VOLKSBANK WIEN

ANNUAL REPORT 2019

KEY FIGURES OF VOLKSBANK WIEN AG

Euro million	31 Dec 2019	31 Dec 2018	31 Dec 2017
Statement of financial position			
Total assets	**12,704**	**11,505**	**10,616**
Loans and receivables customers	**5,471**	**5,366**	**4,752**
Amounts owed to customers	**6,439**	**6,344**	**5,791**
Debts evidenced by certificates	**1,453**	**467**	**488**
Subordinated liabilities	**418**	**418**	**426**
Own funds according to Basel III for the VOLKSBANK WIEN AG group			
Common equity tier 1 capital (CET1)	625	594	533
Additional tier 1 capital (AT1)	220	0	0
Tier 1 capital (T1)	**845**	**594**	**533**
Tier 2 capital (T2)	406	406	407
Own funds	**1,251**	**1,000**	**941**
Risk weighted exposure amount - credit risk	3,538	3,189	2,721
Total risk exposure amount market risk	85	86	112
Total risk exposure amount operational risk	530	552	579
Total risk for credit valuation adjustment	44	55	59
Other risk exposure amount	0	279	0
Total risk exposure amount	**4,196**	**4,161**	**3,470**
Common equity tier 1 capital ratio	**14.9 %**	**14.3 %**	**15.4 %**
Tier 1 capital ratio	**20.1 %**	**14.3 %**	**15.4 %**
Equity ratio	**29.8 %**	**24.0 %**	**27.1 %**
Income statement	**1-12/2019**	**1-12/2018**	**1-12/2017**
Net interest income	120.0	124.7	120.7
Risk provision	-7.2	4.8	2.4
Net fee and commission income	55.8	53.8	53.8
Net trading income	-2.3	1.0	5.6
Result from financial instruments and investment properties	17.9	9.2	-1.0
Other operating result	97.5	100.2	65.2
General administrative expenses	-213.5	-222.3	-204.9
Restructuring result	0.0	-4.0	1.3
Result from companies measured at equity	-0.5	4.5	6.2
Result before taxes	**67.8**	**72.0**	**49.4**
Income taxes	-10.8	-1.5	4.6
Result after taxes	**57.0**	**70.5**	**54.0**
Result attributable to non-controlling interest	0.0	0.0	0.0
Result of the Group	**57.0**	**70.5**	**54.0**
Key ratios	**1-12/2019**	**1-12/2018**	**1-12/2017**
Operating cost-income-ratio	**78.2 %**	**78.8 %**	**82.8 %**
ROE before taxes	**8.4 %**	**12.1 %**	**9.5 %**
ROE after taxes	**7.1 %**	**11.9 %**	**10.4 %**
ROE consolidated net income	**7.1 %**	**12.0 %**	**10.5 %**
Net interest margin	**0.9 %**	**1.1 %**	**1.1 %**
NPL ratio	**2.2 %**	**2.0 %**	**2.5 %**
Leverage ratio	**5.9 %**	**4.7 %**	**4.3 %**
Net stable funding ratio	**130.5 %**	**124.2 %**	**131.7 %**
Loan deposit ratio	**71.5 %**	**82.7 %**	**79.8 %**
Coverage ratio I	**30.5 %**	**29.8 %**	**27.0 %**
Coverage ratio III	**100.1 %**	**104.7 %**	**103.7 %**
Resources	**1-12/2019**	**1-12/2018**	**1-12/2017**
Staff average	**1,279**	**1,299**	**1,284**
Thereof domestic	1,279	1,299	1,284
	31 Dec 2019	**31 Dec 2018**	**31 Dec 2017**
Staff at end of period	**1,268**	**1,290**	**1,327**
Thereof domestic	1,268	1,290	1,327
Number of branches	**63**	**70**	**78**
Thereof domestic	63	70	78
Number of customers	**344,202**	**360,545**	**372,396**

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 ratio indicates the available stable funding in relation to the necessary stable funding.
The loan deposit ratio indicates the total amount of loan accounts, overdraft facilities less syndicated loans in relation to the total amount of savings deposits, demand deposits, fixed term deposits and debts evidenced by certificates.
The coverage ratio I indicates the coverage ratio of non-performing loans by risk provisions.
The coverage ratio III indicates the coverage ratio of non-performing loans by risk provisions and collaterals.
Staff figures are calculated based on full-time equivalent.

VOLKSBANK WIEN AG

GROUP MANAGEMENT REPORT

CONSOLIDATED FINANCIAL STATEMENTS

OFFICERS AND ADRESSES

FOREWORD BY THE CHIEF EXECUTIVE OFFICER

Gerald Fleischmann

CEO and Chairman
of the Managing Board

In 2019, VOLKSBANK WIEN AG has made a lot of progress, both as the largest regional bank among Austrian Volksbanks and in its function as the central organisation for the entire Association of Volksbanks in Austria.

Following conclusion of the regional mergers agreed within the scope of the reorganisation of the Association, the catchment area of VOLKSBANK WIEN AG comprises all of Vienna, the whole of Burgenland, and the eastern half of Lower Austria. Under the SPARDA-Bank brand, VOLKSBANK WIEN AG provides services to the target group of employees throughout Austria.

VOLKSBANK WIEN AG, just like the financial sector as a whole, was facing big challenges in 2019, due to the low interest rate environment and high regulatory expenses. The simplification of the business model is aimed at achieving further efficiency increases in the medium term. The bank focuses on the core areas of deposits, loans and payment transactions. In the service business with consumer credits, insurances, securities, leasing, building society savings and other areas, VOLKSBANK WIEN AG sells products sourced from top-quality partners with excellent expertise in these areas, such as TeamBank, the ERGO insurance company, and Union Investment.

Service business with the product partners developed very positively. VOLKSBANK WIEN AG achieved very good sales figures of approximately euro 74 million in the previous year again within the scope of our cooperation – of several years already – with TeamBank in the area of consumer financing. In the sphere of investment funds, too, the fourth year of cooperation with Union Investment was very encouraging: the excellent products of this international investment company were highly appreciated by the Austrian market, with sales amounting to almost euro 200 million in VOLKSBANK WIEN AG alone.

Owing to the excellent capital base and liquidity situation, VOLKSBANK WIEN AG and the Association of Volksbanks managed to again expand lending business. In corporate banking, the Association achieved considerable increases through the "Unternehmer-Milliarde" (entrepreneurs' billion) financing campaigns. Volksbank intends to continue supporting economic development within our regional spheres through lending.

The branches still constitute the primary sales channel of VOLKSBANK WIEN AG. The combination of individual branches ensures that a high level of competence is available at all locations, both in retail and in corporate banking. All measures taken within the branch and sales organisation are aimed at putting an even greater focus on the customer and the quality of the consultancy we provide. Obviously, this also includes continuous investments in the professional training and further development of our employees. It is one of our clear goals to further enhance consultancy standards. Towards the end of 2019, we introduced a new sales concept at VOLKSBANK WIEN AG, referred to as "Hausbank der Zukunft" (the relationship bank of the future), supporting the assignment of customers to the account manager ideally suited to the task.

The digital world constitutes another important sales channel for all banks. Already in 2016, VOLKSBANK WIEN AG had responded to this development by introducing a new digital web presence. In the past year, too, the digital offer was extended by several new functions, one important step in 2019 being the launch of Apple Pay.

In addition to the personal quality of our consultancy, we need to ensure that our customers can carry out all recurring transactions and meet their information needs from any place around the clock. As a relationship bank, Volksbank wants to be perceived, on all channels, as first contact when it comes to financial matters.

In 2019, we also undertook great efforts to maintain our stable liquidity position and equity base. Key success factors were the AT1 equity issue and the placement of two covered bonds. This enables us to properly fulfil our main function in economic terms, namely the financing of private individuals and businesses. The focus at Volksbank is on small- and medium-sized enterprises, in particular, which constitute a mainstay of the Austrian economy. Private customers appreciate the personal quality of our consultancy at eye level and the services tailored to their individual needs.

Together with the Volksbanks, we have implemented several projects in the previous year in order to bundle regulatory duties, control functions as well as internal handling services throughout Austria. This is meant to provide the Volksbanks, as retail banks, with more freedom to focus on retail business even more. Our fundamental values in this context are trust, regional dimensions and a customer focus. Within the new Association, VOLKSBANK WIEN AG assumes three functions: as retail bank in our catchment area, as service provider and as the central control unit for the entire Association.

The year 2019 has seen numerous changes that have created many opportunities for the years to come. I would like to thank all employees, officers and owners for their enormous commitment. And I want to thank our customers especially, for their great loyalty to VOLKSBANK WIEN AG in the past year.

