
Up to 1 year	21,875	44,666
Up to 5 years	302,576	129,688
More than 5 years	1,150,185	332,255
Debts evidenced by certificates	**1,481,917**	**529,329**

29) Lease liabilities

Euro thousand	31 Dec 2019
Up to 3 months	1,346
Up to 1 year	5,359
Up to 5 years	34,008
More than 5 years	142,586
Lease liabilities	**183,300**

30) Liabilities held for trading

Euro thousand	31 Dec 2019	31 Dec 2018
Negative fair values of derivative instruments		
Exchange rate related transactions	4	4
Interest rate related transactions	76,865	71,781
Liabilities held for trading	**76,868**	**71,785**

31) Provisions

Provisions for off-balance risks

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 01 Jan 2018	3,495	3,209	10,962	17,667
Increases due to origination and acquisition	1,988	205	1,714	3,907
Decreases due to derecognition	-2,310	-3,165	-4,498	-9,974
Changes due to change in credit risk	-304	3,081	1,970	4,747
Thereof transfer to stage 1	3,111	-2,498	-612	0
Thereof transfer to stage 2	-293	352	-58	0
Thereof transfer to stage 3	-19	-497	516	0
Other adjustments	-13	-27	-777	-817
As at 31 Dec 2018	2,856	3,304	9,370	15,530
Increases due to origination and acquisition	2,102	423	1,185	3,709
Decreases due to derecognition	-973	-1,048	-4,105	-6,126
Changes due to change in credit risk	-17,751	17,578	3,208	3,035
Thereof transfer to stage 1	1,161	-1,057	-104	0
Thereof transfer to stage 2	-3,240	3,341	-100	0
Thereof transfer to stage 3	-2,806	-242	3,048	0
Other adjustments	16,924	-14,344	-2,591	-11
As at 31 Dec 2019	**3,157**	**5,913**	**7,067**	**16,137**

Other provisions

Euro thousand	Restructuring	Interest claims in connection with loans with floors	Possible repayments from drawdowns of guarantees	Others	Total
As at 1 Jan 2018	9,709	3,390	11,557	6,494	31,150
Changes in the scope of consolidation	0	0	0	1,790	1,790
Currency translation	0	0	0	101	101
Reclassification	-244	0	40	835	630
Unwinding	0	0	0	31	31
Utilisation	-6,600	-437	-2,548	-3,856	-13,440
Release	-1,014	-821	-4,699	-1,507	-8,041
Addition	5,184	9,960	2,372	957	18,473
As at 31 Dec 2018	7,035	12,092	6,723	4,844	30,693
Changes in the scope of consolidation	0	0	0	0	0
Currency translation	0	0	0	0	0
Reclassification	0	0	107	9	116
Unwinding	0	0	0	12	12
Utilisation	-3,036	-201	-2,045	-217	-5,499
Release	-1,056	-3,905	-1,770	-820	-7,550
Addition	1,926	2,828	1,350	3,473	9,577
As at 31 Dec 2019	**4,869**	**10,813**	**4,366**	**7,300**	**27,349**

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

32) Long-term employee provisions

Euro thousand	Provision for pensions	Provision for severance payments	Provision for anniversary bonuses	Total
Net present value as at 1 Jan 2018	59,630	144,386	21,145	225,161
Currency translation	369	0	0	369
Changes in the scope of consolidation	-5,508	0	0	-5,508
Current service costs	336	6,598	1,492	8,426
Interest costs	588	1,664	249	2,501
Payments	-3,573	-10,044	-880	-14,496
Actuarial gains or losses arising from changes in financial assumptions	107	-7,058	-1,051	-8,002
Actuarial gains or losses arising from changes in demographic assumptions	1,611	-1,819	1,250	1,041
Net present value as at 31 Dec 2018	53,561	133,726	22,205	209,492
Currency translation	176	0	0	176
Changes in the scope of consolidation	-4,898	0	0	-4,898
Current service costs	194	5,946	1,490	7,631
Interest costs	547	1,536	250	2,333
Payments	-4,258	-9,750	-767	-14,774
Actuarial gains or losses arising from changes in financial assumptions	5,374	8,524	-238	13,660
Actuarial gains or losses arising from changes in demographic assumptions	0	0	0	0
Net present value as at 31 Dec 2019	**50,696**	**139,984**	**22,941**	**213,621**

Net present value of plan assets

Euro thousand	Provision for pensions
Net present value of plan assets as at 1 Jan 2018	8,605
Currency translation	296
Changes in the scope of consolidation	-4,152
Result from plan assets	258
Contributions to plan assets	10
Payments	-3
Actuarial gains or losses arising from changes in financial assumptions	0
Net present value of plan assets as at 31 Dec 2018	5,014
Currency translation	154
Changes in the scope of consolidation	-4,286
Result from plan assets	49
Contributions to plan assets	39
Payments	0
Actuarial gains or losses arising from changes in financial assumptions	0
Net present value of plan assets as at 31 Dec 2019	**971**

The provision for pensions is netted with the present value of plan assets. In 2018 employee benefit provisions reclassified to liabilities held for trading in the amount of euro 581 thousand are included in all tables referring to employee benefits.

Contribution payments to plan assets are expected in the amount of euro 4 thousand in 2020 (2018: euro 4 thousand).

Euro thousand	Provision for pensions	Provision for severance payments	Provision for anniversary bonuses	Total
31 Dec 2018				
Long-term employee provisions	53,561	133,726	22,205	209,492
Net present value of plan assets	-5,014	0	0	-5,014
Net liability recognised in balance sheet	**48,546**	**133,726**	**22,205**	**204,478**
31 Dec 2019				
Long-term employee provisions	50,696	139,984	22,941	213,621
Net present value of plan assets	-971	0	0	-971
Net liability recognised in balance sheet	**49,725**	**139,984**	**22,941**	**212,650**

Historical information

Euro thousand	2019	2018	2017	2016	2015
Net present value of obligations	213,621	209,492	225,161	240,101	241,888
Net present value of plan assets	971	5,014	8,605	9,101	8,655

Composition of plan assets

	31 Dec 2019			31 Dec 2018		
Euro thousand	Plan assets - quoted	Plan assets - non-quoted	Plan assets - total	Plan assets - quoted	Plan assets - non-quoted	Plan assets - total
Bond issues regional administration bodies	285	0	285	343	0	343
Bond issues credit institutions	44	0	44	46	0	46
Other bond issues	209	0	209	3,194	0	3,194
Shares EU countries	103	0	103	90	0	90
Shares USA and Japan	120	0	120	154	0	154
Other shares	73	0	73	70	0	70
Derivatives	32	26	58	706	19	726
Real estate	0	63	63	270	60	330
Fixed deposit	0	4	4	0	0	0
Cash in hand	0	11	11	39	22	60
Total	**866**	**105**	**971**	**4,913**	**101**	**5,014**

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

Sensitivity analysis

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

	Change in the present value	
Euro thousand	increase of assumption	decrease of assumption
31 Dec 2018		
Discount rate (0.75 % modification)	-16,809	18,595
Future wage and salary increases (0.50 % modification)	9,597	-8,854
Future pension increases (0.25 % modification)	1,455	-1,396
Future mortality (1 year modification)	2,966	-2,877
31 Dec 2019		
Discount rate (0.75 % modification)	-17,270	19,909
Future wage and salary increases (0.50 % modification)	9,968	-9,205
Future pension increases (0.25 % modification)	1,522	-1,335
Future mortality (1 year modification)	3,160	-3,024

As of 31 December 2019, the weighted average term of defined-benefit obligations for pensions was 10.9 years (2018: 12.0 years) and for severance payments 13.2 years (2018: 13.2 years).

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

33) Other liabilities

Euro thousand	31 Dec 2019	31 Dec 2018
Deferred items	1,027	3,419
Other liabilities	100,494	121,932
Negative fair values of derivative instruments	386,427	383,499
Other liabilities	**487,948**	**508,850**

Other liabilities essentially consist of taxes and fiscal liabilities in the amount of euro 24,540 thousand (2018: 30,534 thousand), deferrals and trade payables in the amount of euro 27,001 thousand (2018: euro 24,102 thousand), liabilities to employees in the amount of euro 17,282 thousand (2018: euro 18,792 thousand) as well as auxiliary accounts of the banking business in the amount of euro 16,976 thousand (2018: euro 9,243 thousand).

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

Euro thousand	31 Dec 2019 Fair value hedge	31 Dec 2018 Fair value hedge
Exchange rate related transactions	11,646	19,613
Interest rate related transactions	358,351	271,595
Negative fair values of derivative instruments	**369,996**	**291,208**

34) Liabilities held for sale

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

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

35) Subordinated liabilities

Euro thousand	31 Dec 2019	31 Dec 2018
Subordinated capital	502,808	508,002
Supplementary capital	94,734	126,050
Subordinated liabilities	**597,542**	**634,052**

Subordinated liabilities are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2019	31 Dec 2018
Up to 3 months	3,780	1,027
Up to 1 year	7,715	35,404
Up to 5 years	79,854	78,308
More than 5 years	506,193	519,313
Subordinated liabilities	**597,542**	**634,052**

Cash inflow and cash outflow of subordinated liabilities

EUR Tsd	Subordinated liabilities
As at 1 Jan 2018	**671,159**
Cash inflow	4,268
Cash outflow	-42,651
Non-cash changes	
Changes in the scope of consolidation	0
Others	1,276
Total non-cash changes	1,276
As at 31 Dec 2018	**634,052**
Cash inflow	8,695
Cash outflow	-45,425
Non-cash changes	
Changes in the scope of consolidation	0
Others	220
Total non-cash changes	220
As at 31 Dec 2019	**597,542**

The issued open amount of every subordinated emission is less than 10 % of the total volume of subordinated liabilities. In subordinated liabilities with a residual term of more than five years a volume of euro 12,270 thousand (2018: euro 18,247 thousand) is included without a determined residual term. The participation capital subscribed by VB Regio likewise has no specific term. Since the intention is to repay this capital in 2020, it is reported in the term category of up to 5 years. Every subordinated emission has the possibility of termination or repayment soonest after five years with the prior consent of the FMA in accordance with article 77 CRR.

36) Equity

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

Additional tier 1 capital

In April 2019 VBW issued additional tier 1 capital (AT1 emission) with an issue volume of euro 220 million. These notes are perpetual and have no scheduled maturity date. The coupon has been set at 7.75 % p.a. for the first five years - paid on a semi-annual basis. The rate will be subsequently reset every five years. In addition, VBW may, at its sole discretion, redeem the notes, but not before five years after the date of their issuance, on specified call redemption dates. On account of their terms and conditions, the additional tier 1 capital has been qualified as equity in accordance with IAS 32. Of face value the direct attributable costs in an amount of euro 2,278 thousand will be deposed.

Revaluation reserve

Due to changes in the use of buildings, these were reclassified from tangible assets to investment property. The difference between carrying amount and fair value at time of reclassification is presented in the revaluation reserve considering deferred taxes.

Return on total assets

The return on total assets for the business year 2019 was 0.54 % (2018: 0.43 %) and was calculated as the ratio of the annual result after taxes to total assets as at the reporting date.

Non-controlling interest

	Minority interest		
Company names	**2019**	**2018**	**Assignment**
3V-Immobilien Errichtungs-GmbH; Vienna	< 0.001 %	< 0.001 %	Other companies
Gärtnerbank Immobilien GmbH; Vienna	< 0.001 %	< 0.001 %	Other companies
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Vienna	< 0.001 %	< 0.001 %	Other companies
VB Services für Banken Ges.m.b.H.; Vienna	1.110 %	1.110 %	Other companies
VB Verbund-Beteiligung Region Vienna eG; Vienna	9.460 %	9.490 %	Other companies
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	1.000 %	1.000 %	Other companies
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Vienna	0.005 %	0.005 %	Other companies

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

Additional information non-controlling interest

Euro thousand	Other companies 2019	2018
Assets		
Loans and receivables credit institutions	38,628	43,615
Loans and receivables customers	335	147
Financial investments	287	651
Other assets	76,079	71,959
Total assets	**115,329**	**116,372**
Liabilities and Equity		
Amounts owed to credit institutions	49,076	50,243
Amounts owed to customers	4	0
Other liabilities	15,169	13,296
Equity	51,081	52,834
Total liabilities	**115,329**	**116,372**
Statement of comprehensive income		
Interest and similar income	60	67
Interest and similar expense	-1,793	-1,919
Net interest income	-1,733	-1,852
Rental income from investment property and operating lease	3,868	3,844
Risk provision	0	-1
Result before taxes	426	2,823
Income taxes	647	107
Result after taxes	1,074	2,930
Other comprehensive income	-41	170
Comprehensive income	1,032	3,100

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

37) Own funds

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

Euro thousand	31 Dec 2019	31 Dec 2018
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	775,917	771,417
Retained earnings	1,404,457	1,327,569
Accumulated other comprehensive income (and other reserves)	-180,525	-226,954
Amount of capital instruments subject to phase out from CET1	7,358	9,811
Non-controlling interest	0	0
Common tier I capital before regulatory adjustments	2,007,208	1,881,842
Common tier I capital: regulatory adjustments		
Regulatory value adjustments	0	0
Goodwill (net of related tax liability)	0	0
Intangible assets (net of related tax liability)	-3,377	-998
Value adjustments due to the requirement for prudent valuation	-1,537	-1,885
Regulatory adjustments - transitional provisions	0	0
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	0
Additional CET 1 deductions pursuant to article 3 CRR	-94,771	-78,702
Total regulatory adjustments	-99,685	-81,586
Common equity tier I capital - CET1	**1,907,522**	**1,800,256**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	223,570	14,153
Additional tier I capital before regulatory adjustments	223,570	14,153
Additional tier I capital: regulatory adjustments		
Regulatory adjustments - transitional provisions	0	0
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	0
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**223,570**	**14,153**
Tier I capital (CET1 + AT1)	**2,131,092**	**1,814,409**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts	467,896	477,369
Capital instruments subject to phase out from tier II	38,548	45,836
Tier II capital before regulatory adjustments	506,443	523,205
Tier II capital: regulatory adjustments		
Regulatory adjustments - transitional provisions	0	0
Total regulatory adjustments	0	0
Tier II capital - T2	**506,443**	**523,205**
Own funds	**2,637,536**	**2,337,614**

Common equity tier I capital ratio (tier I)	12.88 %	12.27 %
Tier I capital ratio	14.39 %	12.36 %
Equity ratio	17.81 %	15.93 %
each in relation to total risk exposure amount		

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

Euro thousand	31 Dec 2019	31 Dec 2018
Risk weighted exposure amount - credit risk	13,450,162	12,399,813
Total risk exposure amount - settlement risk	0	33
Total risk exposure amount for position, foreign exchange and commodities	84,611	85,885
Total risk exposure amount for operational risk	1,230,771	1,288,285
Total risk exposure amount for credit valuation adjustment (cva)	44,462	55,996
Other risk exposure amount	0	845,173
Total risk exposure amount	**14,810,005**	**14,675,185**

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

Euro thousand	31 Dec 2019	31 Dec 2018
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	775,917	771,417
Retained earnings	1,404,457	1,327,569
Accumulated other comprehensive income (and other reserves)	-180,525	-266,297
Common tier I capital before regulatory adjustments	1,999,850	1,872,031
Common tier I capital: regulatory adjustments		
Regulatory value adjustments	0	0
Goodwill (net of related tax liability)	0	0
Intangible assets (net of related tax liability)	-3,377	-998
Value adjustments due to the requirement for prudent valuation	-1,537	-1,885
Additional CET 1 deductions pursuant to article 3 CRR	-94,771	-78,702
Total regulatory adjustments	-99,685	-81,586
Common equity tier I capital - CET1	**1,900,164**	**1,790,445**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	223,570	14,153
Additional tier I capital before regulatory adjustments	223,570	14,153
Additional tier I capital: regulatory adjustments		
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**223,570**	**14,153**
Tier I capital (CET1 + AT1)	**2,123,734**	**1,804,598**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts	472,420	483,501
Tier II capital before regulatory adjustments	472,420	483,501
Tier II capital: regulatory adjustments		
Total regulatory adjustments	0	0
Tier II capital - T2	**472,420**	**483,501**
Own funds	**2,596,154**	**2,288,100**
Common equity tier I capital ratio (tier I)	12.83 %	12.20 %
Tier I capital ratio	14.34 %	12.30 %
Equity ratio	17.53 %	15.59 %
each in relation to total risk exposure amount		

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

Euro thousand	31 Dec 2019	31 Dec 2018
Risk weighted exposure amount - credit risk	13,450,162	12,399,813
Total risk exposure amount - settlement risk	0	33
Total risk exposure amount for position, foreign exchange and commodities	84,611	85,885
Total risk exposure amount for operational risk	1,230,771	1,288,285
Total risk exposure amount for credit valuation adjustment (cva)	44,462	55,996
Other risk exposure amount	0	845,173
Total risk exposure amount	**14,810,005**	**14,675,185**

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

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

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

In 2019, no substantial, practical or legal obstacles existed which would have prevented the transfer of equity or the repayment of liabilities between the parent institution and institutions subordinated to the former.