Vienna, April 2020

Gerald Fleischmann
CEO and Chairman of the Managing Board

REPORT OF THE SUPERVISORY BOARD

pursuant to section 96 of the Austrian Stock Corporation Act (Aktiengesetz) for the 2019 business year

Heribert Donnerbauer

Chairman
of the Supervisory Board

In four ordinary and one extraordinary meetings in the 2019 business year, in further discussions and numerous committee meetings, the Supervisory Board obtained information on the legality, expediency and efficiency of the management as well as on the situation, development and business strategy of the Company. The Supervisory Board also discussed the topics that VOLKSBANK WIEN AG as the central organisation of the Association of Volksbanks is responsible for pursuant to Section 30a Austrian Banking Act.

The corresponding reports of the Managing Board were thoroughly discussed and acknowledged, and the required resolutions were passed.

The committee chairpersons reported to the Supervisory Board on the work of the committees of the Supervisory Board on a regular basis. Moreover, the records of all committees, except for the HR Committee, were made available to all Supervisory Board members. Hence, the Supervisory Board was given ample opportunity to comply with its duty to obtain information and with its supervisory duty.

The Supervisory Board has currently set up the following committees: Working and Risk Committee, Audit Committee, Remuneration Committee, Nomination Committee, and HR Committee.

The Working and Risk Committee held four meetings in 2019, where the investments falling within its sphere of competence, as well as the risk topics, the risk strategy, and the current risk situation of the Company and of the Association of Volksbanks were dealt with. Credit decisions were also taken by circular resolution by the Working and Risk Committee.

The Audit Committee held five meetings in 2019. Apart from the audit of the annual financial statements, the consolidated financial statements and the financial statements of the Association, especially the internal control system, the internal audit system, and the risk management system were discussed in these meetings.

In 2019, in two meetings, the Remuneration Committee dealt with the principles of remuneration policy and with the remuneration report of VOLKSBANK WIEN AG and of the Association of Volksbanks.

The Nomination Committee held one meeting in 2019, dealing with the re-appointment of the Managing Board members Gerald Fleischmann, Chairman of the Managing Board, and Rainer Borns, Deputy Chairman of the Managing Board. Moreover, the Nomination Committee dealt with the annual evaluation of the Managing Board and Supervisory Board members and approved the update of the Company's Fit & Proper Policy.

In one meeting in 2019, the HR Committee dealt with the extension of the contracts of Managing Board members Gerald Fleischmann, Chairman of the Managing Board, and Rainer Borns, Deputy Chairman of the Managing Board.

Attendance at the meetings of the Supervisory Board and its committees continued to be high.

As the current term of office of the Managing Board members Gerald Fleischmann, Chairman of the Managing Board, and Rainer Borns, Deputy Chairman of the Managing Board, expires on 31 May 2020, the Supervisory Board discussed the future composition of the Managing Board. In doing so, the Supervisory Board unanimously declared that the existing Managing Board is doing an excellent job. With a view to continuity and stability and consistently pursuing the goal to make the Association of Volksbanks the most modern association in Austria in structural terms, the Supervisory Board has decided to follow the recommendation of the Nomination Committee and to re-appoint the Chairman of the Managing Board, Gerald Fleischmann, and the Deputy Chairman of the Managing Board, Rainer Borns, for another term of office of five years, namely from 1 June 2020 until 31 May 2025.

After completion of the merger process within the Association of Volksbanks in the 2018 business year, in the 2019 business year the Supervisory Board intensively dealt with the project specifically launched by the Managing Board to increase efficiency and productivity, closely accompanying the same. This is meant to optimise and bundle the processes and services within the Association of Volksbanks, associated with a further reduction of personnel and retail branches. Significant progress was made in this project by centralising important spheres across the Association in the 2019 business year. Another essential project in the 2019 business year was the relocation of the headquarters of VOLKSBANK WIEN AG. The Supervisory Board was regularly informed about the relevant progress and was finally able to congratulate the Managing Board on the successful relocation of all employees to a modern building with state-of-the-art premises and working equipment at the end of 2019.

The annual financial statements as at 31 December 2019, including the management report, were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (KPMG) and were given an unqualified audit certificate. The consolidated financial statements as at 31 December 2019 including the group management report were audited by KPMG and also provided with an unqualified audit certificate. The financial statements of the Association as at 31 December 2019 were also audited by KPMG and provided with an unqualified audit certificate.

The Supervisory Board has acknowledged the report submitted by the Managing Board and has examined the annual financial statements including the management report and the annex to the audit report, the consolidated financial statements including the group management report and the annex to the audit report, as well as the financial statements of the Association including the management report of the Association and the annex to the audit report upon previous involvement of the Audit Committee pursuant to Section 96 (1) Stock Companies Act. Said examination by the Supervisory Board has not resulted in any objections; in particular, the Supervisory Board found that the annual financial statements, the consolidated financial statements and the financial statements of the Association had been prepared correctly.

Hence, the Supervisory Board approves the annual financial statements including the management report, meaning that the same are approved under Section 96 (4) Stock Companies Act, the consolidated financial statements including the group management report and the annex to the audit report, as well as the financial statements of the Association including the management report of the Association and the annex to the audit report. Moreover, the Supervisory Board concurs with the results of the year-end audit, which were thoroughly discussed with KPMG in the Audit Committee, and consents to the proposal for the appropriation of profits as submitted by the Managing Board.

Under Section 243b Austrian Business Code and Section 267a Austrian Business Code, VOLKSBANK WIEN AG is obliged to provide a non-financial statement and a consolidated non-financial statement, respectively. These statements are summarised and published in a separate non-financial report (sustainability report). KPMG Advisory GmbH was charged with auditing the sustainability report; the relevant audit report has been submitted to the Supervisory Board. The Supervisory Board equally reviewed the sustainability report submitted to it, making use of the audit report of KPMG Advisory GmbH. The reviews or audits by the Supervisory Board and by KPMG Advisory GmbH did not result in any objections, and the Supervisory Board concurs with the results of the audit by KPMG Advisory GmbH.

In the past business year, VOLKSBANK WIEN AG has again fulfilled the support function provided for by the shareholders and stipulated in Section 3 of the articles of association.

Finally, the Supervisory Board would like to thank the Managing Board and all employees for their high personal commitment and the success achieved in the past business year.

Vienna, March 2020

For the Supervisory Board of VOLKSBANK WIEN AG:

Heribert DONNERBAUER,
born 4 August 1965
Chairman of the Supervisory Board

THE MANAGING BOARD

Chairman:

Gerald Fleischmann

born 27 February 1969

CEO

Area of responsibility:

- Retail Branches
- General Secretariat
- Real Estate Financing
- Communication/Marketing
- Organisation & IT
- HR Management
- Private Banking/Treasury
- Transition "Adler" & Strategy
- Corporate Financing
- Sales Management

Deputy Chairman:

Rainer Borns

born 7 August 1970

Deputy-CEO

Area of responsibility:

- Control
- Financial Data Steering
- Finance
- Capital and Stakeholder Management
- Legal
- VB Infrastructure and Real Estate Facility Management
- VB Infrastructure and Real Estate Property Management

Deputy Chairman:

Thomas Uher

born 15 June 1965

Deputy-CEO

Area of responsibility:

- Digital Transformation
- Credit Risk Management
- Risk Controlling
- VB Services for Banks Processing
- VB Services for Banks MSC/KSC and Processing of Loans

Joint Managing Board

Area of responsibility:

- Compliance
- Audit

THE SUPERVISORY BOARD

Heribert Donnerbauer
Donnerbauer & Hübner Rechtsanwälte GmbH
Chairman

Franz Gartner
Muncipiality of Traiskirchen
First Deputy Chairman

Robert Oelinger
Certified Public Accountants/tax consultants
Second Deputy Chairman

Susanne Althaler
Member

Anton Fuchs
Member

Helmut Hegen, M.B.L.
HOSP, HEGEN Rechtsanwaltspartnerschaft
Member

Eva Hieblinger-Schütz
Law firm of Hieblinger-Schütz
Member

Christian Lind
Member

Harald Nograsek
Member

Monika Wildner
Independent lawyer
Member

Works council delegates:

Chairman of the Works council Manfred Worschischek

Hermann Ehinger

Andrea Mayer

Rainer Obermayer

Michaela Pokorny

State Commissioners:

Christian Friessnegg
State Commissioner

Katharina Hafner
Deputy State Commissioner

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT

Report on the business development and economic situation

Business development

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

In 2019, VBW continued its growth course in its strategic areas of business, increasing regional lending within the Retail segment by 2.5 %. Due to the interaction between competent local account managers and the officers of the regionally based managing cooperatives, VBW always has its finger on the pulse of entrepreneurs and the development of the region.

In its function as central organisation, VBW has steadily developed its capital market position in the past year: late in 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 has consolidated the stable liquidity position of the Association.

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

In November, the third capital market transaction this year took place in the form of another covered bond. Just like the first covered bond, it was issued pursuant to the act on covered bonds. The benchmark bond with a volume of euro 500 million, a rating of Aaa by Moody's, a fixed coupon of 0.125 %, and a maturity of 10 years was sold to 54 investors from 9 countries. The highly successful placement of the bond has made a valuable contribution to building a covered bond curve and to establish 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 and accordingly by 1.6 % Y/Y for the full year 2019. This constitutes a marked decrease in dynamics as compared to 2018, when growth had only 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 %. Growth in Austria was based on both strong domestic demand and a dynamic construction sector, with the service sector contributing to growth as well.

Against the background of the less dynamic, but still favourable economic setting, the Austrian unemployment rate continued to decrease in the past year: According to the Eurostat method, it fell from 4.7 % at the beginning of the year to 4.2 % in December. The downward trend was quite pronounced in the euro zone as well: starting out from much higher values, the unemployment 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 easing its monetary policy orientation. In the interest rate meeting in June, a resolution was passed to launch new long-term loans (TLTRO III). In September, the ECB announced an extension of the term of these TLTRO loans to three years, as well as more favourable terms for banks making use of the same. Moreover, the ECB resolved to resume bond purchases with a volume of euro 20 billion as of November 2019 and to reduce the deposit rate to -0.5 %. However, the deposit rate is applied to the banks' reserves with the ECB in a staggered fashion, a multiple of the minimum reserve requirement of each bank 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 %.

Interest on the money market further declined in 2019. The 3-month rate started the year at -0.31 %, ending it at -0.38 %. Capital market yields also slackened in 2019, with 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 around 0.54 % and lows around -0.46 %. In Germany, it fell from 0.24 % to -0.19 %, with a trough of -0.71 % late in August.

In 2019, the monetary policy in the USA showed signs of some easing again; in three steps, the US Federal Reserve raised 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 of 2018, the year 2019 went very well on the European stock markets. The ATX ended the past year with a plus of 16.1 %.

Regional development and branches of industry

In Vienna, construction developed at an above-average rate in the first half of the year, while retail sales figures remained almost unchanged year-on-year, with a slight decrease in the first months of 2019. Also growth in material goods production was below the Austrian average and developed negatively in the first half of the year. In the sphere of foreign trade, exports showed solid growth rates, with imports increasing only slightly. The number of unemployed persons decreased in the first half of the year in Vienna, but less so than in Austria as a whole, in spite of the fact that the increase in the number of wage earners in Vienna exceeded the national average. In terms of gross value added, Vienna was below the Austrian average of 2.1 % Y/Y, recording only 1.8 % Y/Y in the first half of the year. For the full year 2019, Vienna ranked first throughout Austria regarding the increase in the number of overnight stays.

In Lower Austria, growth in the retail sector was above-average in the first half of 2019. Strong growth was recorded in construction in the first quarter, with dynamism being a little below average in the second quarter. In material goods production, Lower Austria registered solid, slightly above-average growth in the first half of the year. Exports declined somewhat year-on-year, while imports increased at an above-average rate. Against this background, the increase in the number of wage earners was solid average within Austria, with the unemployment rate decreasing at an above-average rate in the first half of the year. At 1.9 %, gross value added recorded solid growth, but still below the Austrian average. In terms of growth in tourism, Lower Austria held a top position under a full-year perspective.

Construction stood out in Burgenland in the first quarter, and continued to grow dynamically in the second quarter. While material goods production shrank in the first half of the year, a small increase in real terms was achieved in retail sales in the first half of 2019. Equally, with 1.4 %, growth in gross value added was clearly positive in the first six months, but markedly below the Austrian average. Both exports and imports increased at a merely below-average rate. The increase in the number of wage earners flattened in the first half of the year, but remained positive. The decrease of the unemployment rate was pronounced, especially in the first quarter. Marked growth was recorded for the full year in the number of overnight stays in tourism.

In terms of growth in material goods production, Styria held a top position throughout Austria in the first half of the year, with construction recording some dynamic development as well. When it comes to growth in gross value added, with 3.3 %, Styria ranked first among all Austrian Länder in the first half of the year. In the first half of the year, Styria also recorded above-average growth in retail sales. The development in exports and imports was also more dynamic than the Austrian average. It was primarily in the first quarter that the decrease in unemployment and the increase in the number of wage earners was very substantial. However, growth in overnight stays in tourism was only below-average in the full year 2019.

Especially in the second quarter of 2019, Carinthia recorded some very dynamic development in construction; in terms of retail sales, Austria's southernmost province ranked second among all Austrian Länder in the first half of the year. With 1.9 %, gross value added was somewhat below the Austrian average in the first half of the year. As for exports and imports, Carinthia recorded a decrease in this area. In the first half of the year, unemployment decreased substantially in Carinthia. There was less dynamism in material goods production, with the increase in the number of wage earners equally being below-average in the first half of the year; the same is true of overnight stays for the full year.

As regards the development in the retail and construction sectors in the first half of 2019, Upper Austria somewhat undercut the Austrian average; and also in terms of gross value added (1.9 %). The material goods production sector was not able to keep up with the other federal Länder either. Growth in exports and imports was slightly above average. Also the development with respect to the increase in the number of wage earners and the decrease of the unemployment rate was very favourable in the first half of the year. As regards the increase in overnight stays in tourism, Upper Austria ranked second behind Vienna under a full-year perspective.

In Salzburg, an upward trend was recorded in construction in the first half of the year, and Salzburg held a top position in material goods production in Austria throughout the first half of the year, and also in gross value added (2.4 %). But retails sales decreased. Imports declined as well, while exports increased. As regards the increase in the number of wage earners, Salzburg remained below the Austrian average in the first half of the year; the decrease in unemployment was substantial in Salzburg in the second quarter in particular. In 2019, the number of overnight stays in tourism was only below-average in Salzburg.

By comparison with the rest of Austria, Tyrol held top positions in construction and in terms of decreasing unemployment, and with 2.3 % also with respect to the increase in gross value added in the first half of the year. The increase in exports was just about average, with less pronounced growth in imports. Especially in the second quarter of 2019, the number of wage earners increased very substantially. There was somewhat less dynamism in the retail sector, with Tyrol recording a decline in the first half of the year. Less pronounced, but still positive, was the growth rate in material goods production in the first half of the year, just like growth in overnight stays in tourism under a full-year perspective.

In Vorarlberg, the increase in the number of wage earners and the decrease of the unemployment rate were rather modest. In the first half of the year, the output value in construction diminished, while the output value in material goods production recorded the strongest growth of all Austrian Länder in the first quarter. Overall, the development in retail sales was inconspicuous. Exports only grew at a below-average rate, imports somewhat more. Growth in gross value added in the first half of the year corresponded exactly to the Austrian average (2.1 %). Only a small increase was achieved in the number of overnight stays in tourism in the full year 2019.

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

Just like 2018, 2019 was another good year for the Austrian tourism sector. The 2018/2019 winter season was determined by massive snowfalls and subsequent blockades of skiing regions and transport connections. However, in the full year 2019, 152.64 million overnight stays marked a new record in tourism; the same is true of 46.18 million arrivals. Increases were achieved with respect to both domestic and foreign guests. The highest number of overnight stays was recorded by 4- and 5-star hotels (54.3 million), with growth in this category amounting to a solid 2.7 %. However, the highest growth rates were achieved by commercial holiday apartments with 5.9 %, although they only account for 9.0 % of all overnight stays. In the first two months of the 2019/20 winter season, 4.5 % more overnight stays were recorded than in the relevant months of the previous year.

Consolidated result for the 2019 business year

The result of the VBW Group before taxes amounts to euro 68 million (2018: euro 72 million). The result of the group after taxes and non-controlling interest amounts to euro 57 million (2018: euro 70 million).

Net interest income for the 2019 business year amounts to euro 120 million, thus undercutting the income for the comparative period (2018: euro 125 million) by euro 5 million. In the case of interest income, the decrease is mainly attributable to the bonds. Decreases in interest expenditure for credit institutions and customers are only partly able to compensate for the interest expenditure from leasing liabilities, recognised due to the first-time application of IFRS 16, and the valuation result from market-induced modifications to loan agreements.

In 2019, at euro -7 million, the risk provision item has deteriorated against the comparative period (euro +5 million). This effect essentially results from a change of methods that has required a higher allocation, especially to portfolio risk provisions.

The net fee and commission income in the reporting period amounts to euro 56 million, an increase compared to the previous period (2018: euro 54 million). The increase essentially results from lending business. Other fees and commissions increased by comparison with the previous year, a slight decrease was recorded only in payment transactions.

Net trading income amounts to euro -2 million for the reporting period and has decreased compared to the previous year (2018: euro 1 million). A decline in valuation results of trading book derivatives used for hedging positions in the banking book are the main reason for this change.