38) Financial assets and liabilities

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

Euro thousand	Amortised cost	Fair value through OCI	Fair value through profit or loss	Carrying amount - total	Fair value
31 Dec 2019					
Liquid funds	2,071,712	0	0	2,071,712	2,071,712
Loans and receivables credit institutions (gross)	430,387	0	770	431,157	
Loans and receivables credit institutions less individual loan loss provision	430,387	0	770	431,157	430,053
Loans and receivables customers (gross)	21,060,083	0	476,748	21,536,832	
Individual loan loss provision	-217,495	0	0	-217,495	
Loans and receivables customers less individual loan loss provision	20,842,588	0	476,748	21,319,336	21,617,101
Assets held for trading	0	0	56,044	56,044	56,044
Financial investments (gross)	2,299,832	168,880	110,714	2,579,427	
Financial investments less individual loan loss provision	2,299,832	168,880	110,714	2,579,427	2,605,000
Participations	0	130,479	0	130,479	130,479
Derivative instruments	0	0	87,505	87,505	87,505
Financial assets held for sale				0	0
Financial assets total	**25,644,519**	**299,359**	**731,782**	**26,675,660**	**26,997,894**
Amounts owed to credit institutions	412,189	0	0	412,189	410,075
Amounts owed to customers	21,729,089	0	0	21,729,089	21,773,709
Debts evidenced by certificates	1,371,609	0	110,308	1,481,917	1,498,259
Lease liabilities	183,300	0	0	183,300	183,300
Liabilities held for trading	0	0	76,868	76,868	76,868
Derivative instruments	0	0	386,427	386,427	386,427
Subordinated liabilities	597,542	0	0	597,542	618,463
Financial liabilities held for sale				0	0
Financial liabilities total	**24,293,729**	**0**	**573,603**	**24,867,333**	**24,947,101**
31 Dec 2018					
Liquid funds	1,731,644	0	0	1,731,644	1,731,644
Loans and receivables credit institutions (gross)	468,487	0	1,072	469,560	
Loans and receivables credit institutions less individual loan loss provision	468,487	0	1,072	469,560	466,686
Loans and receivables customers (gross)	20,218,871	0	576,017	20,794,888	
Individual loan loss provision	-236,902	0	0	-236,902	
Loans and receivables customers less individual loan loss provision	19,981,969	0	576,017	20,557,986	20,790,003
Assets held for trading	0	0	56,312	56,312	56,312
Financial investments (gross)	1,963,148	390,155	115,602	2,468,905	
Financial investments less individual loan loss provision	1,963,148	390,155	115,602	2,468,905	2,463,040
Participations	0	109,022	0	109,022	109,022
Derivative instruments	0	0	75,423	75,423	75,423
Financial assets held for sale	438,373			438,373	424,763
Financial assets total	**24,583,621**	**499,177**	**824,427**	**25,907,225**	**26,116,893**
Amounts owed to credit institutions	595,091	0	0	595,091	589,098
Amounts owed to customers	21,555,395	0	0	21,555,395	21,589,792
Debts evidenced by certificates	422,754	0	106,575	529,329	543,305
Lease liabilities	0	0	0	0	0
Liabilities held for trading	0	0	71,785	71,785	71,785
Derivative instruments	0	0	383,499	383,499	383,499
Subordinated liabilities	634,052	0	0	634,052	616,888
Financial liabilities held for sale	532,438			532,438	534,812
Financial liabilities total	**23,739,730**	**0**	**561,859**	**24,301,589**	**24,329,179**

The table below shows 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 2019				
Loans and receivables credit institutions	0	0	770	770
Loans and receivables customers	0	0	476,748	476,748
Assets held for trading	597	55,447	0	56,044
Financial investments	174,260	29,508	75,826	279,595
Fair value through profit or loss	6,986	27,903	75,826	110,714
Fair value through OCI	167,275	1,606	0	168,880
Participations	0	0	129,566	129,566
Fair value through profit or loss	0	0	0	0
Fair value through OCI - designated	0	0	129,566	129,566
Derivative instruments	0	87,505	0	87,505
Financial assets held for sale	0	0	0	0
Financial assets total	**174,857**	**172,461**	**682,911**	**1,030,228**
Debts evidenced by certificates	0	0	110,308	110,308
Liabilities held for trading	0	76,868	0	76,868
Derivative instruments	0	386,427	0	386,427
Subordinated liabilities	0	0	0	0
Financial liabilities total	**0**	**463,295**	**110,308**	**573,603**
31 Dec 2018				
Loans and receivables credit institutions	0	0	1,072	1,072
Loans and receivables customers	0	0	576,017	576,017
Assets held for trading	4,703	51,609	0	56,312
Financial investments	399,139	31,517	75,101	505,757
Fair value through profit or loss	10,900	29,601	75,101	115,602
Fair value through OCI	388,238	1,917	0	390,155
Participations	0	0	107,543	107,543
Fair value through profit or loss	0	0	0	0
Fair value through OCI - designated	0	0	107,543	107,543
Derivative instruments	0	75,423	0	75,423
Financial assets held for sale	0	0	0	0
Financial assets total	**403,842**	**158,550**	**759,734**	**1,322,125**
Debts evidenced by certificates	0	0	106,575	106,575
Liabilities held for trading	0	71,785	0	71,785
Derivative instruments	0	383,499	0	383,499
Subordinated liabilities	0	0	0	0
Financial liabilities total	**0**	**455,284**	**106,575**	**561,859**

Please refer to note 3) t) Participations and companies measured at equity for a description of the valuation procedures used for participations. Due to immateriality participations in the amount of euro 913 thousand (2018: euro 1,478 thousand) are measured at cost as their fair value cannot be reliably determined.

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

In 2019 no reclassifications from Level 2 to Level 1 were made. In 2018, financial instruments with a carrying amount of euro 1,186 thousand were reclassified from Level 2 to Level 1 financial instruments due to an increase in trading activity. In 2019 as well as 2018 no reclassifications from Level 1 to Level 2 were made.

Development of Level 3 fair values of financial assets

Euro thousand	Loans and receivables credit institutions	Loans and receivables customers	Financial investments	Partici-pations	Financial assets total	Debts evidenced by certificates	Financial liabilities total
As at 1 Jan 2018	**37,366**	**715,740**	**74,890**	**116,214**	**944,210**	**104,827**	**104,827**
Change in the scope of consolidation	-42,455	-38,689	0	-1,555	-82,700	0	0
Currency translation	1,326	1,891	0	0	3,217	0	0
Reallocation to level 3	0	0	0	319	319	0	0
Additions	7,534	51,143	208	870	59,755	1,325	1,325
Disposals	-430	-142,467	0	-732	-143,629	0	0
Valuation							
Through profit or loss	-2,268	-11,600	3	0	-13,865	-2,025	-2,025
Through OCI	0	0	0	-7,573	-7,573	2,449	2,449
As at 31 Dec 2018	**1,072**	**576,017**	**75,101**	**107,543**	**759,734**	**106,575**	**106,575**
Change in the scope of consolidation	0	0	0	0	0	0	0
Currency translation	0	0	0	0	0	0	0
Reallocation to level 3	0	0	0	-223	-223	0	0
Additions	0	11,583	131	1,999	13,713	0	0
Disposals	-300	-116,851	-3,258	-2,395	-122,805	-3	-3
Valuation							
Through profit or loss	-2	5,999	3,852	0	9,849	3,173	3,173
Through OCI	0	0	0	22,643	22,643	563	563
As at 31 Dec 2019	**770**	**476,748**	**75,826**	**129,566**	**682,911**	**110,308**	**110,308**

The valuations shown in the table above are included in the item income from financial instruments and investment properties (income statement) or fair value reserve (other comprehensive income). The valuations recorded in the income statement include holdings of financial assets and liabilities in the amount of euro 8,494 thousand (2018: euro -11,556 thousand) at the reporting date.

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

As at 31 December 2019 financial investments include participation certificates with a carrying amount of euro 75,826 thousand (2018: euro 75,101 thousand) which are allocated to level 3 of the fair value hierarchy. They are not traded on any active market and only allow for alternative measurement by means of unobservable input parameters.

Measurement is effected using the Hull-White one factor interest model within the scope of a Monte Carlo simulation, with the model being calibrated to the current environment of market data (interest rate and volatility) on a daily basis. The interest to be paid on these shares in the future is calculated by means of a variable coupon, consisting of the

3-month EURIBOR as base rate and a markup that constitutes an unobservable input. Other unobservable input factors included in the valuation are the duration and the expected redemption rate of the participation certificates.

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

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

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

31 Dec 2019 Euro thousand	Positive change in fair value	Negative change in fair value
Change in maturity + 1 year	0	-4,455
Change in markup +/- 100 BP	1,136	-1,087
Change in redemption - 5 %	0	-3,654

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

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

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

31 Dec 2019 Euro thousand	Positive change in fair value	Negative change in fair value
Change in markup +/- 30 bp	2,684	-2,584

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

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

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

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

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

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

Euro thousand	Level 1	Level 2	Level 3	Fair value total	Carrying amount
31 Dec 2019					
Liquid Funds	0	2,071,712	0	2,071,712	2,071,712
Loans and receivables credit institutions (gross)					430,387
Individual loan loss provision					0
Loans and receivables credit institutions less individual loan loss provision	0	0	429,283	429,283	430,387
Loans and receivables customers (gross)					21,060,083
Individual loan loss provision					-217,495
Loans and receivables customers less individual loan loss provision	0	0	21,140,353	21,140,353	20,842,588
Financial investments (gross)					2,299,832
Individual loan loss provision					0
Financial investments less individual loan loss provision	2,313,621	11,785	0	2,325,406	2,299,832
Financial assets held for sale	0	0	0	0	0
Financial assets total	**2,313,621**	**2,083,497**	**21,569,636**	**25,966,753**	**25,644,519**
Amounts owed to credit institutions	0	0	410,075	410,075	412,189
Amounts owed to customers	0	0	21,773,709	21,773,709	21,729,089
Debts evidenced by certificates	0	0	1,387,951	1,387,951	1,371,609
Lease liabilities	0	0	183,300	183,300	183,300
Subordinated liabilities	0	0	618,463	618,463	597,542
Financial liabilities held for sale	0	0	0	0	0
Financial liabilities total	**0**	**0**	**24,373,498**	**24,373,498**	**24,293,729**

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

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

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

Fair value hierarchy

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

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

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

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

39) Derivatives

Derivative financial instruments

			Face value			Fair Value
2019 Euro thousand	**Up to 3 months**	**Up to 1 year**	**Up to 5 years**	**More than 5 years**	**Total**	**31 Dec 2019**
Interest related transactions	189,525	342,266	1,432,940	4,359,046	6,323,778	-294,159
Caps & Floors	61,688	46,866	247,081	181,083	536,717	-299
Futures - interest related	1,300	35,000	0	0	36,300	0
Interest rate swaps	126,538	260,400	1,185,859	4,177,964	5,750,760	-293,860
Exchange rate related transactions	481,987	157,813	445,109	182,206	1,267,115	-20,917
Cross currency interest rate swaps	317,322	110,792	445,109	182,206	1,055,428	-16,349
FX swaps	163,773	36,100	0	0	199,873	-4,568
Forward exchange transactions	893	10,922	0	0	11,814	0
Other transactions	10,855	2,385	15,825	123,358	152,424	-5,334
Options	10,855	2,385	15,825	123,358	152,424	-5,334
Total	**682,368**	**502,464**	**1,893,874**	**4,664,611**	**7,743,316**	**-320,409**

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

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

The following table shows fair values divided into balance sheet items

2019

Euro thousand	Assets	Liabilities	Total
Interest related transactions	55,353	76,865	-21,512
Exchange rate related transactions	28	4	24
Trading portfolio	**55,381**	**76,868**	**-21,487**
Interest related transactions	85,753	358,400	-272,647
Exchange rate related transactions	651	21,592	-20,941
Other transactions	1,102	6,435	-5,334
Other assets / liabilities	**87,505**	**386,427**	**-298,922**
Total	**142,886**	**463,295**	**-320,409**
Sum interest related transactions	141,106	435,265	-294,159
Sum exchange rate related transactions	678	21,595	-20,917
Sum other transactions	1,102	6,435	-5,334

2018

Euro thousand	Assets	Liabilities	Total
Interest related transactions	51,583	71,781	-20,198
Exchange rate related transactions	26	4	22
Trading portfolio	**51,609**	**71,785**	**-20,176**
Interest related transactions	72,329	271,738	-199,409
Exchange rate related transactions	226	96,041	-95,815
Other transactions	2,868	15,720	-12,851
Other assets / liabilities	**75,423**	**383,499**	**-308,075**
Total	**127,032**	**455,284**	**-328,251**
Sum interest related transactions	123,911	343,519	-219,607
Sum exchange rate related transactions	253	96,045	-95,793
Sum other transactions	2,868	15,720	-12,851

40) Hedging

The interest rate risk is hedged using fair value hedge accounting. Although the strict 80 - 125 % hedge effectiveness requirement has been removed by IFRS 9, it is still applied within the Association of Volksbanks in order to detect any potential ineffectiveness and restore effectiveness by means of rebalancing a hedging relationship in time. The effectiveness is measured with the dollar offset method on a monthly basis, which compares the fair value changes in the hedged as well as in the hedging instrument.

In the financial year 2019, no single hedging relationship needed to be adjusted by rebalancing.

The profit and loss recorded in fair value hedge accounting amounts to euro - 4,711 thousand in Association of Volksbanks for the fiscal year 2019. The amount results from the ineffectiveness of the hedging relationships. Given the size of the hedged instruments in terms of principal amount, euro 3,219,139 thousand as of 31 December 2019, the ineffectiveness is equal to only 0.2 % of the hedged portfolio. The hedging strategy applied by the Association of Volksbanks is, thus, highly effective.

Face value of derivatives which are designated as hedging instruments in fair value hedges of interest risk

31 Dec 2019

Euro thousand Interest rate swaps	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Total
Loans and receivables customers	0	0	0	854,078	854,078
Financial investments	31,500	60,000	72,500	922,054	1,086,054
Debts evidenced by certificates	0	0	208,000	1,030,000	1,238,000

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

31 Dec 2018

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

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

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

Euro thousand	Face value	Carrying amount assets	Carrying amount liabilities	Line item in the statement of financial position where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness for the current year	Ineffectiveness recognised in profit or loss	Line item in the income statement that includes hedge ineffectiveness
31 Dec 2019							
Loans and receivables customers measured at amortised cost	854,078	2,545	24,073	Positive/negative fair values of derivative instruments	-17,693	38	Result from fair value hedge
Financial investments measured at amortised cost	994,554	810	328,476	Positive/negative fair values of derivative instruments	-71,211	-3,492	Result from fair value hedge
Financial investments measured at fair value through OCI	91,500	0	3,627	Positive/negative fair values of derivative instruments	5,089	78	Result from fair value hedge
Debts evidenced by certificates - bonds measured at amortised cost	1,238,000	44,420	2,304	Positive/negative fair values of derivative instruments	4,292	-973	Result from fair value hedge
Interest rate swaps total	**3,178,132**	**47,775**	**358,481**		**-79,522**	**-4,350**	

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

The following table shows a breakdown of the corresponding hedged items

Euro thousand	Carrying amount assets	Carrying amount liabilities	Basis adjustment	Line item in the statement of financial position in which the hedged item is included	Changes in value used for calculating hedge ineffectiveness for the current year	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
31 Dec 2019						
Loans and receivables customers measured at amortised cost	854,071	0	21,205	Loans and receivables customers	17,474	0
Financial investments measured at amortised cost	1,134,880	0	317,358	Financial investments	67,718	2,151
Financial investments measured at fair value through OCI	91,628	0	1,525	Financial investments	-5,011	0
Debts evidenced by certificates - bonds measured at amortised cost	0	1,228,496	33,651	Debts evidenced by certificates	-5,265	16,007
Hedged items of interest rate swaps total	**2,080,578**	**1,228,496**	**373,739**		**74,916**	**18,157**

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

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

Euro thousand	Face value	Carrying amount assets	Carrying amount liabilities	Line item in the statement of financial position where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness for the current year	Ineffectiveness recognised in profit or loss	Line item in the income statement that includes hedge ineffectiveness
31 Dec 2019							
Loans and receivables customers measured at amortised cost	19,133	0	9,357	Positive/negative fair values of derivative instruments	629	4	Result from fair value hedge
Financial investments measured at amortised cost	14,870	0	2,288	Positive/negative fair values of derivative instruments	460	-6	Result from fair value hedge
Financial investments measured at fair value through OCI	0	0	0	Positive/negative fair values of derivative instruments	217	-414	Result from fair value hedge
Debts evidenced by certificates - bonds measured at amortised cost	0	0	0	Positive/negative fair values of derivative instruments	0	0	Result from fair value hedge
Cross currency interest rate swaps total	**34,003**	**0**	**11,646**		**1,306**	**-417**	

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

The following table shows a breakdown of the corresponding hedged items

Euro thousand	Carrying amount assets	Carrying amount liabilities	Basis adjustment	Line item in the statement of financial position in which the hedged item is included	Changes in value used for calculating hedge ineffectiveness for the current year	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
31 Dec 2019						
Loans and receivables customers measured at amortised cost	19,133	0	1,009	Loans and receivables customers	-625	0
Financial investments measured at amortised cost	15,743	0	1,056	Financial investments	-466	0
Financial investments measured at fair value through OCI	0	0	0	Financial investments	-632	0
Debts evidenced by certificates - bonds measured at amortised cost	0	0	0	Debts evidenced by certificates	0	0
Hedged items of cross currency interest rate swaps total	**34,876**	**0**	**2,065**		**-1,722**	**0**

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

41) Assets and liabilities denominated in foreign currencies

At balance sheet date, assets denominated in foreign currencies totalled euro 1,015,073 thousand (2018: euro 1,422,272 thousand), whereas liabilities denominated in foreign currencies amounted euro 160,916 thousand (2018: euro 394,366 thousand).