The income from financial instruments for the reporting period amounts to euro 18 million, thus exceeding the comparative period (2018: euro 9 million) by euro 9 million. The increase is essentially due to non-recurring effects from the realisation of an interest rate derivative (euro 6 million) and loans and receivables to customers (euro 8 million). The increase in the valuation of SPPI non-compliant loans (euro 5 million) is compensated by the decrease in the valuation of debts evidenced by certificates (euro -5 million) that are measured at fair value through profit or loss due to the business model. In the previous year, the valuation of investment properties includes income from the sale of one property in the amount of euro 3 million.

The other operating result in the amount of euro 98 million shows a slight decrease by comparison with the previous year (euro 100 million). Charged-out costs, primarily to banks of the Association, have increased by euro 15 million against the comparative period. In the previous year, income in the amount of euro 10 million was received from a contribution of the Gemeinschaftsfonds (common fund). Moreover, the result from the contribution of VB Horn in the amount of euro 8 million was reported in this position in the previous year.

General administrative expenses of euro 213 million (2018: euro 222 million) have decreased by comparison with the previous year. The decrease mainly occurred in legal, auditing and consultancy expenses, as well as in IT 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 4 million compares to impairments from the rights of use in the amount of euro -3 million. Compared to the end of 2018, the headcount decreased by 22 employees from 1,290 and amounts to 1.268 employees as at 31 December 2019.

Due to the Adler programme that was started in the fourth quarter of 2018 and is meant to result in efficiency increases and cost reductions in subsequent years, provisions were formed 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 renewed allocation to these provisions in the 2019 business is essentially included in general administrative expenses.

In 2019, the result of the companies measured at equity amounted to euro -1 million (2018: euro 5 million). From the assumption of pro rata results, euro 1 million (2018: euro 2 million) were recognised. At VB Kärnten, impairment in the amount of euro 2 million had to be effected in the business year (2018: euro 1 million). In the previous year, an additional interest in VB Verbund Beteiligung was acquired, leading to the recognition of a first-time valuation of euro 4 million.

Due to the tax planning of the next four years, it was possible, in the reporting period, to recognise deferred tax assets for part of the tax loss carried forward. For tax loss carried forward in the amount of euro 202 million (31 December 2018: euro 204 million), no deferred tax assets are recognised as before. Deferred tax is recognised for the remaining valuation differences, especially in connection with the valuation of derivatives and securities.

Financial position

As at 31 December 2019, total assets amount to euro 12.7 billion, having increased by comparison with the end of 2018 (euro 11.5 billion) essentially due to an increase of refinancing requirements of the Volksbanks and higher deposits with the central bank.

Loans and receivables to credit institutions amounting to euro 2.5 billion have increased compared to the end of the previous period (euro 2.0 billion). This essentially results from higher refinancing requirements of the banks of the Association.

As at 31 December 2019, loans and receivables to customers, less risk provisions, amount to euro 5.5 billion and have increased compared to the end of the previous year (euro 5.4 billion).

Financial investments of euro 2.2 billion at the reporting date have increased mainly because of investments in bonds in the hold business model compared to the end of 2018 (euro 2.1 billion).

The increase in tangible assets is attributed with euro 99 million to the first-time application of the leasing standard (IFRS 16). The relevant offsetting item was recognised on the liabilities side under lease liabilities and amounts to euro 101 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 2018 and 2019 business years, this position primarily shows the carrying amount of the former headquarters in 1090 Vienna, Kolingasse. From the sale in January 2020, a result in the amount of euro 23 million will be captured in 2020.

At euro 2.8 billion, amounts owed to credit institutions have decreased compared to the end of 2018 (euro 3.1 billion), the main reason being lower refinancing amounts from the central bank. Amounts owed to customers in the amount of euro 6.4 billion have slightly increased compared to the end of 2018 (euro 6.3 billion).

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

Compared to the end of the previous year, equity has changed by euro 276 million, 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 the comprehensive income in the amount of euro 67 million is opposed by the effect from the dividends paid on the AT1 bond in the amount of euro 9 million.

Report on branch establishments

The VBW Group does not have any branch establishments.

Financial performance indicators

As at 31 December 2019, the regulatory own funds of the VBW group of credit institutions amount to euro 1 billion (31 December 2018: euro 1 billion). The total risk exposure amount was euro 4.2 billion as at 31 December 2019 (31 December 2018: euro 4.2 billion). The CET1 capital ratio in relation to total risk amounts to 14.89 % (31 December 2018: 14.28 %), the equity ratio in relation to total risk is 29.82 % (31 December 2018: 24.04 %).

Due to first-time activation of rights of use from leasing agreements, the total risk exposure amount increases. The recognition of speculative real estate financing is now effected in credit risk (2018: Other risk positions). Based on the available figures of the VBW group of credit institutions, 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	8.4 %	12.1 %	9.5 %
Return on equity after taxes	7.1 %	11.9 %	10.4 %
Cost-income-ratio	78.2 %	78.8 %	82.8 %

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

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

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

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

Non-financial performance indicators

VBW reports on concepts, results and risks relating to environmental matters, social and employee topics, human rights, corruption and bribery as well as diversity according to the Nachhaltigkeits- und Diversitätsverbesserungsgesetz (NaDiVeG; Sustainability and Diversity Improvement Act) in a separate sustainability report.

Report on the company's future development and risks

Future development of the company

Economic environment

Towards the end of 2019, sentiment indicators and economic data for the European and Austrian industrial sectors continued to move within a contractionary range, while positive growth rates are still expected for the service and construction sectors. According to the economic forecast of the WIFO, updated in January 2020, 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 expects positive contributions to growth, especially from the spheres of 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 decreasing ever since the record high of 2017. The low interest on borrowings and increasing demand for housing credits suggests that the dynamic trend in construction may continue, which is also supported by demographic trends. However, there are signs of flattening, which is 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 slightly 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 increase 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 not quite reach the target inflation rate of the European Central Bank of a little under 2 % again in 2020, and would achieve the same approximately, at 1.6 %, only in 2022. This fact and the policy of monetary easing resumed recently by the ECB suggest that interest levels will remain low in 2020. However, increased expectations regarding inflation, for instance due to higher energy prices, or an increase in the demand for investments, may cause yields 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 gradual elimination of existing trade barriers decelerating or stopping altogether, 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, some of them in connection with the negotiations about relations with Great Britain after the end of the transitional phase, or any increase in political uncertainty in the member states, e.g. after elections, constitute a risk for the course of economic development within the region. A rapid rise in interest rates would also have to be classified as a risk for economic activity and the real estate markets. 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 potentially causing distortions on the financial markets. In the euro zone, such bonds already account for some 45 % of corporate bonds. Additionally, geopolitical conflicts may also potentially harm the cautious (by comparison with previous years), but basically positive economic outlook.

Future development of the company

The focus of VBW on retail banking is meant to be continued, supported, in particular, by increasing digitisation of the sales process. In the course of medium-term planning, the Association of Volksbanks has set itself a number of strategic goals, the accomplishment, observance and/or undercutting/exceeding of which will be a management focus in the years to come. Among others, this includes 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, higher costs of improving data quality and in spite of the still high regulatory cost, VBW intends to achieve an annual surplus in the two-digit million euro range for the 2020 business year. Despite planned growth, the CET1 capital ratio is intended to remain at more than 12 %.

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 are being evaluated within the Association of Volksbanks, among others.

Significant risks and uncertainties

As regards the legally required disclosures on the use of financial instruments, the risk management targets and methods as well as the 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 concerning the virus Covid 19.

Report on research and development

The VBW Group 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 VBW Group within the scope of financial reporting. The Managing Board is responsible for establishing and organising an appropriate internal control and risk management system with respect to the accounting process and provides a framework for implementation applicable to the entire group in the ICS group policy. Within the VBW Group, responsibility for implementation lies with the OPRISK and Risk Governance groups within VBW.

In all companies included in the consolidated financial statements, the responsibility to define and introduce an appropriate ICS for the respective company and to ensure compliance with group-wide policies and regulations lies with the respective managing board or with the management. In order to ensure that the data provided by the Group subsidiaries are transferred correctly, all data supplied is first 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 consolidated financial statements: 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, employees in group accounting communicate this information to the employees of the subsidiaries.

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.