42) Trust transactions

Euro thousand	31 Dec 2019	31 Dec 2018
Trust assets		
Loans and receivables customers	67,957	63,889
Trust liabilities		
Amounts owed to customers	67,957	63,889

43) Subordinated assets

Euro thousand	31 Dec 2019	31 Dec 2018
Loans and receivables customers	1,100	11,773
Financial investments	0	235

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

Euro thousand	31 Dec 2019	31 Dec 2018
Assets pledged as collateral		
Loans and receivables credit institutions	0	19,306
Loans and receivables customers	381,104	226,684
Financial investments	14,625	15,512
Liabilities for which assets have been pledged as collateral		
Amounts owed to credit institutions	381,104	245,990
Amounts owed to customers	14,625	15,512

In the context of corporate funding via Oesterreichische Kontrollbank (OeKB), loans and receivables to customers in the amount of euro 81 million (2018: euro 73 million) have been provided as collateral. These loans and receivables are guaranteed by means of Austrian government default guarantees, private insurance policies and draft guarantees. OeKB may not repledge or sell these loans and receivables to customers if the Group performs in accordance with the contract.

Loans and receivables to customers of euro 300 million were provided as collateral for OeNB refinancing in the 2019 business year (2018: euro 153 million).

Within the scope of gilt-edged savings deposits, financial investments in the amount of euro 15 million (2018: euro 16 million) are held as securities.

The remaining loans and receivables to customers and financial investments in 2018 had been provided as collateral in the context of funding provided by swiss banks from VB Liechtenstein.

45) Contingent liabilities and credit risks

Euro thousand	31 Dec 2019	31 Dec 2018
Contingent liabilities		
Liabilities arising from guarantees	906,085	972,418
Guaranteed letter of credit	1,984	1,629
Others (amounts guaranteed)	58,088	20,031
Commitments		
Unutilised loan commitments	3,227,363	3,222,469

If the management estimates a cash outflow for financial guarantees, a stage 3 provision is built for off-balance risks to the amount of the probable cash outflow under consideration of possible available collaterals. Therefore, the provision amounts to euro 7,067 thousand (2018: euro 9,370 thousand).

The Association of Volksbanks is involved in various judicial proceedings both as plaintiff and as defendant. These proceedings are due to current banking business. The volume of the proceedings is not unusual. The outcome of the proceedings is not expected to have significant impact on the financial situation and profitability of the Association of Volksbanks.

Additionally, there are no government interventions, judicial or arbitral proceedings (including those that are still pending or might yet be initiated according to the knowledge of the Association of Volksbanks) that have existed or were completed within the last twelve months and have a significant impact on the financial situation or profitability of the Association of Volksbanks, or have recently had such an impact.

46) Repurchase transactions and other transferred assets

As at 31 December 2019, the Association as pledgor had buy-back commitments under genuine repurchase agreements in the amount of euro 21,245 thousand (2018: euro 20,475 thousand).

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

47) Related party disclosures

Euro thousand	Unconsolidated affiliates	Companies in which the Group has a participating interest	Companies measured at equity	Companies which exercise a significant influence on the parent as shareholders
31 Dec 2019				
Loans and receivables customers	21,482	11,935	7,099	0
Fixed-income securities	0	0	0	524,703
Amounts owed to customers	10,379	4,123	57,547	0
Provisions	0	3	8	0
Contingent liabilities arising from guarantees	1,604	0	11,792	0
Transactions	42,362	15,951	67,460	0
Administrative expenses	-1,915	-63,765	0	0
Other operating income	587	1	188	0
Other operating expenses	-589	-104	0	0
31 Dec 2018				
Loans and receivables customers	40,043	13,187	7,131	0
Fixed-income securities	0	0	0	720,405
Amounts owed to customers	10,337	403	61,984	0
Provisions	0	3	6	0
Liabilities held for sale				
Contingent liabilities arising from guarantees	1,623	0	17,947	0
Transactions	56,441	18,402	112,927	0
Administrative expenses	-1,649	-67,662	0	0
Other operating income	592	63	207	0
Other operating expenses	-674	-67	0	0

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

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

The Republic of Austria exercises significant influence over the CO. Only limited information on related parties is provided for securities issued by the Republic of Austria that are held by companies included in the financial statements. The simplification option allowed by IAS 24.26 for companies in the sphere of the public sector was exercised.

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

Euro thousand	31 Dec 2019	31 Dec 2018
Outstanding loans and receivables	2,310	1,917
Redemptions	500	465
Interest payments	10	10

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

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

Euro thousand	Covering loans	Coverage requirements debts evidenced by certificates	Surplus cover
31 Dec 2019			
Covered bonds			
Amortised cost	2,936,644	2,405,058	531,586
Fair value through profit or loss	102,127	83,640	18,487
Total	**3,038,771**	**2,488,698**	**550,073**
31 Dec 2018			
Covered bonds			
Amortised cost	1,837,351	1,557,744	279,607
Fair value through profit or loss	98,653	83,640	15,013
Total	**1,936,004**	**1,641,384**	**294,620**

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

49) Branches

	31 Dec 2019	31 Dec 2018
Domestic	267	303
Foreign	0	1
Total number of branches	**267**	**304**

50) Events after the balance sheet date

The spread of the virus Covid 19 will cause a collapse of the current economic expectations for 2020. Because of a temporary disruption of supply chains, measures of health authorities and a decline in demand the economic dynamic will be effected negatively. The dynamic development of the spread of the coronavirus does not allow an estimate in terms of amount on the financial impact. Furthermore there were no substantial events until the signing of the financial statement by the VBW Managing Board on March 18 2020.

51) Segment reporting

The Association has ten segments corresponding to its strategic business fields. The segments are a match to the eight regional banks and the specialist institution. In addition, the CO function of VBW is reported separately. These divisions reflect the different regions and services of the Association and are controlled in varying ways in accordance with the internal management and reporting structure. Control is based on the individual merger groups/regional banks and their subordinate entities. In the case of VBW, reporting is based on allocation to the CO or Retail profit centres, which means that all results of VBW and its subordinate entities are allocated to these two profit centres.

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

CO

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

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

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

Regional banks

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

These services are typically provided through the branches as well as through the internet and direct sales. The regional banks and their subordinated companies are likewise recognised in the relevant segments.

Physicians

The segment Physicians comprise Österreichische Ärzte- und Apothekerbank AG which provide Association of Volksbanks services to their specific customer groups.

Consolidation

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

1-12/2019 Euro thousand	CO	Vienna	Lower Austria	Styria	Carinthia
Net interest income	12,528	100,244	62,440	47,983	27,382
Risk provision	1,412	-8,590	-5,313	-5,828	-1,204
Net fee and comission income	-2,818	58,413	29,264	25,017	14,205
Net trading income	-2,554	259	337	42	18
Result from financial instruments and investment properties	23,083	1,874	2,374	1,453	-96
Other operating result	144,627	4,345	1,962	723	1,121
General administrative expenses	-124,274	-141,638	-75,403	-59,984	-35,218
Restructuring result	0	0	0	0	0
Result from companies measured at equity	0	-376	495	0	0
Result before taxes	**52,005**	**14,532**	**16,157**	**9,406**	**6,208**
Income taxes	-2,171	-8,174	-4,043	-2,904	-761
Result after taxes	**49,834**	**6,358**	**12,113**	**6,502**	**5,447**
31 Dec 2019					
Total assets	**7,595,658**	**6,548,704**	**3,523,644**	**2,804,538**	**1,454,759**
Loans and receivables customers	259,776	5,294,076	2,851,614	2,319,718	1,166,124
Companies measured at equity	15	43,815	7,206	4,577	5,742
Amounts owed to customers	1,280,697	5,254,307	3,097,714	1,900,605	1,255,178
Debts evidenced by certificates, including subordinated liabilities	1,758,843	112,981	12,190	11,300	25,451

1-12/2018 Euro thousand	CO	Vienna	Lower Austria	Styria	Carinthia
Net interest income	12,911	101,809	60,764	46,471	26,439
Risk provision	3,881	851	-1,362	4,986	-2,121
Net fee and comission income	-3,259	57,553	28,798	25,106	14,250
Net trading income	821	218	-113	-67	51
Result from financial instruments and investment properties	6,591	3,850	-3	-1,048	-613
Other operating result	135,360	1,256	3,720	-972	2,562
General administrative expenses	-128,304	-142,252	-73,431	-58,866	-35,437
Restructuring result	243	-4,270	0	-273	-150
Result from companies measured at equity	0	5,509	-72	0	0
Result before taxes	**28,244**	**24,523**	**18,302**	**15,338**	**4,980**
Income taxes	1,320	-286	-4,505	-2,879	-1,723
Result after taxes	**29,564**	**24,237**	**13,798**	**12,459**	**3,258**
31 Dec 2018					
Total assets	**6,473,685**	**6,475,523**	**3,436,945**	**2,709,858**	**1,398,071**
Loans and receivables customers	290,565	5,172,007	2,775,869	2,258,889	1,129,798
Companies measured at equity	15	40,081	7,206	4,577	5,742
Amounts owed to customers	1,013,883	5,396,995	3,022,928	1,912,817	1,209,679
Debts evidenced by certificates, including subordinated liabilities	771,980	114,559	19,425	30,956	29,339

Upper Austria	Salzburg	Tyrol	Vorarlberg	Physicians	Consolidation	Total
38,935	49,835	45,169	24,825	12,974	54	422,371
-1,050	-421	2,197	-3,248	-4	0	-22,050
23,624	25,920	30,752	19,049	6,750	-606	229,568
19	-12	97	820	42	-6	-937
2,250	2,426	-506	-84	316	-3,660	29,430
1,045	-275	486	44,102	373	-143,340	55,169
-58,330	-62,784	-61,948	-42,000	-19,990	147,380	-534,188
0	0	0	0	0	0	0
0	0	0	0	0	0	119
6,492	**14,689**	**16,247**	**43,464**	**461**	**-178**	**179,482**
-2,112	-4,274	-7,157	175	351	41	-31,030
4,380	**10,415**	**9,090**	**43,639**	**812**	**-138**	**148,451**
2,423,027	**2,962,365**	**3,406,578**	**2,016,483**	**1,009,326**	**-6,249,409**	**27,495,673**
1,889,566	2,339,888	2,827,071	1,617,757	777,778	-92,721	21,250,646
15,682	10,297	26	20	4,854	0	92,234
2,117,416	2,255,816	2,664,071	1,171,795	827,880	-96,391	21,729,089
23,382	52,541	38,137	58,365	11,738	-25,468	2,079,460

Upper Austria	Salzburg	Tyrol	Vorarlberg	Physicians	Consolidation	Total
37,970	47,849	45,900	27,250	12,467	0	419,831
-2	-2,458	1,421	1,295	-179	0	6,313
23,306	24,169	31,228	26,504	5,981	-182	233,455
29	-10	313	-1,682	-161	-76	-678
-484	-1,205	150	-4,226	76	-6,164	-3,076
2,425	1,174	-209	10,137	129	-127,149	28,432
-57,258	-64,347	-62,463	-49,817	-20,911	124,927	-568,157
280	0	0	0	0	0	-4,170
0	0	0	0	0	6,087	11,524
6,266	**5,173**	**16,341**	**9,461**	**-2,597**	**-2,557**	**123,475**
339	298	-3,944	2,742	466	-105	-8,276
6,605	**5,471**	**12,397**	**12,203**	**-2,131**	**-2,662**	**115,199**
2,413,423	**2,774,249**	**3,291,871**	**2,425,358**	**949,805**	**-5,745,777**	**26,603,011**
1,800,235	2,163,461	2,713,376	1,538,755	734,176	-74,884	20,502,248
15,682	10,297	26	20	4,854	0	88,499
2,150,477	2,177,277	2,661,927	1,225,143	850,877	-66,607	21,555,395
25,134	58,313	57,860	66,436	16,151	-26,772	1,163,381

52) Risk report

General

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

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

- Credit risks
- Market risks
- Liquidity risks
- Operational risks
- Other risks (e.g. strategic risk, reputational risk, equity risk, as well as earnings risk)

Current developments

In 2019, the Association of Volksbanks again went through the annual SREP (Supervisory Review and Evaluation Process) within the scope of the Single Supervisory Mechanism (SSM) of the ECB. This year's SREP also considered the liquidity stress test of the ECB performed in 2019.

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

The CET 1 demand amounting to 11.5 %, as determined for the Association of Volksbanks, that applies as of 1 January 2020 consists of the following: Pillar 1 CET requirement of 4.5 %, Pillar 2 requirement of 2.5 %, capital conservation buffer of 2.5 %, system risk buffer 1.0 %, buffer for systemically important institutions of 1.0 %, and Pillar 2 Guidance of 1.0 %. The currently applicable rule regarding capital buffer provides for the higher buffer requirement of system risk buffer and capital buffer for systemically relevant institutions to be met. Accordingly, the CET1 demand has increased by comparison with the previous year by 0.25 percentage points (reduction of Pillar 2 requirement by 0.25 percentage points and increase of the combined buffer requirements by 0.50 percentage points).

As of 1 January 2020, the tier 1 capital requirement amounts to 12.0 % (Pillar 1 requirement of 6.0 %, Pillar 2 requirement of 2.5 %, capital conservation buffer of 2.5 %, systemic risk buffer 1.0 % or buffer for systemically important institutions 1.0 %) and has increased by 0.25 percentage points compared to the previous year.

As of 1 January 2020, the total capital requirement amounts to 14.0 % (Pillar 1 requirement of 8.0 %, Pillar 2 requirement of 2.5 %, capital conservation buffer of 2.5 %, systemic risk buffer 1.0 % or buffer for systemically important institutions 1.0 %) and has increased by 0.25 percentage points compared to the previous year.

Risk policy principles

The risk policy principles comprise the standards for the management of risks that are applicable within the Association of Volksbanks and are defined by the CO Managing Board together with the risk appetite. A common set of rules and understanding of risk management across the Association is the basis for developing risk awareness and a risk culture within the company. The Association of Volksbanks carries out its activities subject to the principle that risks will only be accepted to the extent it is required to achieve strategic goals. Applying the risk management principles, the associated risks are comprehensively managed by creating an appropriate organisational structure and corresponding business processes.

Organisation of risk management

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

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

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

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

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

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

Regulatory requirements

The regulations regarding capital requirements at Association of Volksbanks are implemented as follows:

Pillar 1: Minimum own funds requirements

Within the scope of Pillar 1, the fulfilment of the minimum regulatory requirements is ensured. For credit risk, market risk and operational risk, the respective regulatory standard approaches for determining the minimum own funds requirements are applied.

Pillar 2: Internal Capital & Liquidity Adequacy Assessment

By way of the Internal Capital & Liquidity Adequacy Assessment Process, VBW as CO of the Association of Volksbanks takes all measures required to ensure that all risks arising from current and prospective business activities is counterbalanced by an adequate liquidity and capital base at all times. The detailed design of the Internal Capital & Liquidity Adequacy Assessment Process takes into account the regulatory requirements and supervisory expectations of the ECB as well as internal guidelines.

Pillar 3: Disclosure

The requirements of Pillar 3 are met by publishing the qualitative and quantitative disclosure pursuant to Regulation (EU) no. 575 / 2013 (CRR) and Directive 2013/36/EU (CRD IV) on the bank's own website under www.volksbankwien.at/investoren/offenlegung.

Risk management across the Association

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

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

Risk governance as well as the methods and models are regularly refined and adjusted to the current environment by the Risk Control Function of VBW as CO. Apart from regular remodelling, recalibration and validation of the risk models, the methods in the ICAAP & ILAAP are being improved continuously, with new regulatory requirements being monitored and implemented in a timely fashion.

a) Internal Capital Adequacy Assessment Process

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

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

Risk inventory

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

Risk strategy

The risk strategy of the Association is based on the business strategy of the Association and provides a consistent framework and principles for the uniform risk management. The risk strategy is reviewed for up-to-dateness and adequacy at least annually and adjusted to the respective current enviroment. It provides the rules for the management of risks and ensures risk-bearing capacity within the Association of Volksbanks at all times. The risk strategy is prepared in parallel with business planning. The contents of the risk strategy and of the business planning of the Association of Volksbanks are linked up by incorporating the targets of the Risk Appetite Statement in GI Controlling – Planning and Reporting.

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

Risk Appetite Statement (RAS) and limit system

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

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

- Capital ratios (e.g. CET1 ratio, T1 ratio, TC ratio, RBC)

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

Risk-bearing capacity calculation

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

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

- Regulatory perspective (compliance with regulatory own funds ratios)
- Economic perspective
- Normative perspective

The regulatory Pillar 1 perspective contrasts the aggregate risk amount calculated in accordance with statutory requirements with regulatory own funds. Ensuring regulatory risk-bearing capacity is provided for under the law and constitutes a minimum requirement. The composition of the regulatory aggregate risk position of the Association of Volksbanks corresponds to that of any regionally active retail bank.

The economic perspective contributes to ensuring the continued existence of the Association of Volksbanks by foregrounding the economic value within the assessment of the capital adequacy. The risk-bearing capacity under the economic perspective derives from a comparison of economic risks with internal capital. Economic risks are risks that may impair the economic value of the institution, and hence may negatively affect the capital adequacy under an economic perspective. For the quantification of economic risks, internal procedures that is largely Value at Risk (VaR) with a level of confidence of 99.9 % and a time horizon of one year are applied. In the process, all quantifiable risks that were identified as significant within the scope of risk inventory process are taken into account. Hidden reserves, the annual result achieved in the current business year, as well as the own funds available for loss absorption under a going-concern perspective are recognised as internal capital. The aggregate bank risk limit is set at 100 % of the available internal capital. The prerequisite for the capital adequacy under an economic perspective is that the internal capital is sufficient to cover the risks and to support the strategy on an ongoing basis.

Within the scope of the normative perspective, care is taken that the Association of Volksbanks will be in a position, throughout a period of several years, to meet its own funds requirements and to live up to other external financial constraints. It represents the risk-bearing capacity on the basis of strategic planning under normal and adverse conditions, essentially comprising a simulation of the profit and loss and own funds positions over a period of three years. In the process, the strategic planning as well as three crisis scenarios are simulated, and the development of the regulatory own funds ratios is calculated taking into account the effects of the respective scenario. Therefore, the key parameters of the normative perspective are the regulatory own funds ratios CET1, tier 1 and total capital.

Stress testing

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

Apart from these specific stress tests and sensitivity analyses, internal stress tests are regularly carried out across all risk types. The semi-annual internal stress test for the bank consists of scenario analyses, sensitivity analyses and the reverse stress test. In the scenario analyses, economic crisis scenarios are defined and changed risk parameters for the individual risk categories and business areas derived therefrom. Apart from the effects on the risk position, the effects of the crisis scenarios on regulatory own funds and on internal capital under an economic perspective are also determined. At this point, the requirements under the normative perspective overlap with the requirements regarding the scenario analyses for the internal stress test for the bank as a whole: over a period of several years, the development of regulatory own funds ratios is simulated for different crisis scenarios. Based on the findings of the bank-wide internal stress tests, recommended actions are defined and transposed into measures. For instance, the reporting framework was extended by new aspects, high-risk industries monitored more closely, and planning targets derived for strategic risk indicators.

EU-wide stress tests across risk types are being carried out by the EBA/ECB every two years, with the Association of Volksbanks participating. The next EBA/ECB stress test is going to take place in 2020. The results of the stress tests are used by the ECB to assess the capital deman within the SREP. In the years between the EBA/ECB stress tests across risk types, the supervisory authority performs risk-specific stress tests. Therefore, the Association of Volksbanks participated in the liquidity stress test in 2019.

Risk reporting

The reporting framework implemented within the Association of Volksbanks is meant to ensure that all significant risks are fully identified, monitored promptly and efficiently managed. The reporting framework offers a holistic and detailed presentation of the risks and a specific analysis of the individual risk types.

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

Recovery and resolution planning

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

b) Credit Risk

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

Credit risk management organisation

Within the Association of Volksbanks, the responsibilities associated with credit risk are taken care of by the divisions Credit Risk Management and Risk Control. The departments Credit Risk Management Retail Branches, Credit Risk Management Real Estate & Corporate Financing, Restructuring & Workout are responsible for operational credit risk management. The Risk Control is responsible for risk assessment, risk measurement and risk control as well as for credit risk reporting at portfolio level.

Operational credit risk management

Lending principles

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

Decision-making process

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

Monitoring of exposures and collaterals

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

Limits

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

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

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

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

Intensified credit risk management

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

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

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

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

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

Problem Loan Management

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

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

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

Quantitative credit risk management and credit risk control

Measurement and control of credit risk

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

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

Rating systems

Across the Association, standardised models are applied to determine credit ratings (the VB rating family) and to determine the amount of loss in case of default. The expected probability of default of each customer is assessed via the VB rating family and expressed through the VB master scale, which comprises a total of 25 rating levels. The PD range used not only allows for a comparison of internal ratings with classifications by external rating agencies, but especially a comparison of credit ratings across customer segments.

The rating levels in rating category 5 cover the reasons for defaulting on loans as applied across the Association and are also used for reporting non-performing loans (NPL).

Credit Value at Risk

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

Concentrations

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

Counterparty default risk

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

Credit risk mitigation

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

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

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

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

Rating systems

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

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

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

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

All rating systems apply the Volksbank master scale that consists of 20 rating classes (1a to 4E) plus 5 additional classes (5A to 5E) for defaulted customers. To any rating class, the master scale will allocate intervals of probabilities of default (PD) that do not overlap. The PDs of the rating system are modelled as long-term through-the-cycle (TTC) probabilities of default over a period of 12 months. Ratings by external rating agencies are also reproduced on the Volksbank master scale by way of statistical analyses of the historical default rates published by the rating agencies.

Lifetime Probability of Default

Ratings provide essential input for determining the lifetime PD for ECL calculation. At each balance sheet date, the bank will assess whether the default risk for a financial instrument has increased significantly since first-time recognition. To identify any significant increases in default risk, companies may combine financial instruments into groups based on common default risk properties, and in this way may carry out an analysis aimed at being able to promptly identify any significant increases in default risk. For the purpose of analysing lifetime PD, the portfolio of Volksbank is divided into the following segments:

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

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

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

Forward-looking information

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

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

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

Consideration of forward-looking information

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

For Private Customers and for SMEs and Corporate Customers, the analysis is based on a time series of average default rates estimated on the basis of the internally available data set. In the process, multivariate regression analyses are performed for each portfolio. Explanatory variables are, among others, total GDP growth in Austria and in the euro zone, the unemployment rate and growth in the demand for corporate loans. For portfolios with only few defaults (banks, countries, municipalities etc.), the time series of defaults are combined with qualitative analyses per segment by the external rating agencies. In this way, for instance, the SME and Corporate model is applied to incorporate forward-looking information in risk assessments also in the portfolio of externally rated large corporations. The model used for the Other Exposures segment is a weighted combination of the models for SME and Corporate (90 %) and Countries (10 %).

Definition of stage transfer and default

If a significant increase in credit risk is observed after first-time recognition, the financial instrument is transferred to Stage 2.

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

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

The definition of default is fully in line with the default definition of the bank for own fund requirements (CRR). A default may recover six months after commencement of the period of good conduct at the earliest and be transferred back to Stage 1 or Stage 2, if there is good conduct within said period of six months and if the prerequisites stipulated in the CRR and in the internal guidelines are met.

VBW uses a process of assessing the unlikeliness-to-pay (UTP) that is supported by a comprehensive early warning system (EWS). The EWS uses various qualitative and quantitative indicators to identify potential significant increases in credit risk, including (but not limited to) rating downgrades, negative observations regarding account conduct or deteriorations of certain financial ratios of the borrower.

If the redemption of an exposure is considered unlikely, it will be allocated to Stage 3 for impairment purposes. Borrowers with any less substantial, but still significant increase in credit risk (customers under intensive supervision) will be rated as Stage 2 for impairment purposes.

The further qualitative indicators for allocation to Stage 2 are:

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

The bank calibrates a bidirectional illustration of the changes of lifetime credit losses and the rating migration from initial recognition until the current date, taking into account the respective current forward-looking information. Hence, the quantitative stage transfers are derived from significant downgrades of the customer's current rating compared to the credit risk upon initial recognition. Based on the Volksbank master scale with 20 (performing) rating levels, the number of rating class downgrades leading to Stage 2 is 1 to 5, depending on the original maturity and residual term of the respective financial instrument, on the initial rating, on the customer segment and on the current forward-looking information. Financial assets with a rating in the investment grade range at the measurement date – corresponding to a probability of default of no more than 0.35 % based on the VB master scale – are classified as Level 1 (Low Credit Risk Exemption, IFRS 9.5.5.10).

The transfer from Stage 2 to Stage 1 is effected directly on the measurement date after the lapse of the qualitative and quantitative Stage 2 criteria (ignoring any periods of good conduct).

Measurement of Expected Credit Loss (ECL)

The bank determines ECL on the basis of the individual instrument, regardless of the materiality of the exposure. If necessary, collective parameters and assumptions are used.

The impairment model generally determines the risk provision in the amount of the expected credit losses:

- over a period of 12 months, for financial instruments at Stage 1 (including financial instruments with a low risk of default ("Low Credit Risk Exemption"),
- over the residual term, for financial instruments at Stage 2 or Stage 3.

Sensitivity analysis regarding ECL

The sensitivity analysis examines the question of how the risk provisions in the NPL portfolio would increase if any significant impairment of fair values of the real estate serving as collaterals occurred. The analysis starts with the assumption that 100 % of the resulting unsecured portion is impaired in the NPL portfolio. On the one hand, this leads to an increase of the risk provision, and on the other hand, it causes the Coverage Ratio I to increase.

Based on an impairment of real estate fair values in the amount of 15 % or 25 %, the sensitivity analysis described shows the following result:

Sensitivity	Increase Risk provision inventory Euro million	Increase Coverage Ratio I Percentage points
Impairment by 15 %	51.41	8.07
Impairment by 25 %	74.09	11.63

Performing portfolio

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

The most important model parameters for ECL measurement are:

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

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

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

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

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

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

<table>
<tr><th>Portfolio</th><th>Main influencing factors for LGD</th></tr>
<tr><td>Corporate including special financing</td><td rowspan="3">• Internal historical data of default events and recoveries, including date of default and date of conclusion / event status
• Most important type of collateral (residential real estate, insurance policies, others) taken into account</td></tr>
<tr><td>SME</td></tr>
<tr><td>Private Customers</td></tr>
<tr><td>Banks</td><td>• Expert estimates
• Regulatory benchmarks based on the CRR</td></tr>
<tr><td>Hungarian portfolio (VB Steiermark)</td><td>• Rates of depreciation observed depending on the time of default
• Expert estimate of average depreciation period</td></tr>
</table>

Others	• Expert estimates and scenario analyses

Expected losses for financial instruments of Stage 1 are projected over the shorter of a period of 12 months or the maturity of the instrument. For Stage 2 financial instruments, the expected losses are projection for the entire term of the instrument. The maturity equals the contractual term. In case of financial instruments such as loan commitments and guarantees, the contractual maturity is determined based on the first day when the bank is entitled to request repayment or to terminate any loan commitment or guarantee. In cases where the contractual term could not be determined (e.g. if the borrower has an unlimited option for extension), the total maturity of the instrument is determined to be 30 years.

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

Defaulted exposures

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

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

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

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

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

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

Regulatory risk provision – NPL backstop

In March 2017, the ECB published its guide for handling NPEs (non-performing exposures) that was supplemented by the publication of an addendum in March 2018. The addendum is about the regulatory expectations regarding provisioning for newly emerging non-performing loans. Additionally, a new CRR Article was published on 25 April 2019 that contains requirements for deductions, in the event that insufficient provisions were formed for loans granted as of 26 April 2019 that subsequently became non-performing.

By letter dated 22 August 2019, the ECB adopted the procedure described in the CRR (new regime for deductions) also for those NPLs that were affected by the addendum. That means, regulatory provisions in the form of deductions in Pillar 1 respectively Pillar 2 will follow the same logic.

For NPEs that existed as of 31 March 2018, individual requirements imposed by the ECB have to fulfilled by the Association of Volksbanks.

The difference between economic risk provisions under IFRS 9 and regulatory risk provisions within the scope of the regulations described above must be recorded directly in equity. With respect to the anticipated effect on equity, processes were developed in the course of 2019 to further reduce the durations in the NPL status, as well as a backstop reporting process for existing NPEs.

Credit risk reporting

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

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

The following analyses are part of the monthly report:

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

Development of the credit risk-related portfolio in 2019

Definition of credit risk-related portfolio

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

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

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

The following table shows the credit risk-related portfolio as at 31 December 2019 compared to the previous year. The relevant figure is the gross value before deduction of any impairments, collaterals or other credit risk mitigating securities.

Credit-risk-relevant portfolio

Euro thousand	31 Dec 2019	31 Dec 2018
Liquid funds	1,864,726	1,510,908
Loans and receivables credit institutions	431,157	469,560
At amortised cost	430,387	468,487
At fair value	770	1,072
Loans and receivables customers	21,536,832	20,794,888
At amortised cost	21,060,083	20,218,871
At fair value	476,748	576,017
Assets held for trading - fixed-income securities	663	4,657
At fair value	663	4,657
Financial investments - fixed-income securities	2,476,854	2,362,214
At amortised cost	2,299,832	1,963,148
At fair value	177,022	399,066
Contingent liabilities	947,568	974,048
Credit risks	3,227,363	3,222,469
Total	**30,485,163**	**29,338,743**

As at 31 December 2019, the total credit risk-related portfolio amounted to euro 30,485,163 thousand (2018: euro 29,338,743 thousand). Loans and receivables to customers constitute the biggest group of receivables, which corresponds to the business model of classic lending business with a focus on Private and SME customers. As at 31 December 2019, the loans and receivables to customers include receivables from finance leases in the amount of euro 191,184 thousand (2018: euro 171,911 thousand). Due to the low share of 0.6 % (2018: 0.8 %) of total loans and receivables to customers, the leasing portfolio is not presented separately.

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

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

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

Development by customer segments[1]

The following tables show the distribution of the credit risk-related portfolio by balance sheet items and customer segments. As at 31 December 2019, the largest customer segment of the credit risk-relevant items is the SME segment (euro 13,376,148 thousand) that is internally broken down into SME Retail, SME and SME Corporate (2018: euro 13,218,355 thousand), followed by the private customer segment.

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

Portoflio diveded by customer segments

31 Dec 2019 Euro thousand	Banks	Retail private	SME	Corporates	Public sector	Others	Total
Liquid funds	0	0	0	0	1,864,726	0	1,864,726
Loans and receivables credit institutions	431,157	0	0	0	0	0	431,157
At amortised cost	430,387	0	0	0	0	0	430,387
At fair value	770	0	0	0	0	0	770
Loans and receivables customers	0	8,641,489	10,907,159	530,822	284,069	1,173,293	21,536,832
At amortised cost	0	8,306,554	10,821,177	529,163	274,271	1,128,918	21,060,083
At fair value	0	334,935	85,982	1,659	9,797	44,375	476,748
Assets held for trading - fixed-income securities	75	0	0	588	0	0	663
At fair value	75	0	0	588	0	0	663
Financial investments - fixed-income securities	1,074,690	0	0	73,905	1,328,259	0	2,476,854
At amortised cost	1,024,492	0	0	72,831	1,202,509	0	2,299,832
At fair value	50,198	0	0	1,074	125,750	0	177,022
Contingent liabilities	14,171	97,299	790,494	41,055	280	4,268	947,568
Credit risks	1,679	979,734	1,678,495	137,826	216,719	212,910	3,227,363
Total	**1,521,772**	**9,718,521**	**13,376,148**	**784,197**	**3,694,054**	**1,390,471**	**30,485,163**

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

Development by currencies

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

Portoflio distribution by currencies

31 Dec 2019

Euro thousand	EUR	CHF	USD	GBP	Others	Total
Liquid funds	1,864,726	0	0	0	0	1,864,726
Loans and receivables credit institutions	417,250	1,493	7,786	1,651	2,977	431,157
At amortised cost	416,480	1,493	7,786	1,651	2,977	430,387
At fair value	770	0	0	0	0	770
Loans and receivables customers	20,542,618	941,291	5,574	51	47,298	21,536,832
At amortised cost	20,066,316	940,845	5,574	51	47,298	21,060,083
Thereof Retail private	7,644,659	642,920	737	0	18,237	8,306,554
Thereof SME	10,525,531	262,826	3,986	51	28,783	10,821,177
Thereof Corporates	522,257	5,778	850	0	278	529,163
Thereof Others	1,373,869	29,321	0	0	0	1,403,190
At fair value	476,302	446	0	0	0	476,748
Thereof Retail private	334,489	446	0	0	0	334,935
Thereof SME	85,982	0	0	0	0	85,982
Thereof Corporates	1,659	0	0	0	0	1,659
Thereof Others	54,172	0	0	0	0	54,172
Assets held for trading - fixed-income securities	663	0	0	0	0	663
At fair value	663	0	0	0	0	663
Financial investments - fixed-income securities	2,459,833	0	0	0	17,021	2,476,854
At amortised cost	2,282,811	0	0	0	17,021	2,299,832
Thereof Banks	1,024,492	0	0	0	0	1,024,492
Thereof Corporates	72,831	0	0	0	0	72,831
Thereof Public sector	1,185,488	0	0	0	17,021	1,202,509
Thereof Others	0	0	0	0	0	0
At fair value	177,022	0	0	0	0	177,022
Thereof Banks	50,198	0	0	0	0	50,198
Thereof Corporates	1,074	0	0	0	0	1,074
Thereof Public sector	125,750	0	0	0	0	125,750
Thereof Others	0	0	0	0	0	0
Contingent liabilities	944,585	2,396	505	0	82	947,568
Thereof Banks	14,171	0	0	0	0	14,171
Thereof Retail private	95,392	1,906	0	0	0	97,299
Thereof SME	789,541	448	505	0	0	790,494
Thereof Corporates	40,932	41	0	0	82	41,055
Thereof Others	4,549	0	0	0	0	4,549
Credit risks	3,222,050	2,194	2,896	0	223	3,227,363
Thereof Banks	1,679	0	0	0	0	1,679
Thereof Retail private	979,050	653	8	0	22	979,734
Thereof SME	1,674,070	1,541	2,882	0	2	1,678,495
Thereof Corporates	137,622	0	5	0	199	137,826
Thereof Others	429,630	0	0	0	0	429,630
Total	**29,451,726**	**947,374**	**16,760**	**1,702**	**67,601**	**30,485,163**

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

Development of repayment vehicle and foreign currency loans

As at 31 December 2019, the total borrowings under repayment vehicle and foreign currency loans amounted to euro 1,249,929 thousand (2018: euro 1,471,897 thousand).