CONSOLIDATED 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		196,372	200,313	-3,941	-1.97 %
thereof using the effective interest method		181,672	183,179	-1,508	-0.82 %
Interest and similar expenses		-76,367	-75,585	-782	1.03 %
Net interest income	4	120,005	124,728	-4,723	-3.79 %
Risk provision	5	-7,178	4,832	-12,011	< -200.00 %
Fee and commission income		78,629	80,250	-1,621	-2.02 %
Fee and commission expenses		-22,836	-26,428	3,592	-13.59 %
Net fee and commission income	6	55,793	53,822	1,971	3.66 %
Net trading income	7	-2,287	990	-3,277	< -200.00 %
Result from financial instruments and investment properties	8	17,885	9,172	8,713	95.00 %
Other operating result	9	97,527	100,166	-2,639	-2.63 %
General administrative expenses	10	-213,460	-222,258	8,798	-3.96 %
Restructuring result	11	0	-4,027	4,027	-100.00 %
Result from companies measured at equity		-501	4,534	-5,034	-111.05 %
Result before taxes		**67,784**	**71,959**	**-4,175**	**-5.80 %**
Income taxes	12	-10,751	-1,468	-9,283	> 200.00 %
Result after taxes		**57,033**	**70,491**	**-13,458**	**-19.09 %**
Result attributable to shareholders of the parent company (Consolidated net result)		**57,013**	**70,465**	**-13,452**	**-19.09 %**
thereof from continued operation		57,013	70,465	-13,452	-19.09 %
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	**57,033**	**70,491**	**-13,458**	**-19.09 %**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation of obligation of defined benefit plans (including deferred taxes)	-3,012	1,954	-4,966	< -200.00 %
Revaluation reserve (including deferred taxes)	952	422	531	125.97 %
Fair value reserve - equity instruments (including deferred taxes)	496	-1,026	1,522	-148.38 %
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	**-1,985**	**-486**	**-1,499**	**> 200.00 %**
Items that may be reclassified to profit or loss				
Fair value reserve - debt instruments (including deferred taxes)				
Change in fair value	4,153	-909	5,062	< -200.00 %
Net amount transferred to profit or loss	1	104	-103	-99.33 %
Change in deferred taxes arising from untaxed reserve	6,119	0	6,119	< -200.00 %
Change from companies measured at equity	1,852	-1,172	3,024	< -200.00 %
Total items that may be reclassified to profit or loss	**12,125**	**-1,977**	**14,102**	**< -200.00 %**
Other comprehensive income total	**10,140**	**-2,463**	**12,603**	**< -200.00 %**
Comprehensive income	**67,172**	**68,028**	**-855**	**-1.26 %**
Comprehensive income attributable to shareholders of the parent company	**67,153**	**68,000**	**-847**	**-1.25 %**
thereof from continued operation	67,153	68,000	-847	-1.25 %
Comprehensive income attributable to non-controlling interest	20	28	-8	-30.14 %
thereof from continued operation	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	1,913,513	1,565,504	348,009	22.23 %
Loans and receivables credit institutions	14, 15	2,466,415	1,986,640	479,775	24.15 %
Loans and receivables customers	14, 15	5,471,336	5,365,676	105,660	1.97 %
Assets held for trading	16	60,220	60,496	-276	-0.46 %
Financial investments	15, 17	2,224,641	2,091,440	133,200	6.37 %
Investment property	18	33,059	32,329	730	2.26 %
Companies measured at equity	19	39,194	37,835	1,359	3.59 %
Participations	20	52,967	43,073	9,894	22.97 %
Intangible assets	21	22,597	21,995	603	2.74 %
Tangible assets	22	167,453	66,632	100,820	151.31 %
Tax assets	23	63,035	61,718	1,317	2.13 %
Current taxes		6,343	4,541	1,802	39.67 %
Deferred taxes		56,691	57,177	-485	-0.85 %
Other assets	24	132,939	114,175	18,764	16.43 %
Assets held for sale	25	56,482	57,979	-1,497	-2.58 %
TOTAL ASSETS		**12,703,850**	**11,505,492**	**1,198,358**	**10.42 %**
LIABILITIES					
Amounts owed to credit institutions	26	2,802,911	3,060,759	-257,847	-8.42 %
Amounts owed to customers	27	6,438,600	6,344,232	94,368	1.49 %
Debts evidenced by certificates	28	1,452,807	466,675	986,132	> 200.00 %
Lease liabillities	29	100,927	0	100,927	100.00 %
Liabilities held for trading	30	78,079	75,416	2,664	3.53 %
Provisions	31, 32	78,771	79,651	-880	-1.10 %
Tax liabilities	23	1,757	1,842	-85	-4.63 %
Current taxes		758	758	0	-0.02 %
Deferred taxes		999	1,085	-85	-7.86 %
Other liabilities	33	438,115	440,676	-2,561	-0.58 %
Subordinated liabilities	34	417,783	418,355	-572	-0.14 %
Equity	36	894,098	617,887	276,211	44.70 %
Shareholders' equity		890,230	614,001	276,229	44.99 %
Non-controlling interest	36	3,867	3,886	-18	-0.47 %
TOTAL LIABILITIES		**12,703,850**	**11,505,492**	**1,198,358**	**10.42 %**

Changes in the Group's equity

Euro thousand	Subscribed capital	Additional tier 1 capital	Capital reserves	Retained earnings	Fair value reserve	Own credit risk reserve	Shareholders' equity	Non-controlling interest	Equity
As at 1 January 2018	**132,894**		**215,313**	**343,865**	**-159,274**	**4,359**	**537,157**	**3,893**	**541,049**
Consolidated net income				70,465			70,465	26	70,491
Revaluation of obligation of defined benefit plans (including deferred taxes)				1,952			1,952	2	1,954
Revaluation reserve (including deferred taxes)				422			422		422
Fair value reserve - equity instruments (including deferred taxes)					-1,026		-1,026		-1,026
Fair value reserve - debt instruments (including deferred taxes)					-805		-805		-805
Own credit risk reserve (including deferred taxes)						-1,836	-1,836		-1,836
Change from companies measured at equity				-67	-1,104		-1,172		-1,172
Comprehensive income	0	0	0	72,771	-2,935	-1,836	68,000	28	68,028
Capital increase	4,653		12,522				17,175		17,175
Dividends paid				-8,991			-8,991	-16	-9,007
Payment Shareholder			646				646		646
Reclassification capital reserve			-646	646			0		0
Reclassification fair value reserve due to sale				57	-57		0		0
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation				15			15	-19	-4
As at 31 December 2018	**137,547**	**0**	**227,836**	**408,363**	**-162,266**	**2,523**	**614,001**	**3,886**	**617,887**
Consolidated net income				57,013			57,013	20	57,033
Change in deferred taxes arising from untaxed reserve				6,119			6,119		6,119
Revaluation of obligation of defined benefit plans (including deferred taxes)				-3,011			-3,011	0	-3,012
Revaluation reserve (including deferred taxes)				952			952		952
Fair value reserve - equity instruments (including deferred taxes)					496		496		496
Fair value reserve - debt instruments (including deferred taxes)					4,154		4,154		4,154
Own credit risk reserve (including deferred taxes)						-422	-422		-422
Change from companies measured at equity				-18	1,870		1,852		1,852
Comprehensive income	0	0	0	61,055	6,520	-422	67,153	20	67,172
Capital increase	0	217,722	0				217,722		217,722
Dividends paid				-8,974			-8,974	-16	-8,990
Payment Shareholder			422				422		422
Reclassification capital reserve			-422	422			0		
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation				-94			-94	-22	-116
As at 31 December 2019	**137,547**	**217,722**	**227,836**	**460,772**	**-155,747**	**2,100**	**890,230**	**3,867**	**894,098**

For further details see note 36 equity.

Cash flow statement

Euro thousand	Note	1-12/2019	1-12/2018
Annual result (before non-controlling interest)		**57,033**	**70,491**
Non-cash positions in annual result			
Net interest income	4	-120,005	-124,786
Income from participations	8	-1,221	-2,275
Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets	8, 10	11,611	-1,614
Allocation to and release of provisions, including risk provisions	5, 10, 11	12,548	8,571
Gains from the sale of financial investments and fixed assets	8, 9	-6,650	-746
Result from contribution of assets and liabilities	2	0	-8,319
Income taxes	12	11,106	1,468
Changes in assets and liabilities from operating activities			
Loans and advances to credit institutions	14	-481,163	-285,791
Loans and advances to customers	14	-106,692	-430,424
Trading assets	16	4,240	2,168
Financial investments	17	219,250	66,996
Other assets from operating activities	24	-8,944	-2,120
Amounts owed to credit institutions	26	-255,209	405,120
Amounts owed to customers	27	93,894	275,641
Debts evidenced by certificates	28	987,846	-27,893
Derivatives	16, 24, 30, 33	-7,057	16,651
Other liabilities	33	-2,463	-8,658
Interest received		164,126	164,008
Interest paid		-59,123	-47,740
Dividends received		1,221	2,275
Income taxes paid		-7,112	-11,091
Cash flow from operating activities		**507,236**	**61,932**
Proceeds from the sale or redemption of			
Financial investments at amortised cost	17	7,667	0
Participations	20	11	124
Intangible and tangible assets	21, 22	5,000	5,042
Investment property	18	699	7,710
Payments for the acquisition of			
Financial investments at amortised cost	17	-360,346	-303,629
Participations	20	-3,962	-3,720
Intangible and tangible assets	21, 22	-14,240	-2,489
Investment property	18	-17	-196
Acquisition of subsidiaries - liquid funds	2	0	2,561
Cash flow from investing activities		**-365,188**	**-294,597**
Payment Shareholder	36	422	646
Additional tier 1 capital	36	217,722	0
Dividends paid	36	-8,990	-9,007
Cash outflow of lease liabilities	29	-2,286	0
Cash inflow of subordinated liabilities	34	0	105
Cash outflow of subordinated liabilities	34	-792	-7,735
Acquisition of non-controlling interest	36	-116	-4
Cash flow from financing activities		**205,961**	**-15,995**
Cash and cash equivalents at the end of previous period	13	**1,560,603**	**1,809,264**
Cash flow from operating activities		507,236	61,932
Cash flow from investing activities		-365,188	-294,597
Cash flow from financing activities		205,961	-15,995
Cash and cash equivalents at the end of period	13	**1,908,612**	**1,560,603**

Details of the calculation method of cash flow statement are shown in note 3) jj).
Details to cash in- and outflow of subordinated liabilities are shown in note 34).

NOTES

1) General information

VOLKSBANK WIEN AG (VBW) with its registered office at Dietrichgasse 25, 1030 Vienna, is the parent company of national acting subsidiaries and the central organisation (CO) of the Austrian Volksbank sector. In addition to the sector business with Volksbanks, the priorities in private and corporate customer business are based in Austria.

VBW as CO in accordance with section 30a Austrian Banking Act is part of the banking association (joint liability and liquidity association). The Association of Volksbanks is required to comply with the regulatory provisions of Parts Two to Eight of Regulation (EU) No 575/2013 and section 39a Austrian Banking Act, on the basis of the consolidated financial position (section 30a (7) Austrian Banking Act). VBW must continue to comply with all applicable regulatory provisions on a single-entity basis and at Group level. The members of the Association of Volksbanks have joint, unlimited liability and have contractually agreed to bear the costs and risks of the CO on a pro rata basis. By letter dated 29 June 2016, the ECB granted unlimited approval of the Association of Volksbanks.

The accounts have been prepared on the assumption that it will remain a going concern. The consolidated financial statements are reported in euros, as this is the Group’s functional currency. All figures are indicated in thousands of euro unless specified otherwise. The following tables may contain rounding differences.

VBW reports concepts, results and risks in connection with environmental issues, social and employee concerns, human rights, corruption and bribery and diversity in accordance with the Sustainability and Diversity Improvement Act (Nachhaltigkeits- und Diversitätsverbesserungsgesetz - NaDiVeG) within the scope of the Group´s reporting in a separate sustainability report.

The present consolidated financial statements were signed by the Managing Board on 12 March 2020 and then subsequently submitted to the Supervisory Board for notice.

2) Presentation 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 since 1 January 2019 included in the scope of consolidation. 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.

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 discretion 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 said 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 said 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 of 31 December 2019. Accordingly, the threshold existing at 31 December 2019 for the minimum repayment in the amount of euro 75 million was exceeded.

Number of consolidated companies

	31 Dec 2019			31 Dec 2018		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Fully consolidated companies						
Credit institutions	1	0	1	1	0	1
Financial institutions	1	0	1	1	0	1
Other companies	8	0	8	7	0	7
Total	**10**	**0**	**10**	**9**	**0**	**9**
Companies measured at equity						
Credit institutions	1	0	1	1	0	1
Other companies	1	0	1	1	0	1
Total	**2**	**0**	**2**	**2**	**0**	**2**

Number of unconsolidated companies

	31 Dec 2019			31 Dec 2018		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Affiliates	5	0	5	6	0	6
Associated companies	3	0	3	3	0	3
Companies total	**8**	**0**	**8**	**9**	**0**	**9**

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 Group. In addition to quantitative criteria like total assets and result after taxes, the effect of consolidation on specific positions as well as on the true and fair view of the consolidated financial statements 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 Group's consolidated financial statements for 2019.

The complete list of companies included in the consolidated financial statements, companies measured at equity, as well as the unconsolidated companies including detailed information, can be found at the end of the notes (see note 0, 54), 55)).

3) Accounting principles

The accounting principles described below have been consistently applied to all reporting periods covered by these financial statements and have been followed by all consolidated companies without exception.

VBW Group's consolidated financial statements for 2019 as well as the comparative figures 2018 have been prepared in accordance with the IFRS/IAS and thus fully comply with the provisions set out in section 245a of the Austrian Commercial Code and section 59a of the Austrian Banking Act regulating exempting consolidated financial statements prepared in accordance with internationally recognised accounting principles.

The consolidated financial statements have been prepared in accordance with all IFRS/IAS published by the International Accounting Standards Board (IASB) in force on the balance sheet date as well as all interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) as endorsed by the European Union (EU). Currently there are no differences between the IFRS adopted by the EU and the IFRS published by the IASB.

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

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 improvement to IFRS (2015-2017 Cycles)		As of BY 2019	No

BY – business year

Standards and interpretations to be applied in the future

Standard	Contents	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

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 based on 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 VBW Group.

The VBW Group 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 Group 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 73.8 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 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	107,462
Discounting	-26,066
Discounted operating lease commitments as at 31 Dec 2018	**81,396**
Recognition exemption for leases of low-value assets	-859
Recognition exemption for short-term leases	-596
Adjustments	-6,154
Lease liabilities as at 1 Jan 2019	**73,786**

The adjustments include reassessments of lease terms as well as lease contracts which are in accordance with IFRS 16 not identified assets. The adjustments essentially include reassesments of the expectation of lease terms, as well as contracts of not identified assets, which are therefore not classified as lease contracts according to IFRS 16.

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. The amendments are not expected to have any significant effect on the VBW Group.

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 wording in need of improvement and clarifications regarding IFRS 3, IAS 12 and IAS 23 effecting the recognition, measurement and reporting of business transactions. Application of the amendments to the standards is mandatory for reporting periods commencing on or after 1 January 2019. Application of the amendments prior to that date is admissible. The amendments need yet to be adopted into European law by the EU. The amendments are not expected to have any material effects on the VBW Group.

b) Standards and interpretations 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 VBW Group.

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 assets is 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 the 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

The consolidated financial statement is based on the separate financial statements of all fully consolidated companies prepared in accordance with IFRS. 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 based on the Group's reporting date of 31 December 2019.

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 are recognised directly in equity.

Subsidiaries under the direct or indirect control of VBW 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 Group. Companies in which VBW 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 Group.

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

e) Currency translation

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

The individual financial statements of fully consolidated companies prepared in currencies other than the euro are translated using the modified closing rate method set out in IAS 21. Under this method, all assets and liabilities are translated at the spot exchange mean rate effective on the balance sheet date, while the historical rate is applied for the translation of equity. Differences resulting from the translation of the financial statements of foreign subsidiaries are recognised in the currency translation reserve in equity. Any goodwill disclosed hidden reserves and liabilities arising from the initial consolidation of foreign subsidiaries prior to 1 January 2005 have been translated at historical rates. Any goodwill disclosed hidden reserves and liabilities arising from business combinations after 1 January 2005 are translated at the spot exchange mean rate on the Group's reporting date. As at 31 December 2019, the scope of consolidation of VBW does not include any foreign subsidiary in foreign currency.

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

f) Net interest income

Interest income and interest expenses are recognised on an accrual basis in the income statement. Current or non-recurring income or expenses similar to interest, such as commitment fees, overdraft commissions or handling fees, are reported in net interest income in accordance with the effective interest method. 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 provision)
- 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 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 investments, foreign currency positions and derivatives held for trading (assets and liabilities held for trading) are reported in this item. This includes changes in market value as well as all interest income, dividends and refinancing expenses for assets held for trading. Results from the daily measurement of foreign currency positions are also reported in net trading income.

j) Result from financial instruments and investment properties

The result from financial instruments and investment properties consists of:

- Realised gains and losses from disposal of financial investments
- Valuation gains and losses of financial instruments
- Result from hedge accounting
- Result from other derivative financial instruments
- Income from equities and other variable-yield securities

- Income from investments in unconsolidated affiliates, from investments in companies with participating interest and other participations
- Income from operating lease and investment properties

Results from disposals of financial assets measured at amortised cost or debt instruments measured at fair value through OCI (with recycling) are shown in the realised gains and losses from sale of financial investments. In case of derecognition of debt instruments 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 VBW Group 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 Group undertakes to buy or sell the assets concerned, respectively to issue or redeem the financial obligations.

The Group 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 3) 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 VBW Group conducts transactions in which financial assets are transferred, but the opportunities or risks incident to the ownership of the asset remain with the Group. If the Group retains all or substantially all opportunities and risks, the financial asset is not derecognised, but still 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 prevention 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 such as 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 in 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 Group 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 Group'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 calcu-

lated 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 Group.

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 Group.