Development by countries

The main business activity of the Association of Volksbanks focuses on the Austrian market. This is also evident from the following tables. As at 31 December 2019, Austrian exposures accounted for 89.7 % of the credit risk-related portfolio (2018: 90.2 %).

Portfolio distribution by countries

31 Dec 2019 Euro thousand	Austria	Germany	Switzer-land	Liechten-stein	EEA	EU CEE	Others	Total
Liquid funds	1,864,726	0	0	0	0	0	0	1,864,726
Loans and receivables credit institutions	13,786	205,905	10,982	0	160,333	19	40,133	431,157
At amortised cost	13,016	205,905	10,982	0	160,333	19	40,133	430,387
At fair value	770	0	0	0	0	0	0	770
Loans and receivables customers	20,447,861	757,650	79,122	18,721	111,931	98,077	23,469	21,536,832
At amortised cost	19,996,011	744,844	78,356	18,719	107,361	92,567	22,224	21,060,083
Thereof Retail private	7,960,104	218,549	28,948	4,780	41,317	40,562	12,294	8,306,554
Thereof SME	10,335,150	367,069	19,980	13,939	34,353	47,079	3,607	10,821,177
Thereof Corporates	468,690	26,247	0	0	31,691	2,535	0	529,163
Thereof Others	1,232,068	132,978	29,428	0	0	2,392	6,323	1,403,190
At fair value	451,850	12,807	766	2	4,570	5,510	1,244	476,748
Thereof Retail private	319,264	4,196	766	2	4,091	5,372	1,244	334,935
Thereof SME	84,770	595	0	0	479	138	0	85,982
Thereof Corporates	1,659	0	0	0	0	0	0	1,659
Thereof Others	46,156	8,015	0	0	0	0	0	54,172
Assets held for trading - fixed-income securities	663	0	0	0	0	0	0	663
At fair value	663	0	0	0	0	0	0	663
Financial investments - fixed-income securities	952,618	156,750	1,040	0	1,134,939	206,544	24,963	2,476,854
At amortised cost	869,762	136,405	1,040	0	1,109,253	158,409	24,963	2,299,832
Thereof Banks	299,834	125,704	1,040	0	593,508	0	4,406	1,024,492
Thereof Corporates	12,744	0	0	0	39,175	356	20,556	72,831
Thereof Public sector	557,183	10,702	0	0	476,570	158,054	0	1,202,509
Thereof Others	0	0	0	0	0	0	0	0
At fair value	82,857	20,345	0	0	25,686	48,135	0	177,022
Thereof Banks	15,358	20,345	0	0	14,496	0	0	50,198
Thereof Corporates	1,074	0	0	0	0	0	0	1,074
Thereof Public sector	66,425	0	0	0	11,190	48,135	0	125,750
Thereof Others	0	0	0	0	0	0	0	0
Contingent liabilities	935,905	8,248	561	1,766	554	243	291	947,568
Thereof Banks	14,063	108	0	0	0	0	0	14,171
Thereof Retail private	94,346	1,883	493	178	44	64	291	97,299
Thereof SME	783,684	6,014	68	40	510	179	0	790,494
Thereof Corporates	39,389	119	0	1,548	0	0	0	41,055
Thereof Others	4,424	124	0	0	0	0	0	4,549
Credit risks	3,135,974	80,249	2,246	1,773	3,764	2,729	627	3,227,363
Thereof Banks	1,679	0	0	0	0	0	0	1,679
Thereof Retail private	958,618	15,574	1,640	104	2,648	576	573	979,734
Thereof SME	1,628,305	44,658	540	1,669	1,116	2,153	54	1,678,495
Thereof Corporates	130,859	6,967	0	0	0	0	0	137,826
Thereof Others	416,514	13,050	66	0	0	0	0	429,630
Total	**27,351,535**	**1,208,802**	**93,952**	**22,261**	**1,411,521**	**307,611**	**89,482**	**30,485,163**

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

Development by sectors[2]

The most important sector within loans and receivables to customers of the Association of Volksbanks are private households with 40.1 % as at 31 December 2019 (2018: 39.8 %). As at 31 December 2019, the largest commercial sector in loans and receivables to customers within the Association of Volksbanks is the real estate sector. It accounts for a share of 26.4 % (2018: 25.6 %). As at 31 December 2019, the largest commercial sector within loans and receivables to customers in the SME segment is the real estate sector, accounting for 40.69 % (2018: 39.53 %), followed by the tourism sector with a share of 14.35 % (2018: 13.56 %). As at 31 December 2019, the largest commercial sector within loans and receivables to customers in the Corporate segment is again the real estate sector, accounting for 32.69 % (2018: 36.38 %).

[2]*The definition of the sector is largely aligned with the ÖNACE codes and cannot be compared directly with customer segments, where a different classification logic is applied.*

Portfolio distribution by sectors

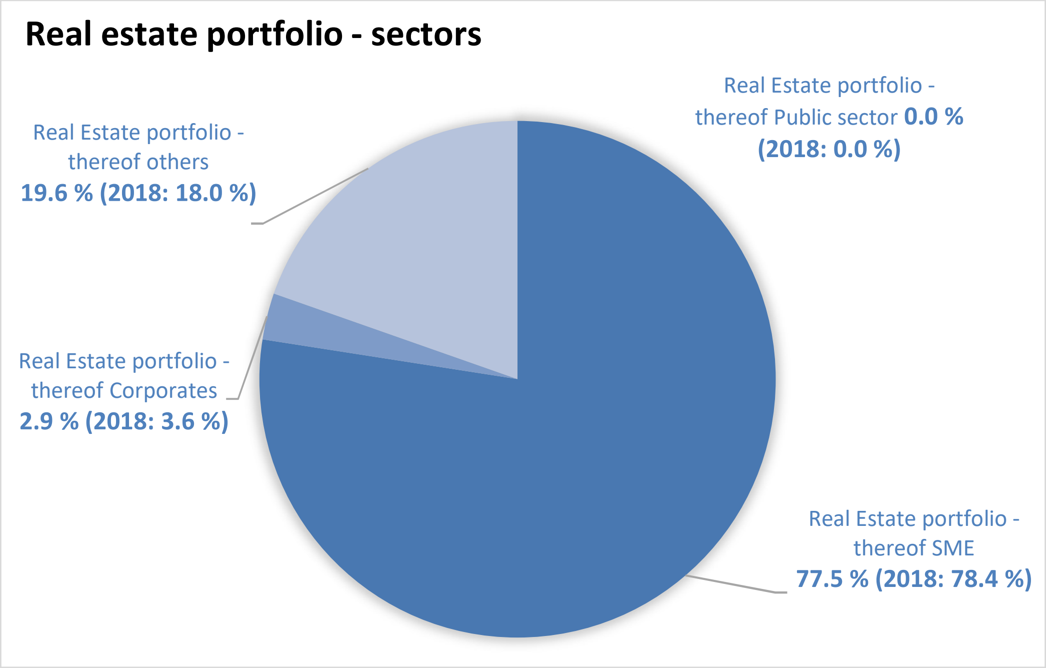
31 Dec 2019 Euro thousand	Private households	Financial services incl. Banks	Public authorities	Real estate	Construction industry
Liquid funds	0	0	1,864,726	0	0
Loans and receivables credit institutions	0	431,157	0	0	0
At amortised cost	0	430,387	0	0	0
At fair value	0	770	0	0	0
Loans and receivables customers	8,641,476	200,838	284,069	5,679,121	668,801
At amortised cost	8,306,541	200,511	274,271	5,610,160	664,213
At fair value	334,935	327	9,797	68,961	4,589
Assets held for trading - fixed-income securities	0	59	0	144	0
At fair value	0	59	0	144	0
Financial investments - fixed-income securities	0	1,071,093	1,328,259	0	0
At amortised cost	0	1,024,952	1,202,509	0	0
At fair value	0	46,141	125,750	0	0
Contingent liabilities	96,811	170,661	280	63,281	117,857
Credit risks	978,403	42,339	216,719	638,545	236,612
Total	**9,716,690**	**1,916,147**	**3,694,054**	**6,381,091**	**1,023,271**

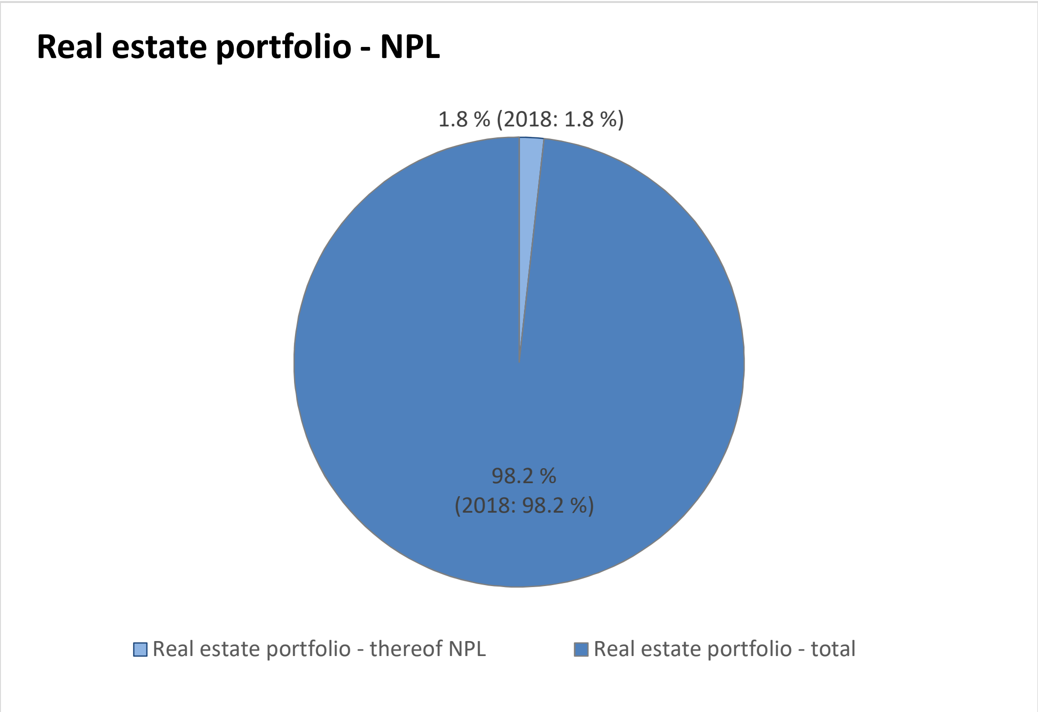
31 Dec 2019 Euro thousand	Tourism	Trade and repairs	Physicians/ healthcare	Food/ agriculture and forestry	Others	Total
Liquid funds	0	0	0	0	0	1,864,726
Loans and receivables credit institutions	0	0	0	0	0	431,157
At amortised cost	0	0	0	0	0	430,387
At fair value	0	0	0	0	0	770
Loans and receivables customers	1,614,853	973,830	788,571	690,974	1,994,299	21,536,832
At amortised cost	1,596,524	963,111	786,704	676,119	1,981,931	21,060,083
At fair value	18,329	10,719	1,867	14,856	12,368	476,748
Assets held for trading - fixed-income securities	0	0	0	0	461	663
At fair value	0	0	0	0	461	663
Financial investments - fixed-income securities	0	0	0	5,161	72,341	2,476,854
At amortised cost	0	0	0	5,161	67,209	2,299,832
At fair value	0	0	0	0	5,131	177,022
Contingent liabilities	141,287	75,074	9,365	15,485	257,464	947,568
Credit risks	140,293	263,261	80,612	93,665	536,915	3,227,363
Total	**1,896,433**	**1,312,165**	**878,548**	**805,286**	**2,861,479**	**30,485,163**

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

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

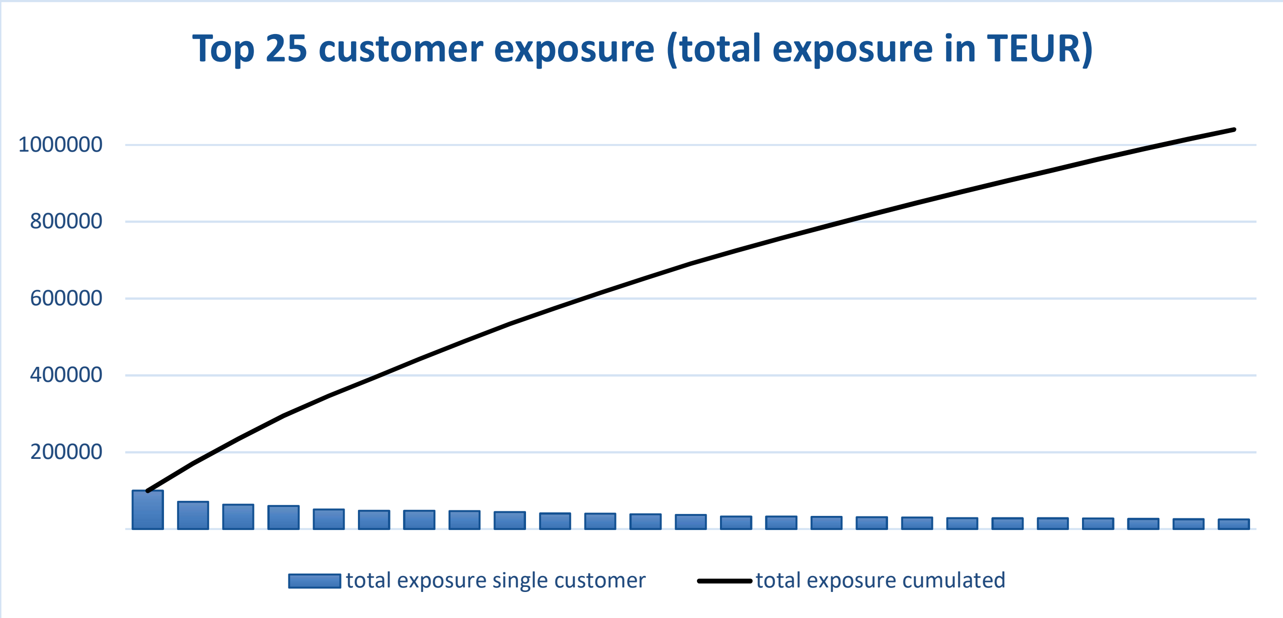
The following charts show the distribution of the real estate portfolio by segments, and the proportion of non-performing loans within the real estate portfolio. The major part of the real estate portfolio is found in the SME segment, with 77.5 % (2018: 78.4 %); at 1.8 % (2018: 1.8 %), the NPL ratio in the real estate portfolio is below the NPL ratio of internal risk control for the Association of Volksbanks, with 2.26 % (2018: 2.68 %).





Presentation of the Top 25 exposures

The following chart shows the Top 25 loans and receivables to customers within the Association of Volksbanks as at 31 December 2019 with the total exposure per individual customer as well as the cumulative total exposure of euro 1,040,045 thousand (2018: euro 1,013,674 thousand) and reflects the business model of the Association with a focus on small-volume private and SME customers. The Top 25 loans and receivables to customers correspond to some 4.1 % (2018: 4.0 %) of total loans and receivables to customers within the Association (Top no. 1 customer: 0.4 % of total loans and receivables to customers). The values are shown in line with the internal risk perspective, i.e. loans and receivables to customers as well as credit risks and contingent liabilities to customers excluding internal transactions within the Association.