In case of cash flow hedges, the change in fair value of the derivative is recognised immediately in the hedging reserve in OCI, taking into account 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 Group 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 and receivables credit institutions and customers are recognised on balance as soon as the Group 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.

In accordance with IFRS 9, the gross carrying amount of receivables is reduced if it cannot reasonably be expected to be realisable. Therefore, the decisive criterion for derecognition of receivables is their uncollectability. A receivable must be derecognised completely in any case if all prerequisites are fulfilled, 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 conviction and in spite of execution proceedings, the debtor is insolvent, unless there is any clear prospective quota or hopelessness of execution.

p) Risk 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.

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. Details regarding determination of the impairments are described in the chapter Financial assets and liabilities, as well as in point 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 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 point 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 held for trading. 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 VBW Group, 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 out-standing 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 re-classified 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 cashflow method 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 exclusively by external appraisers who are selected, among others, based on proven professional qualification and experience of the locations and categories of property being valued. In Austria, appraisals were obtained 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 investments in companies measured at equity

This item includes subsidiaries and participations established or acquired for strategic reasons. Strategic investments are companies that cover the areas of business of the Group, 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 Group.

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 VBW 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 based on 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 and 9.0 % (2018: 6.9 to 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:

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

All subsequent valuations take place at amortised cost. Amortisation of the rights of use is effected on a straight-line basis over the contractual term. For low-value lease objects and for short-term leases (< 12 months), use is made of simplified application, with payments being recognised in expenses on a straight-line basis. For contracts that also include non-leasing components in addition to leasing components, use is made of the option to waive any separation of these components.

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 or the term of the lease. 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.

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 relationships	up to 20 years
Strongrooms and safes	up to 20 years
Buildings, reconstructed buildings	up to 50 years
Rights of use - Leasing	up to 30 years

v) Tax assets and liabilities

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

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

Deferred tax assets in respect of unutilised tax loss carryforwards are recognised to the extent that it is probable that future taxable profit will be available at the same company against which the unused tax losses can be utilised or if sufficient taxable temporary differences exist. The appraisal period is up to four 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 impairment. This item also includes all positive fair values of derivatives that are reported in the investment book and carried at fair value. With the exception of derivatives used in cash flow hedges, which are taken directly to other comprehensive income, changes in fair value are reported in result from financial instruments and investment properties.

x) Liabilities

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

The present value of the leasing 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 leasing payments, the respective residual terms and the incremental borrowing rate. The leasing payments include the following components:

- fixed leasing payments, less leasing incentives to be provided by the lessor
- variable payments linked to any index or interest rate
- expected payments of residual value from residual value guarantees

- the exercise price of any purchase option, provided that the exercise of the option is estimated to be sufficiently certain
- any contractual penalties for terminating the lease, if the exercise of any right of termination has been taken account of in the term of the lease

The leasing payments are discounted using 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 valuations, the leasing liability will be increased by the interest expenditure and reduced by leasing payments.

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 or the term of the lease. 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. 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.

y) Employee benefits

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

VBW Group 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 VBW Group recognises the necessary provisions. These plans are funded exclusively by the Group. Employees are not required to make contributions to the plans. In the VBW Group, 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 it, 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 thoroughgoing 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 based on generally recognised actuarial principles for determining the present value of the overall entitlement and additional claims acquired in the reporting period. For severance payments, this procedure takes into account retirement due to attainment of pensionable age, occupational incapacity, disability or death, as well as the vested rights of surviving dependents.

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

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 by Pagler&Pagler for calculating pension insurance for salaried employees are applied as the basis of calculation (AVÖ 2018 P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler&Pagler, Angestelltenbestand).

The current retirement age limits are generally taken into account in these calculations. It is assumed that, as a rule, men will retire at the age of 65 years and women between the age of 60 and 65 years.

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

z) Other provisions

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

Risk provisions comprise loan loss provisions for contingent liabilities (in particular financial guarantees). Other provisions contain pending litigations, interest claims in connection with loans and floors and restructuring. Risk provisions allocated and released are recorded under risk provisions in the income statement. Amounts allocated to and released from the restructuring provision are included under restructuring result.

aa) Other liabilities

Deferred items are used for accruing income and expenses and are shown in this item together with other liabilities. This item also includes all negative market values of derivative financial instruments 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 result from financial instruments and investment properties.

bb) Subordinated liabilities

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

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

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

cc) 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.

dd) Capital reserves

In accordance with IAS 32, the transaction costs of an equity transaction are accounted for as a deduction from equity, taking into account deferred taxes, to the extent that they constitute incremental cost 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.

ee) 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, untaxed reserves and all other undistributed profits are reported in retained earnings.

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 Group. These ratios reflect the relationship between regulatory own funds and credit, market and operational risk. Accordingly, the risk/return management of the Group 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 any losses on a current basis. In this context, the central requirement is the subordinate and permanent appropriation of funds, as well as the unrestricted discretion of the issuer as to whether distributions will be made or not. Additionally, it must be possible to convert the instruments into CET 1 capital, or to write them off, as soon as 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 VBW Group 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 mentioned capital and buffer requirements are contained in Note 52) Risk report.

gg) Trust transaction

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

hh) Repurchase transactions

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

ii) Contingent liabilities

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

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

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

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 non-controlling interest, whereby non-cash expenses and income during the business year are included and deducted respectively first of all. Moreover, all expenses and income which did serve as cash, but were not allocated to operating activities, are eliminated. These payments are recognised under the cash flow from investing activities or financing activities. The interest, dividend and tax payments, which are stated separately, are solely from operating activities.

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

4) Net interest income

Euro thousand	2019	2018
Interest and similar income from	196,372	200,313
Credit and money market transactions with credit institutions	12,205	10,725
Credit and money market transactions with customers	133,105	134,281
Fixed-income securities	39,618	42,422
Derivative instruments	11,443	12,885
Interest and similar expenses for	-72,819	-75,527
Liquid funds	-5,552	-7,202
Deposits from credit institutions (including central banks)	-5,096	-6,515
Deposits from customers	-3,876	-5,502
Debts evidenced by certificates	-14,986	-13,373
Subordinated liabilities	-11,516	-11,617
Derivative instruments	-30,311	-31,318
Lease liabilities	-1,482	0
Valuation result - modification	-3,588	-58
Valuation result - derecognition	41	0
Net interest income	**120,005**	**124,728**

Net interest income according to IFRS 9 categories

Euro thousand	2019	2018
Interest and similar income from	196,372	200,313
Financial assets measured at amortised cost	176,713	172,459
Financial assets measured at fair value through OCI	4,959	10,720
Financial assets measured at fair value through profit or loss - obligatory	3,257	4,248
Derivative instruments	11,443	12,885
Interest and similar expenses for	-72,819	-75,527
Financial liabilities measured at amortised cost	-39,393	-41,091
Financial liabilities measured at fair value through profit or loss - designated	-3,115	-3,118
Derivative instruments	-30,311	-31,318
Valuation result - modification	-3,588	-58
Valuation result - derecognition	41	0
Net interest income	**120,005**	**124,728**

Due to the trend of money market interest rates towards negative reference rates, interest income of euro 9,557 thousand (2018: euro 8,900 thousand) and interest expenses of euro -7,812 thousand (2018: euro -9,658 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.

The main reason for the negative interest rates is the reduction in the ECB's deposit rate (penalty rate), the negative effect of which is euro -5,552 thousand (2018: euro -7,202 thousand).

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	-9,492	-465
Changes in provision for risks	-606	238
Direct write-offs of loans and receivables	-526	-206
Income from loans and receivables previously written off	3,924	5,316
Valuation result modification/derecognition	-479	-51
Risk provision	**-7,178**	**4,832**

6) Net fee and commission income

Euro thousand	2019	2018
Fee and commission income	78,629	80,250
Lending business	5,238	5,642
Securities and custody business	27,316	28,162
Payment transactions	34,750	35,185
Foreign exchange, foreign notes and coins and precious metals transactions	57	61
Financial guarantees	1,221	1,431
Other services	10,047	9,769
Fee and commission expenses	-22,836	-26,428
Lending business	-11,367	-13,100
Securities and custody business	-6,393	-8,036
Payment transactions	-4,857	-4,889
Financial guarantees	-192	-379
Other services	-26	-24
Net fee and commission income	**55,793**	**53,822**

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

Net fee and commission income includes management fees for trust agreements 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	2,098	2,182
Interest rate related transactions	-4,411	-1,226
Net trading income	**-2,287**	**990**

8) Result from financial instruments and investment properties

Euro thousand	2019	2018
Other result from financial instruments	**15,213**	**1,833**
Result from financial investments and other financial assets and liabilities measured at fair value through profit or loss	2,569	-1,113
Valuation measured at fair value through profit or loss - obligatory	5,296	-3,580
Loans and receivables credit institutions and customers	1,552	-3,402
Securities	3,744	-178
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	447	442
Result from financial investments and other financial assets and liabilities measured at amortised cost	7,828	65
Realised gains from disposal	7,828	65
Result from financial investments and other financial assets and liabilities measured at fair value through OCI	1,221	2,171
Realised gains from disposal	332	0
Realised losses from disposal	-333	-104
Income from participations	1,221	2,275
Result from other derivative instruments	8,876	2,816
Result from fair value hedge	-5,280	-2,106
Valuation of underlying instruments	73,788	-5,518
Valuation of derivatives	-79,068	3,412
Result from investment properties	**2,672**	**7,339**
Rental income from investment property and operating lease	3,139	3,024
Valuation investment properties	-467	4,314
Result from financial instruments and investment properties	**17,885**	**9,172**

9) Other operating result

Euro thousand	2019	2018
Other operating income	114,136	116,912
Other operating expenses	-14,677	-14,425
Taxes and levies on banking business	-1,932	-2,321
Other operating result	**97,527**	**100,166**

Taxes and levies on banking business include the bank levy in the amount of euro -1,743 thousand (2018: euro -1,860 thousand).