Development by ratings

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

Portfolio distribution by ratings

31 Dec 2019	Risk category						
Euro thousand	**1 (1A - 1E)**	**2 (2A - 2E)**	**3 (3A - 3E)**	**4 (4A - 4E)**	**5 (5A - 5E)**	**6 (NR)**	**Total**
Liquid funds	1,864,726	0	0	0	0	0	1,864,726
Loans and receivables credit institutions	126,319	299,653	5,185	0	0	0	431,157
At amortised cost	126,319	298,883	5,185	0	0	0	430,387
At fair value	0	770	0	0	0	0	770
Loans and receivables customers	721,860	6,081,497	12,947,566	1,220,629	558,639	6,640	21,536,832
At amortised cost	692,169	5,844,432	12,773,950	1,205,389	537,782	6,362	21,060,083
Thereof Retail private	362,069	4,490,346	3,004,718	300,964	145,662	2,794	8,306,554
Thereof SME	68,004	960,378	8,532,169	877,948	379,197	3,480	10,821,177
Thereof Corporates	34,358	192,485	287,329	9,674	5,235	83	529,163
Thereof Others	227,737	201,223	949,733	16,803	7,689	5	1,403,190
At fair value	29,691	237,066	173,616	15,241	20,857	278	476,748
Thereof Retail private	21,505	213,193	73,461	11,874	14,695	208	334,935
Thereof SME	542	14,784	62,978	3,366	4,242	71	85,982
Thereof Corporates	0	1,101	559	0	0	0	1,659
Thereof Others	7,645	7,988	36,619	0	1,920	0	54,172
Assets held for trading - fixed-income securities	0	208	455	0	0	0	663
At fair value	0	208	455	0	0	0	663
Financial investments - fixed-income securities	1,400,370	1,066,493	9,987	0	4	0	2,476,854
At amortised cost	1,268,003	1,021,842	9,987	0	0	0	2,299,832
Thereof Banks	475,449	539,056	9,987	0	0	0	1,024,492
Thereof Corporates	13,462	59,369	0	0	0	0	72,831
Thereof Public sector	779,092	423,418	0	0	0	0	1,202,509
Thereof Others	0	0	0	0	0	0	0
At fair value	132,367	44,651	0	0	4	0	177,022
Thereof Banks	24,402	25,796	0	0	0	0	50,198
Thereof Corporates	0	1,070	0	0	4	0	1,074
Thereof Public sector	107,966	17,784	0	0	0	0	125,750
Thereof Others	0	0	0	0	0	0	0
Contingent liabilities	7,620	156,626	692,618	51,311	12,184	27,210	947,568
Thereof Banks	100	6,377	7,694	0	0	0	14,171
Thereof Retail private	4,688	24,466	64,984	2,810	62	289	97,299
Thereof SME	2,503	122,530	578,761	47,791	12,048	26,860	790,494
Thereof Corporates	50	2,097	38,114	660	74	61	41,055
Thereof Others	278	1,156	3,065	50	0	0	4,549
Credit risks	508,647	595,264	2,001,954	103,442	9,579	8,478	3,227,363
Thereof Banks	0	1,669	0	0	0	10	1,679
Thereof Retail private	287,534	319,732	350,096	16,190	455	5,727	979,734
Thereof SME	11,950	216,789	1,355,837	83,581	8,595	1,742	1,678,495
Thereof Corporates	118	47,653	85,037	3,613	528	877	137,826
Thereof Others	209,044	9,422	210,984	58	0	122	429,630
Total	**4,629,541**	**8,199,742**	**15,657,764**	**1,375,382**	**580,405**	**42,328**	**30,485,163**

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

Portfolio distribution by ratings and stages

31 Dec 2019			Risk category				
Euro thousand	**1 (1A - 1E)**	**2 (2A - 2E)**	**3 (3A - 3E)**	**4 (4A - 4E)**	**5 (5A - 5E)**	**6 (NR)**	**Total**
Liquid funds	1,864,726	0	0	0	0	0	1,864,726
Loans and receivables credit institutions	126,319	299,653	5,185	0	0	0	431,157
At amortised cost	126,319	298,883	5,185	0	0	0	430,387
Thereof Stage 1	126,310	298,615	5,172	0	0	0	430,097
Thereof Stage 2	9	268	13	0	0	0	290
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	0	770	0	0	0	0	770
Loans and receivables customers	721,860	6,081,497	12,947,566	1,220,629	558,639	6,640	21,536,832
At amortised cost	692,169	5,844,432	12,773,950	1,205,389	537,782	6,362	21,060,083
Thereof Stage 1	687,915	5,784,676	11,446,684	425,187	0	1,075	18,345,537
Thereof Stage 2	4,254	59,756	1,327,266	780,202	0	5,287	2,176,765
Thereof Stage 3	0	0	0	0	537,782	0	537,782
At fair value	29,691	237,066	173,616	15,241	20,857	278	476,748
Assets held for trading - fixed-income securities	0	208	455	0	0	0	663
At amortised cost	0	0	0	0	0	0	0
Thereof Stage 1	0	0	0	0	0	0	0
Thereof Stage 2	0	0	0	0	0	0	0
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	0	208	455	0	0	0	663
Financial investments - fixed-income securities	1,400,370	1,066,493	9,987	0	4	0	2,476,854
At amortised cost	1,268,003	1,021,842	9,987	0	0	0	2,299,832
Thereof Stage 1	1,268,003	1,021,842	9,987	0	0	0	2,299,832
Thereof Stage 2	0	0	0	0	0	0	0
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	132,367	44,651	0	0	4	0	177,022
Contingent liabilities	7,620	156,626	692,618	51,311	12,184	27,210	947,568
Thereof Stage 1	7,539	154,386	591,247	15,409	0	27,071	795,652
Thereof Stage 2	80	2,240	101,371	35,902	0	139	139,732
Thereof Stage 3	0	0	0	0	12,184	0	12,184
Credit risks	508,647	595,264	2,001,954	103,442	9,579	8,478	3,227,363
Thereof Stage 1	502,418	576,135	1,829,535	60,708	0	4,045	2,972,841
Thereof Stage 2	6,229	19,130	172,418	42,734	0	4,433	244,944
Thereof Stage 3	0	0	0	0	9,579	0	9,579
Total	**4,629,541**	**8,199,742**	**15,657,764**	**1,375,382**	**580,405**	**42,328**	**30,485,163**

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

Effects from contract amendments

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

Euro thousand	31 Dec 2019
Amortised cost before modification	840,200
Net modification gain/loss	-10,123
Gross carrying amount at 31 Dec of financial assets for which loss allowance has changed to 12-months measurement during period	31,864

Development of NPL portfolio

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

As at 31 December 2019, the NPL ratio within internal risk control amounted to 2.26 % for the Association (2018: 2.68 %).

The NPL coverage ratio through risk provisions or Coverage Ratio I for internal reporting amounts to 38.58 % for the Association as at 31 December 2019 (2018: 35.68 %).

The NPL coverage ratio through risk provisions or Coverage Ratio III for internal reporting amounts to 104.41 % for the Association as at 31 December 2019 (2018: 103.3 %).

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

Portfolio distribution NPL portfolio

31 Dec 2019 Euro thousand	Loan volume - total	NPL	NPL Ratio	Risk provisions for NPL	NPL coverage ratio (Loan loss allowance)	Collateral for NPL	NPL coverage ratio (Loan loss Allowance + collateral)
Liquid funds	1,864,726	0	0.00 %	0	0.00 %	0	0.00 %
Loans and receivables credit institutions	431,157	0	0.00 %	0	0.00 %	0	0.00 %
At amortised cost	430,387	0	0.00 %	0	0.00 %	0	0.00 %
At fair value	770	0	0.00 %	0	0.00 %	0	0.00 %
Loans and receivables customers	21,536,832	558,639	2.59 %	217,495	38.93 %	375,415	106.13 %
At amortised cost	21,060,083	537,782	2.55 %	217,495	40.44 %	359,469	107.29 %
Thereof Retail private	8,306,554	145,662	1.75 %	62,522	42.92 %	99,387	111.15 %
Thereof SME	10,821,177	379,197	3.50 %	150,571	39.71 %	251,929	106.15 %
Thereof Corporates	529,163	5,235	0.99 %	2,130	40.70 %	1,439	68.19 %
Thereof Others	1,403,190	7,689	0.55 %	2,272	29.55 %	6,713	116.86 %
At fair value	476,748	20,857	4.37 %	0	0.00 %	15,946	76.46 %
Thereof Retail private	334,935	14,695	4.39 %	0	0.00 %	10,883	74.06 %
Thereof SME	85,982	4,242	4.93 %	0	0.00 %	3,475	81.92 %
Thereof Corporates	1,659	0	0.00 %	0	0.00 %	0	0.00 %
Thereof Others	54,172	1,920	3.54 %	0	0.00 %	1,588	82.71 %
Assets held for trading - fixed-income securities	663	0	0.00 %	0	0.00 %	0	0.00 %
At fair value	663	0	0.00 %	0	0.00 %	0	0.00 %
Financial investments - fixed-income securities	2,476,854	4	0.00 %	0	0.00 %	0	0.00 %
At amortised cost	2,299,832	0	0.00 %	0	0.00 %	0	0.00 %
At fair value	177,022	4	0.00 %	0	0.00 %	0	0.00 %
Contingent liabilities	947,568	12,184	1.29 %	5,541	45.48 %	7,192	104.51 %
Credit risks	3,227,363	9,579	0.30 %	1,527	15.94 %	0	15.94 %
Total	**30,485,163**	**580,405**	**1.90 %**	**224,563**	**38.69 %**	**382,607**	**104.61 %**
Loans and receivables customers, contingent liabilities, credit risks	25,711,762	580,401	2.26 %	224,563	38.69 %	382,607	104.61 %
Liquid funds, loans and receivables credit institutions and customers	23,832,715	558,639	2.34 %	217,495	38.93 %	375,415	106.13 %

31 Dec 2018 Euro thousand	Loan volume - total	NPL	NPL Ratio	Risk provisions for NPL	NPL coverage ratio (Loan loss allowance)	Collateral for NPL	NPL coverage ratio (Loan loss allowance + collateral)
Liquid funds	1,510,908	0	0.00 %	0	0.00 %	0	0.00 %
Loans and receivables credit institutions	469,560	0	0.00 %	0	0.00 %	0	0.00 %
At amortised cost	468,487	0	0.00 %	0	0.00 %	0	0.00 %
At fair value	1,072	0	0.00 %	0	0.00 %	0	0.00 %
Loans and receivables customers	20,794,888	650,064	3.13 %	236,902	36.44 %	448,076	105.37 %
At amortised cost	20,218,871	633,016	3.13 %	236,902	37.42 %	430,971	105.51 %
Thereof Retail private	7,862,296	179,995	2.29 %	63,317	35.18 %	124,432	104.31 %
Thereof SME	10,648,825	442,713	4.16 %	164,891	37.25 %	300,287	105.07 %
Thereof Corporates	514,941	5,152	1.00 %	4,258	82.65 %	1,640	114.48 %
Thereof Others	1,192,809	5,157	0.43 %	4,437	86.04 %	4,612	175.49 %
At fair value	576,017	17,049	2.96 %	0	0.00 %	17,105	100.33 %
Thereof Retail private	411,572	12,512	3.04 %	0	0.00 %	13,263	106.00 %
Thereof SME	88,249	3,673	4.16 %	0	0.00 %	3,842	104.61 %
Thereof Corporates	1,902	0	0.00 %	0	0.00 %	0	0.00 %
Thereof Others	74,294	864	1.16 %	0	0.00 %	0	0.00 %
Assets held for trading - fixed-income securities	4,657	0	0.00 %	0	0.00 %	0	0.00 %
At fair value	4,657	0	0.00 %	0	0.00 %	0	0.00 %
Financial investments - fixed-income securities	2,362,214	3	0.00 %	0	0.00 %	0	0.00 %
At amortised cost	1,963,148	0	0.00 %	0	0.00 %	0	0.00 %
At fair value	399,066	3	0.00 %	0	0.00 %	0	0.00 %
Contingent liabilities	974,048	14,031	1.44 %	6,956	49.58 %	8,253	108.40 %
Credit risks	3,222,469	8,072	0.25 %	2,415	29.92 %	0	29.92 %
Total	**29,338,743**	**672,171**	**2.29 %**	**246,273**	**36.64 %**	**456,329**	**104.53 %**
Loans and receivables customers, contingent liabilities, credit risks	24,991,404	672,168	2.69 %	246,273	36.64 %	456,329	104.53 %
Liquid funds, loans and receivables credit institutions and customers	22,775,355	650,064	2.85 %	236,902	36.44 %	448,076	105.37 %

The following table shows the development of NPL holdings in the business year.

Development NPL portfolio

Euro thousand	Total
NPL as at 1 January 2018	859,771
Classified as impaired during the year	148,699
Transferred to not-impaired during the year	-73,187
Account coverage and write off - NPL	-189,996
Net repayments and other movements	-73,119
NPL as at 31 December 2018	672,168
Classified as impaired during the year	171,783
Transferred to not-impaired during the year	-45,876
Account coverage and write off - NPL	-168,615
Net repayments and other movements	-49,059
NPL as at 31 December 2019	**580,401**

The other portfolio changes in the 2019 business year include the decrease of the carrying amount of NPL holdings from the sale of Volksbank Liechtenstein in the amount of euro 2,507 thousand.

Development forbearance portfolio

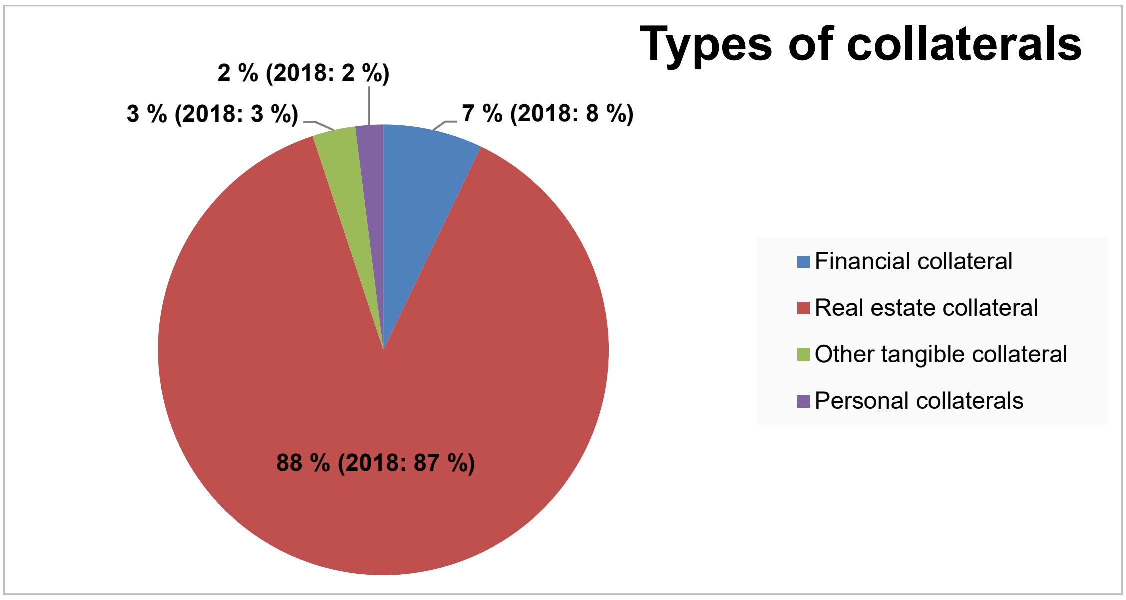
Forbearance refers to contractual concessions made by the lender to the debtor in the context of financial difficulties or imminent financial difficulties of the debtor, which the lender would not grant otherwise. Debtors whose transactions are classified as forborne are subject to special monitoring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

With respect to customer loans, forbearance was agreed for a total carrying amount of euro 340,646 thousand (2018: euro 380,016 thousand) for financial reasons. This amount relates to performing forborne credit exposures in the amount of euro 163,906 thousand (2018: euro 169,905 thousand) and non-performing forborne credit exposures in the amount of euro 176,740 thousand (2018: euro 210,111 thousand).

Development of the collaterals portfolio

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

In the 2019 business year, no significant changes to the principles – applicable across the Association – for the management of loan collaterals occurred.



31 Dec 2019 Euro thousand	Loan volume - total	Allowable collateral amount - total	Real estate collaterals	Financial collaterals	Personal collaterals	Other collaterals	Loan loss allow-ances	Provi-sions
Liquid funds	1,864,726	0	0	0	0	0	0	0
Loans and receivables credit institutions	431,157	327,961	0	0	40,059	287,902	48	0
At amortised costs	430,387	327,440	0	0	39,538	287,902	48	0
At fair value	770	521	0	0	521	0	0	0
Loans and receivables customers	21,536,832	18,205,078	16,329,203	1,264,560	325,790	285,525	286,185	0
At amortised cost	21,060,083	17,794,813	15,951,084	1,237,325	321,336	285,067	286,185	0
Thereof Retail private	8,306,554	7,379,832	6,804,217	524,426	34,241	16,948	89,127	0
Thereof SME	10,821,177	8,975,234	7,850,067	670,594	239,471	215,101	188,414	0
Thereof Corporates	529,163	314,728	215,214	21,405	29,443	48,666	2,836	0
Thereof Others	1,403,190	1,125,019	1,081,586	20,900	18,180	4,352	5,808	0
At fair value	476,748	410,265	378,118	27,235	4,454	458	0	0
Thereof Retail private	334,935	279,858	256,725	22,864	30	239	0	0
Thereof SME	85,982	79,348	73,567	3,954	1,608	219	0	0
Thereof Corporates	1,659	1,686	1,567	0	119	0	0	0
Thereof Others	54,172	49,373	46,258	416	2,698	0	0	0
Assets held for trading - fixed-income securities	663	0	0	0	0	0	0	0
At fair value	663	0	0	0	0	0	0	0
Financial investments	2,476,854	0	0	0	0	0	451	0
At amortised costs	2,299,832	0	0	0	0	0	451	0
At fair value	177,022	0	0	0	0	0	0	0
Contingent liabilities	947,568	349,088	246,744	80,003	10,330	12,011	0	9,457
Credit risks	3,227,363	0	0	0	0	0	0	6,680
Total	**30,485,163**	**18,882,128**	**16,575,947**	**1,344,563**	**376,179**	**585,438**	**286,685**	**16,137**

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

Acquisition of real estate collaterals

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

Development of the netting positions

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

31 Dec 2019 Euro thousand Derivatives	Assets	Liabilities	Net values
Investment book	59,551	-41,323	18,228
Trading book	58,953	-358,550	-299,598
Cash collaterals	**Pledged**	**Received**	**Net values**
Investment book	324,473	-43,132	281,341
Total			**-28**

31 Dec 2018 Euro thousand Derivatives	Assets	Liabilities	Net values
Investment book	57,156	-103,202	-46,046
Trading book	57,032	-321,280	-264,248
Cash collaterals	**Pledged**	**Received**	**Net values**
Investment book	346,968	-38,293	308,675
Total			**-1,619**

c) Market risk

Market risk is defined as the risk of any loss caused by unfavourable developments of market risk factors, e.g. interest rates, credit spreads, exchange rates, and volatilities. The Association of Volksbanks distinguishes the following types of market risk:

- Interest rate risk in the banking book
- Credit spread risk
- Market risk in the trading book
- Foreign exchange risk (open FX positions)
- Other valuation risks (IFRS fair value change)

Interest rate risk in the banking book

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

The interest rate risk in the banking book comprises all interest-bearing transactions reported and not reported in the balance sheet, except for transactions in the trading book. The interest rate risk position associated with the retail business of the Association of Volksbanks mainly arises from variable index-linked lending business and variable-interest deposits (in the form of sight and savings deposits), as well as from implicit floors, in both the assets and the liabilities side retail business. In lending business, a shift from index-linked positions towards fixed-interest positions takes place, as increasingly fixed-interest loans are granted within new business. By controlling the growth of fixed-interest volumes, the gradual development of a rolling fixed-interest position is ensured. Other decisive factors are bond positions of the bank's own portfolio, own issues and the interest-rate swaps used to control the interest rate position. Variable-interest customer transactions are included in the modelling by way of replication assumptions, in order to show price sensitivity to interest rate changes (e.g. for sight/savings deposits, overdrawing of advances on current accounts, loans “until further notice” etc.). Interest rate risk is controlled within the scope of dual control, both under a present-value perspective and under a periodic/income statement perspective. The same interest rate scenarios are used consistently for both perspectives. In doing so, implicit floors in retail banking are also taken into account in both perspectives, as said floors constitute material risk drivers considering the currently low interest rate level.

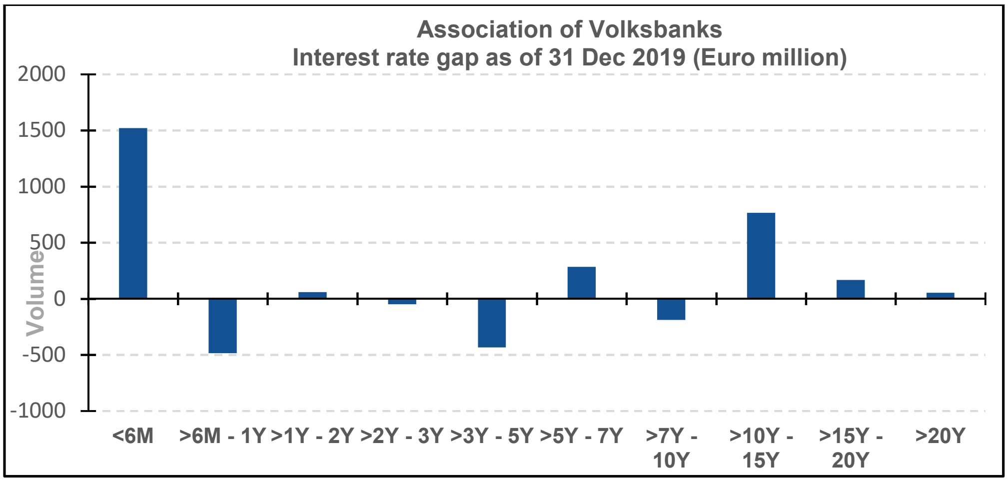
At the end of 2019, the Association of Volksbanks reports a relatively low positive term transformation. As at 31 December 2019, the present-value interest rate risk, measured using the OeNB interest rate risk coefficient, amounted to 4.3 % of own funds, which is clearly below the regulatory outlier definition of 20 %. In mid-2019, the EBA guideline on the management of interest rate risk arising from non trading activities introduced an additional indicator: the EBA interest rate risk coefficient. At the balance sheet date of 31 December 2019, that indicator amounted to 5.3 %, and is hence clearly below the notifiable limit of 15 %.

The Asset-Liability-Committee (ALCO) is responsible for controlling the interest rate position of the Association of Volksbanks within the scope of risk limits defined by Risk Control and approved by the Managing Board through the risk strategy. The ALCO is convened monthly at the CO or ad hoc as required. The Asset Liability Management (ALM) of the CO, which belongs to the division Treasury in organisational terms, is responsible for the management of the ALCO. Proposed measures to control the interest rate position are worked out by the ALM in cooperation with Risk Control and the local ALCOs of the affiliated banks. The aim is to create a structural contribution by way of positive term transformation. Interest rate risk reporting within the ALCO is taken care of by the Market and Liquidity Risk department of the CO.

Present-value risk measurement and limitation are mainly effected on the basis of regulatory interest rate scenarios (6 EBA scenarios), interest rate sensitivity in the form of a PVBP, interest rate gaps (net position of the fixed interest rates per maturity band), and an interest rate VaR based on historical simulations. Period-based risk measurement is implemented in the form of a net interest income simulation. In the process, the effects on net interest income of the next 12 months are calculated for the scenarios defined under applicable regulatory provisions (6 EBA scenarios). For 2020, net interest income decreases by euro 28 million in the least favourable scenario (a servere interest rate reduction; scenario as defined by the EBA). The results of the net interest income simulation and the interest rate VaR are taken into account in the ICAAP within the scope of the risk-bearing capacity calculation.

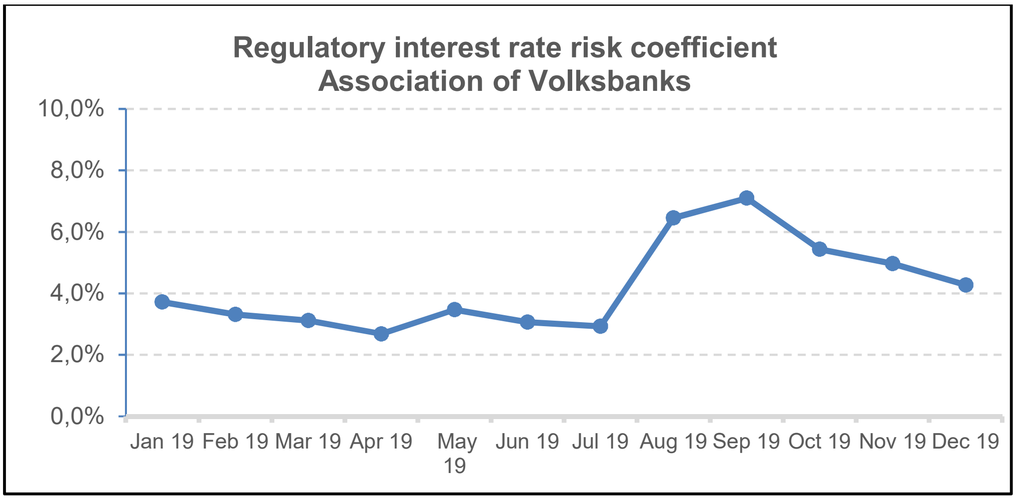
In both perspectives (present value and periodic), positions with indefineteinterest rate periods (e.g. in the form of sight and savings deposits, current account facilities) are included consistently in the risk measurement process by assuming replication and/or rolling. The assumptions are determined on the basis of statistical analyses, supplemented by expert opinions. Modelling aims to describe the development of customer interest rates depending on market interest rates. This is done on the basis of historically observed correlations (minimising the volatility of the margin compared to a combination of reference interest rates). Due to the high proportion of positions with indefinite interest rate periods on the balance sheet, replication modelling has a significant impact on the measurement of interest rate risk.

Interest rate gap of the Association of Volksbanks as at 31 Dec 2019



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

OeNB interest rate risk coefficient of the Association of Volksbanks in 2019



By comparison with the beginning of the year, the interest rate risk coefficient has hardly changed. Growth in fixed-interest loans was partly hedged. Over the course of the year, the interest rate risk coefficient shows a clear dependency on the interest rate level. The increase in August 2019 is due to a decrease in interest rates. It is caused by the valuation of embedded floors in case of loans that show increased risk at low interest rates.

Concentration risk

No concentration risks exist within interest rate risk.

Credit spread risk

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

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

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

The following risk indicators are derived for the Association

31 Dec 2019

Euro thousand	Credit spread value at risk	100 basis points-shift
Section 30a of the Austrian Banking Act	146,003	-167,895

31 Dec 2018

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

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

Concentration risk

Concentration risks can only arise on the level of issuers or risk clusters in the sense of similar issuers. Within credit spread risk, risk clusters are monitored. As at 31 December 2019, within the securities portfolio, the biggest concentrations currently exist in the covered bonds risk cluster with 39 % and in the Republic of Austria risk cluster with 28 %. Concentrations with individual issuers are limited by the issuer lines within credit risk.

Portfolio distribution by credit rating

Euro thousand	31 Dec 2019	31 Dec 2018
Risk category 1 (1A - 1E)	2,017,509	1,964,574
Risk category 2 (2A - 2E)	484,278	459,469
Risk category 3 (3A - 3E)	858	6,576
Risk category 4 (4A - 4E)	0	0
Risk category 5 (5A - 5E)	0	0
Risk category 6 (NR)	0	0
Total	**2,502,645**	**2,430,620**

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

The major part of the portfolio is allocated to the category ‘measured at amortised cost’ under IFRS 9. Therefore, the credit spread risk that affects the income statement and the OCI is low. The sensitivity of the income statement and the OCI to an increase in credit spreads by 100 bps is around euro -4.3 million within the Association (December 2019). As new purchases are allocated to the category ‘measured at amortised cost’ for the major part, this sensitivity decreases continuously.

Top 10 balance sheet exposures in the public sector

31 Dec 2019 Euro thousand	Amortised cost Carrying amount	Fair value through OCI Carrying amount	Fair value through profit or loss Carrying amount	Total Carrying amount
Covered EUR AAA	928,562	30,609	0	959,171
Sovereigns Austria	614,659	61,166	25,326	701,151
Sovereigns Italy	166,127	0	0	166,127
Sonstige Sovereigns EUR AA	64,116	31,369	0	95,485
Sovereigns Poland	70,257	10,649	0	80,906
Sovereigns Belgium	65,859	0	0	65,859
Sovereigns Portugal	59,836	0	0	59,836
Sovereigns Spain	55,522	0	0	55,522
Corporates EUR BBB	44,668	1,070	0	45,739
Sovereigns Slovakia	43,022	1,573	0	44,595
Gesamt	**2,112,629**	**136,436**	**25,326**	**2,274,391**

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

Portfolio structure according to IFRS 9 categories

31 Dec 2019 Euro thousand	Bond	Syndicated loan & SSD	Fund & Equity	Total
Amortised cost	2,275,281	28,286	0	2,303,567
Fair value through OCI	166,289	0	0	166,289
Fair value through profit or loss	8,571	0	24,218	32,789
Total	**2,450,141**	**28,286**	**24,218**	**2,502,645**

31 Dec 2018 Euro thousand	Bond	Syndicated loan & SSD	Fund & Equity	Total
Amortised cost	1,983,523	28,258	0	2,011,780
Fair value through OCI	380,565	0	0	380,565
Fair value through profit or loss	9,351	0	28,923	38,274
Total	**2,373,439**	**28,258**	**28,923**	**2,430,620**

Market risk in the trading book

The market risk in the trading book of the Association of Volksbanks is of minor importance. The trading book is kept centrally at the CO. The affiliated banks do not keep any trading book. The main function of the trading book is that of a transformer, where smaller batches from retail banking are collected and dynamically hedged in the market. Additionally, Treasury takes market risks within the scope of the limits approved, in order to produce corresponding income.

Risk measurement is effected mainly through a VaR of interest rate, volatility and foreign exchange risks (historical simulation), a BPV gross and net (outright), and an indicative P&L for the stop-loss limit. Additionally, limits customary in the industry exist for option-related indicators (Greeks).Reporting is effected daily to the Treasury and Risk Control and monthly within the ALCO. Additionally, it is incorporated in the aggregate bank risk report.

The trading book risk within the Association is relatively low and mainly arises from euro interest rate positions.

The regulatory own fund requirements for the trading book are calculated by means of the standard approach – the Association of Volksbanks does not use any internal model for market risk in the trading book.

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

Euro thousand	Interest	Currency	Volatility	Credit Spread	Total
31 Dec 2019					
Trading book	33	0	24	4	47
31 Dec 2018					
Trading book	65	0	15	12	95

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

Euro thousand	Interest +1 basis point	Interest volatility +1 %	Credit spread +1 basis point
31 Dec 2019			
Trading book	-1	-9	0
31 Dec 2018			
Trading book	14	-17	-3

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

Foreign exchange risk (open FX positions)

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

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

Currency Euro thousand	31 Dec 2019	31 Dec 2018
CHF	3,892	3,094
USD	347	1,569
CZK	-168	-205
JPY	-163	108
GBP	-16	77
Others	539	345
Gesamt	**4,432**	**4,988**

Other valuation risks (IFRS fair value change)

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

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

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

31 Dec 2019 Euro thousand	Market liquidity costs +10 basis points	Interest +10 basis points
Fair value through profit or loss - loans and receivables	-2,352	-465

d) Liquidity risk

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

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

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

The ALCO of the CO is responsible for controlling the liquidity position of the Association within the scope of risk limits defined by Risk Controlling and approved by the Managing Board within ALCO. The ALCO of the CO is the central body for the management of liquidity risks. Liquidity risk reporting within ALCO is taken care of by the Market and Liquidity Risk Control department.

Within liquidity risk, the Association of Volksbanks distinguishes between illiquidity risk and funding risk. Illiquidity risk is the risk to be unable to fulfil payment obligations when they are due. For the Association, which consists of retail banks, illiquidity risk typically consists in the risk of a bank run. This occurs when, due to a loss of confidence, customers withdraw large deposit volumes and at the same time alternative funding sources are not accessible (any more).

Illiquidity risk is managed by holding a sufficient liquidity buffer. VBW is responsible for the central management of the liquidity buffer for the entire Association. The liquidity buffer mainly consists of highly liquid bonds that are LCR-eligible for the major part, of deposits with the national bank, of ECB tender potential, and covered bond issue potential. The liquidity of the liquidity buffer is tested regularly. The Liquidity Management department within the Treasury division is responsible for the current management of the liquidity buffer within the Association.

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

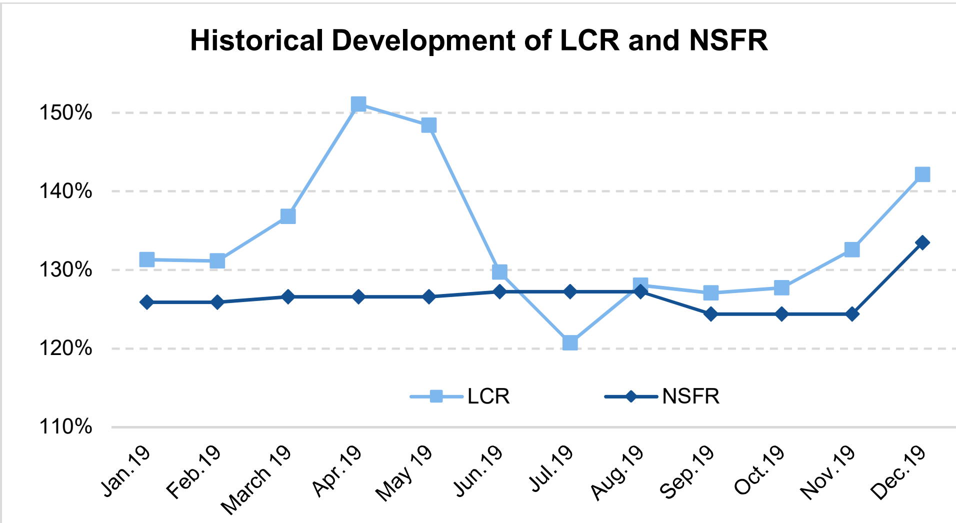
The risk measurement and limitation of illiquidity risk is effected through the regulatory indicators LCR and NSFR, the survival period from internal liquidity stress testing, and through additional operational indicators. The LCR aims to ensure the short-term financial solvency of banks under stressed conditions over a short-term horizon of 30 calendar days. The calculation of the LCR takes place weekly and at the end of the month in the Market and Liquidity Risk Control department. The NSFR limits the liquidity term transformation by determining a minimum of stable refinancing, depending on the liquidity characteristics of the assets and other (off-balance sheet) operations of a bank. Currently, calculation takes place weekly and on the last day of each quarter in the Market and Liquidity Risk Control department within the Association. The survival period is the period during which, under a given stress scenario, the liquidity buffer held is sufficient to cover cumulated net liquidity outflows. Currently, stress scenarios of varying degrees of severity are calculated. The scenario assumptions include a crisis of the Volksbank sector, a national banking crisis and pan-European stressed market conditions. The least favourable of the scenarios calculated is applied to the survival period.

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

Regulatory liquidity ratios LCR, NSFR and survival period in 2019:

In 2019, both regulatory ratios were always clearly above the regulatory limits. Throughout 2019, the LCR was above the internal target of 115 %. The LCR depends on payment transactions and calendar effects causing material monthly changes. The LCR decreases during the month due to effects of payment transactions, therefore it is sometimes clearly above the limit at the end of the month. The NSFR is calculated quarterly and was above target throughout the year 2019. In 2019, the survival period consistently exceeded 150 days, and was thus clearly above internal limits.

LCR and NSFR development of the Association of Volksbanks 2019



The LCR shows typical jumps mainly due to payment transactions respectively calendar effects. The issues placed in March (covered bond), April (AT1 issue) and November (covered bond) have increased the LCR.

Concentration risk

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

Operational liquidity management

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

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

e) Operational risk

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

Organisation

Within the Association of Volksbanks, line management is responsible for the management of operational risks (OpRisk Management). It is supported in this function by centrally and decentrally based experts from the area of operational risk and internal control system. The aim is to optimise processes in order to reduce the probability of the occurrence of operational risks and/or to reduce the effect of operational losses. Co-operation across departments (with Compliance, Internal Audit, as well as Security & Outsourcing Governance, in particular) allows for optimal and comprehensive control of operational risks.

Methods for the management of operational risks

Within the scope of operational risk management, both quantitative and qualitative methods are used. Quantitative elements comprise – for example – the execution of risk analyses, the performance of stress tests, the determination and monitoring of the risk appetite and of the risk indicators, as well as the preparation of the incident database. Qualitative control measures are reflected in the implementation of training events, awareness building measures, risk analyses, the preparation of the incident database incl. analysis of causes, the implementation of uniform ICS checks, as well as in risk reporting.

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

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

- The primary aim of the entire OpRisk Management system is to optimise processes to decrease the likelihood of incidents occurring and/or the impact of operational losses.
- Incidents are documented fully and in a sufficiently transparent manner via an electronic platform to enable third-party experts to benefit from the documentation. Operational incidents are recorded in a uniform manner across the Association. The resulting transparency with respect to the occurrence of incidents allows for risk assessment to be derived from historical facts.
- The methods, systems and processes in OpRisk Management are defined by the CO and must be complied with by the respective banks.
- The appropriateness of the risk control and monitoring measures and other risk-minimising measures is assessed on an on-going basis, but at least once a year, and reported to the Managing Board. Measures for risk control comprise, for example, awareness-building measures/training events, the monitoring of the OpRisk indicators, maintaining the confidentiality, availability and integrity of customer and corporate data, as well as business continuity planning, and in particular the adequate separation of responsibilities, as well as observance of the dual-control principle. Operational (residual) risks that cannot be avoided, reduced or transferred must be accepted formally and demonstrably by the management.
- The efficiency of OpRisk Management is confirmed through periodic and independent internal audits.

Internal control system

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

f) Other risks

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

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

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

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

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

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

The model risk is the risk of potential loss that may occur due to the faulty design, improper conceptual application or inconsistency of any model.

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

Other risks are primarily managed via organisational and process-based measures.

53) Fully consolidated companies[1)]

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
3V-Immobilien Errichtungs-GmbH; Vienna	HD	100.00 %	100.00 %	35
BBG Beratungs- und Beteiligungsgesellschaft m.b.H.; Salzburg	HD	100.00 %	100.00 %	40
Domus IC Leasinggesellschaft m.b.H.; Salzburg	HD	100.00 %	100.00 %	18
Gärtnerbank Immobilien GmbH; Vienna	HD	100.00 %	100.00 %	35
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Vienna	HD	100.00 %	100.00 %	35
Realitäten Beteiligungs-GmbH; Schärding	HO	100.00 %	100.00 %	500
VB Aktivmanagement GmbH; Klagenfurt	HO	100.00 %	100.00 %	35
VB Infrastruktur und Immobilien GmbH; Vienna	HD	100.00 %	100.00 %	35
VB Kärnten Leasing GmbH; Klagenfurt	FI	100.00 %	100.00 %	634
VB Rückzahlungsgesellschaft mbH; Vienna	HO	100.00 %	100.00 %	35
VB Services für Banken Ges.m.b.H.; Vienna	HD	98.89 %	98.89 %	327
VB Verbund-Beteiligung Region Wien eG; Vienna	HO	90.54 %	90.54 %	3,843
VB-Immobilienverwaltungs- und -vermittlungs GmbH; Klagenfurt	HD	100.00 %	100.00 %	73
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	HD	99.00 %	99.00 %	36
Volksbank Salzburg Leasing Gesellschaft m.b.H.; Salzburg	FI	100.00 %	100.00 %	73
Volksbank Vorarlberg Leasing GmbH; Rankweil	FI	100.00 %	100.00 %	37
Volksbank Vorarlberg Marketing- und Beteiligungs GmbH; Rankweil	HD	100.00 %	100.00 %	36
VVB Immo GmbH & Co KG; Rankweil	HD	100.00 %	100.00 %	10
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Vienna	FI	100.00 %	100.00 %	872

1) All fully consolidated companies are under control.

54) Companies measured at equity

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
VB Verbund-Beteiligung eG; Vienna	HO	77.66 %	77.66 %	51,877
VB Wien Beteiligung eG; Vienna	HO	44.68 %	44.68 %	24,196

55) Companies included

Company names and headquarters	Type*	Nominal capital in euro thousand
Österreichische Ärzte- und Apothekerbank AG; Vienna	KI	15,482
Volksbank Kärnten eG; Klagenfurt	KI	34,707
Volksbank Niederösterreich AG; St. Pölten	KI	27,203
Volksbank Oberösterreich AG; Wels	KI	21,596
Volksbank Salzburg eG; Salzburg	KI	13,478
Volksbank Steiermark AG; Graz	KI	69,504
Volksbank Tirol AG; Innsbruck	KI	20,430
VOLKSBANK VORARLBERG e. Gen.; Rankweil	KI	1,402
VOLKSBANK WIEN AG; Vienna	KI	137,547

56) Unconsolidated affiliated companies

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
"VB-Real" Projektentwicklungs Gesellschaft m.b.H.; Wels	HD	100.00 %	100.00 %	500
ARZ-Volksbanken Holding GmbH; Vienna	HO	99.62 %	99.62 %	256
Atlas Bauträger GmbH; Feldkirchen (Ktn.)	SO	65.00 %	65.00 %	36
Atlas Beteiligungsgesellschaft mbH.; Feldkirchen (Ktn.)	SO	65.00 %	65.00 %	87
Forum IC Leasinggesellschaft m.b.H.; Salzburg	FI	100.00 %	100.00 %	36
Freizeitcenter Betriebsführungs GmbH in Liqu.; Salzburg	SO	100.00 %	100.00 %	35
Immobilien Besitz- und Verwertungsgesellschaft mbH; Judenburg	HD	100.00 %	100.00 %	35
Immo-Contract Baden Maklergesellschaft m.b.H.; Baden	SO	93.51 %	93.51 %	175
IMMO-CONTRACT St. Pölten Maklergesellschaft m.b.H.; St. Pölten	SO	95.00 %	95.00 %	73
Meinhardgarage Gesellschaft m.b.H.; Innsbruck	SO	100.00 %	100.00 %	50
Meinhardgarage Gesellschaft m.b.H. & Co. KG; Innsbruck	SO	100.00 %	100.00 %	210
NEKRETNINE ADRIA d.o.o.; Rijeka	SO	100.00 %	100.00 %	3
Nordfinanz Vermögensberatung GmbH; Heidenreichstein	SO	99.99 %	99.99 %	150
Phönix Immobilien- und Bauträger GmbH in Liqu.; Graz	HD	100.00 %	100.00 %	35
REALCONSTANT Liegenschaftsverwertungs-Ges.m.b.H.; St. Pölten	SO	99.90 %	99.90 %	73
Resort Errichtungs- und Betriebsges.m.b.H.; Heidenreichstein	SO	99.76 %	99.76 %	42
Sporthotel Betriebsführungs GmbH; Salzburg	SO	100.00 %	100.00 %	35
Süd- und Weststeirische Immobilientreuhand GmbH in Liqu.; Graz	HD	100.00 %	100.00 %	35
UVB-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
V.I.P. Volksbank Immobilienprojekte VOBA Treuhand- und VerwaltungsgesellschaftmbH & Co KG; Salzburg	SO	100.00 %	100.00 %	7
VB - REAL Volksbank NÖ GmbH; Krems an der Donau	SO	100.00 %	100.00 %	727
VB Buchführung GmbH; Klagenfurt am Wörthersee	SO	100.00 %	100.00 %	36
VB ManagementBeratung GmbH; Wien	SO	100.00 %	100.00 %	36
VB Real Estate Leasing Ismene GmbH in Liqu.; Graz	FI	100.00 %	100.00 %	36
VB Real Estate Leasing Viribus GmbH in Liqu.; Graz	FI	100.00 %	100.00 %	36
VB Realitäten Gesellschaft m.b.H.; Klagenfurt am Wörthersee	SO	100.00 %	100.00 %	36
VBKA-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
VBKS Leasing d.o.o.; Kranj	HD	100.00 %	100.00 %	542
VOBA Treuhand- und Verwaltungsgesellschaft mbH; Salzburg	SO	100.00 %	100.00 %	37
Volksbank Salzburg Immobilien GmbH; Salzburg	SO	100.00 %	100.00 %	35
Volksbank Tirol Immobilien GmbH; Kufstein	SO	100.00 %	100.00 %	35
Volksbank Tirol Versicherungsservice GmbH; Innsbruck	SO	100.00 %	100.00 %	50
Volksbank Vorarlberg Immobilien GmbH & Co OG; Dornbirn	SO	100.00 %	100.00 %	109
VVB Liegenschaftsvermietungsgesellschaft mbH & Co KG; Rankweil	HD	100.00 %	100.00 %	10
Wohn + Wert Realitäten GmbH; Graz	HD	100.00 %	100.00 %	100

*Abbreviations type

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

Vienna, 18 March 2020

Gerald Fleischmann
Chairman of the Managing Board

Retail Branches, General Secretariat, Real Estate Financing, Communication/Marketing, Organisation & IT, HR Management, Private Banking/Treasury, Transition "Adler" & Strategy, Corporate Financing, Sales Management

Rainer Borns
Deputy Chairman of the Managing Board

Control, Financial Data Steering, Finance, Capital and Stakeholder Management, Legal, VB Infrastructure and Real Estate Facility Management, VB Infrastructure and Real Estate Property Management

Thomas Uher
Deputy Chairman of the Managing Board

Digitalisation, Credit Risk Management, Risk Controlling, VB Services for Banks Processing, VB Services for Banks MSC/KSC and processing of loans

Area of responsibility Joint Managing Board
Compliance, Audit

AUDITOR'S REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE BANKING ASSOCIATION

Audit Opinion

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

VOLKSBANK WIEN AG,
Vienna, Austria,

as the central organization and the assigned banks, which comprise the Banking Association´s consolidated Statement of Comprehensive Income, the consolidated Statement of Financial Position as of 31 December 2019, and consolidated Statement of Changes in Equity and consolidated Statement of Cash Flows for the year then ended, and the Notes to the consolidated Financial Statements.

In our opinion, the consolidated Financial Statements of the Banking Association present fairly, in all material respects, the consolidated Financial Position of the Banking Association as of 31 December 2019, and its consolidated Financial Performance and consolidated Cash Flows for the year then ended in accordance with the accounting and valuation principles described in the Framework of Rules for the preparation of consolidated Financial Statements of the Banking Association 2019.

Basis for our Opinion

We conducted our audit in accordance with the Austrian Standards on Auditing which require the audit to be conducted in accordance with International Standards on Auditing (ISAs) and voluntarily in accordance with ISA 701. Our responsibilities under those standards are further described in the "Banking Association's Auditor´s Responsibilities" section of our report. The regulations of Regulation (EU) No. 537/2014 on specific requirements for the audit for public interest entities are not applicable to the audit of the consolidated Financial Statements of the Banking Association. We are independent of the audited Banking Association in accordance with Austrian company law, banking law and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of matter

We would emphasize in particular,
- that the consolidated Financial Statements of the Banking Association were prepared in accordance with the Framework of Rules for the preparation of the consolidated financial statements of the Banking Association 2019 and
- their only purpose is to assist VOLKSBANK WIEN AG to meet the regulatory requirements and they shall not be used for any other purpose.

Our opinion is not modified in respect of these matters.

Key Audit Matters

According to ISA 701 key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated Financial Statements of the Banking Association. These matters were addressed in the context of our audit of the consolidated Financial Statements of the Banking Association as a whole, however, we do not provide a separate opinion thereon.

Valuation of loans to and receivables from customers at amortised cost

Risk for the consolidated Financial Statements

Loans to and receivables from customers at amortised cost represent a significant item in the consolidated Statement of Financial Position. As of 31 December 2019, the carrying amount of loans to and receivables from customers at amortised

AUDITOR'S REPORT

cost amounts to EUR 21,060.1 million, accounting for 76.59 % of total assets. The loan loss provisions for these loans to and receivables from customers at amortised cost amount to EUR 286.2 million.

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

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

For loans and receivables to customers at amortised cost that have objective evidence of impairment (stage 3) and are individually significant, a specific loss loan provision based on szenario-weighted, expected cash flows is recognized. These take into account assessment of the financial position of the customer and valuation of collaterals.

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

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

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

For all other loans to and receivables from customers at amortised cost for which the loan loss provisions are calculated based on the formal-based ECL approach, we analysed the Banking Associaton's documentation of the applied method for consistency with requirements of IFRS 9. Additionally, we evaluated the criteria for stage–transfer and, based on the Banking Associaton's internal validation, the models and parameters used therein as to whether they are suitable to determine a significant increase in credit risk. We assessed the appropriateness of the statistical models used and the mathematical functionalities to determine the probabilities of default and loss rates. Therefore, we assessed whether the IFRS 9 requirements were met and recalculated key steps in the derivation. Furthermore, we analysed the selection and measurement of future estimates and scenarios by comparison with external forecasts and assessed their consideration in the allocation to the stages and in estimating the parameters. We audited the mathematically correctness of the ECL calculation by the IT system on a sample basis. Furthermore, we assessed the effectiveness of selective interface controls related to the correct transfer of data from the previous system to the program for calculating loan loss provisions. For these procedures, we consulted our financial mathematicians and IT-auditors as specialists.

Finally, we evaluated if the disclosures in the notes regarding the determination of loan loss provisions for loans to and receivables from customers at amortised cost comply with the legal requirements.

Recognition of deferred tax assets on tax loss carryforwards
Risk for the consolidated Financial Statements
Based on future expected taxable income, the Bank Association recognized deferred tax assets on tax loss carryforwards amounting to EUR 41.6 million as of 31 December 2019.

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

AUDITOR'S REPORT

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

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

For this purpose, we compared the key input parameters for the forecast of future taxable profit with internal budgeting and with an externally prepared valuation report of VOLKSBANK WIEN AG as of 31 December 2019. Moreover, we assessed the appropriateness of the assumptions made, using externally available data, such as macroeconomic forecasts, and the past results is respect of their planning accuracy. For these procedures, we consulted our valuation specialists.

Finally, we evaluated if the disclosures in the notes regarding the deferred tax assets, particular with respect to usable and unused tax loss carryforwards, comply with the legal requirements.

Responsibilities of Management and the Audit Committee for the consolidated Financial Statements of the Banking Association

Management is responsible for the preparation and fair presentation of the consolidated Financial Statements of the Banking Association in accordance with the Framework of Rules for the preparation of the consolidated financial statements of the Banking Association 2019 and for such internal control as management determines is necessary to enable the preparation of consolidated Financial Statements of the Banking Association that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Banking Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intents to liquidate the members of the Banking Association or to cease operations, or has no realistic alternative but to do so.

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

Banking Association´s Auditor's Responsibilities

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

As part of an audit in accordance with and Austrian Standards on Auditing, which require the audit to be conducted in accordance with ISAs, and voluntary in accordance with ISA 701, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:
– We identify and assess the risks of material misstatement in the consolidated Financial Statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.

AUDITOR'S REPORT

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banking Association's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Banking Association's ability to continue for the central organization and the assigned member credit institutions as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated Financial Statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Banking Association to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated Financial Statements of the Banking Association, including the notes, and whether the consolidated Financial Statements of the Banking Association represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Banking Association to express an opinion on the consolidated Financial Statements of the Banking Association. We are responsible for the direction, supervision and performance of the audit of the Banking Association. We remain solely responsible for our audit opinion.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the Banking Association i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

Report on Other Legal Requirements

Report on the Banking Association´s Management Report

In accordance with Austrian company law, the Banking Association´s management report is to be audited as to whether it is consistent with the consolidated Financial Statements of the Banking Association and prepared in accordance with legal requirements.

Management is responsible for the preparation of the Banking Association´s management report in accordance with Austrian company law and other legal or regulatory requirements.

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

Opinion

In our opinion, the Banking Association´s management report is consistent with the consolidated Financial Statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Statement

Based on our knowledge gained in the course of the audit of the consolidated Financial Statements of the Banking Association and our understanding of the Banking Association and its environment, we did not note any material misstatements in the Banking Association´s management report.

AUDITOR’S REPORT

Other Information

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

Our opinion on the consolidated Financial Statements of the Banking Association does not cover other information and we do not provide any kind of assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information as soon as it becomes available, to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the consolidated Financial Statements of the Banking Association or any apparent material misstatement of fact.

Engagement Partner

The engagement partner of the audit of the consolidated Financial Statements of the Banking Association is Mr Walter Reiffenstuhl.

Restriction of Use

Our report may not be used for any other purpose than to comply with regulatory requirements. Therefore we shall not be liable for any third party claims.

This report or parts of it may not be made available to any third party without our explicit consent.

Vienna, 18 March 2020

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:
Walter Reiffenstuhl
Wirtschaftsprüfer
(Austrian Chartered Accountant)

This report is a translation of the original report in German, which is solely valid.
The consolidated Financial Statements together with our auditor’s opinion may only be published if the consolidated Financial Statements and the Banking Association´s management report are identical with the audited version attached to this report. Section 281 Paragraph 2 UGB (Austrian Commercial Code) applies.

TERMINOLOGY AND IMPRINT

TERMINOLOGY

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

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

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

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

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

IMPRINT

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