Detailed presentation of other operating income and expenses

Euro thousand	2019	2018
Income from cost allocations	112,409	96,508
Realised gains from disposal of fixed assets and security properties	851	1,308
Gain from the acquisition of Volksbank Horn	0	8,319
Income from allocations from the common fund	0	10,000
Others	876	777
Other operating income	**114,136**	**116,912**

Euro thousand	2019	2018
Allocation of costs	-14,962	-13,130
Realised losses from disposal of fixed assets and security properties	-765	-626
Allocation/release of provision for negative interest	1,501	-2,543
Allocation/release of provision for legal costs	762	3,918
Sales commission Kolingasse	-831	0
Others	-383	-2,044
Other operating expenses	**-14,677**	**-14,425**

10) General administrative expenses

Euro thousand	2019	2018
Staff expenses	-116,559	-115,314
Wages and salaries	-87,703	-86,211
Expenses for statutory social security	-22,833	-22,813
Fringe benefits	-944	-1,297
Expenses for retirement benefits	-2,682	-3,001
Allocation to provision for severance payments and pension funds	-2,397	-1,993
Administrative expenses	-86,037	-99,759
Office space expenses	-7,440	-9,835
Office supplies and communication expenses	-2,112	-748
Advertising, PR and promotional expenses	-3,834	-4,050
Legal, advisory and consulting expenses	-18,585	-28,371
IT expenses	-37,968	-42,807
Contribution to the deposit guarantee	-3,772	-3,653
Sundry administrative expenses (including training expenses for staff)	-12,326	-10,295
Depreciation and reversal of impairment	-10,865	-7,185
Depreciation	-7,604	-8,358
Impairment/reversal of impairment	0	1,173
Right of use - lease depreciation	-3,261	0
General administrative expenses	**-213.460**	**-222.258**

Staff expenses include payments for defined contribution plans totalling euro 2,757 thousand (2018: euro 2,658 thousand).

Other administrative expenses include expenses for managing contracts for investment properties to the amount of euro 50 thousand (2018: euro 76 thousand).

Expenses from short-term leases in the amount of euro 603 thousand and from low-value assets in the amount of euro 420 thousend are included in the administrative expenses.

For the business year, expenses for the auditor KPMG Austria GmbH Wirtschaftsprüfung und Steuerberatungsgesellschaft amounted to euro 2,004 thousand (2018: euro 2,123 thousand). Thereof euro 1,488 thousand (2018: euro 1,526 thousand) fall upon the audit of the annual financial statements, consolidated financial statements and annual financial statements of the Association of Volksbanks, as well as of financial statements of individual affiliates and joint ventures included in the consolidated financial statements, euro 367 thousand (2018: euro 484 thousand) to other certifications and euro 149 thousand (2018: euro 113 thousand) to other services. The auditor does not provide any tax advice.

Information on compensation to board members

Euro thousand	2019	2018
Total compensation	**2,337**	**2,924**
Supervisory Board	290	292
Managing Board	1,578	2,061
Former board members and thei surviving dependents	470	571
Expenses for severance paymanets and pensions		
Mananging Board	497	761
Thereof defined contribution plans	154	182

Members of the Managing Board do not receive performance or results-based pay. The total compensation of Managing Board members consists of a fixed basic salary and other compensation (e.g. in-kind benefits). There is no stock-option or share-transfer scheme for members of the Managing Board.

Principles and prerequisites of the pension scheme

The pension scheme is a defined-contribution scheme for all members of the Managing Board. The collective pension-fund bargaining agreement for commercial credit cooperatives has been applied to members of the Managing Board. All members of the VBW Managing Board who have a valid contract and a mandate to serve on the Board are eligible to join the scheme.

Principles governing pension entitlements and claims of members of the Managing Board at termination of the function

All members of the Managing Board are subject to the new severance payment system (“Abfertigung Neu”). There is also a D&O insurance policy (directors’ and officers’ insurance).

Number of staff employed

	Average number of staff		Number of staff at end of period	
	2019	2018	31 Dec 2019	31 Dec 2018
Employees	1,273	1,292	1,262	1,282
Workers	6	7	6	8
Total number of staff	**1,279**	**1,299**	**1,268**	**1,290**

All staff is domestic. The determination of figures is based on full time equivalents.

11) Restructuring result

Due to the Adler programme which started in the 4th quarter of 2018 and is meant to increase efficiency and reduce costs in subsequent years, provisions had to be recognised for the reorganisations to be effected in the sphere of Human Resources (HR) and branches. 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	-3,181	-2,320
Deferred income taxes	-6,556	1,661
Income taxes for the current fiscal year	**-9,736**	**-659**
Income taxes from previous periods continued operation	-1,015	-809
Income taxes from previous periods	-1,015	-809
Income taxes	**-10,751**	**-1,468**

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	67,784	71,959
Annual result before taxes - total	**67,784**	**71,959**
Imputed income tax 25 %	16,946	17,990
Tax relief resulting from		
Tax-exempt investment income	-260	-1,705
Investment allowances	0	287
Other tax-exempt earnings	-684	0
Dividend distribution on AT1 capital	-2,131	0
Measurement of participation	-7,500	1,128
Non-taxable valuation results	0	-2,080
Adjustment of deferred tax assets	1,594	0
Re-inclusion of deferred tax assets	0	-16,073
Other differences	1,772	1,111
Income taxes for the current fiscal year	**9,736**	**659**
Income taxes from previous periods	1,015	809
Reported income taxes	**10,751**	**1,468**
Effective tax rate - continued operations	**15,86 %**	**2,04 %**

The effective tax rates differ significantly from the statutory tax rate in Austria due to the offsetting of deferred tax assets, particularly with regard to tax loss carryforwards.

	31 Dec 2019			31 Dec 2018		
Euro thousand	Result before tax	Income taxes	Result after tax	Result before tax	Income taxes	Result after tax
Valuation of obligation of defined benefit plans	-4,016	1,004	-3,012	2,605	-651	1,954
Revaluation reserve	1,270	-317	952	562	-141	422
Fair value reserve - equity instruments	662	-165	496	-1,367	342	-1,026
Valuation of own credit risk	-563	141	-422	-2,449	612	-1,836
Fair value reserve - debt instruments	5,539	-1,385	4,154	-1,073	268	-805
Change in deferred taxes of untaxed reserve	0	6,119	6,119	0	0	0
Change from companies measured at equity	2,469	-617	1,852	-1,562	391	-1,172
Other comprehensive income total	**5,360**	**4,779**	**10,140**	**-3,284**	**821**	**-2,463**

Notes to the consolidated statement of financial positions

13) Liquid funds

Euro thousand	31 Dec 2019	31 Dec 2018
Cash in hand	48,787	54,603
Balances with central banks	1,864,726	1,510,901
Liquid funds	**1,913,513**	**1,565,504**

Transition from liquid funds to cash and cash equivalents

Euro thousand	31 Dec 2019	31 Dec 2018
Liquid funds	1,913,513	1,565,504
Restricted cash and cash equivalents	-4,901	-4,901
Cash and cash equivalents	**1,908,612**	**1,560,603**

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 financial 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 on trust. The amount reported corresponds to the share of VBW in the trust fund.

14) Loans and receivables credit institutions and customers

Euro thousand	31 Dec 2019	31 Dec 2018
Loans and receivables credit institutions		
Amortised cost	2,466,343	1,986,448
Fair value through profit or loss	119	259
Gross carrying amount	2,466,462	1,986,707
Risk provisions	-47	-67
Net carrying amount	**2,466,415**	**1,986,640**
Loans and receivables customers		
Amortised cost	5,360,537	5,216,727
Fair value through profit or loss	166,419	199,431
Gross carrying amount	5,526,955	5,416,158
Risk provisions	-55,619	-50,482
Net carrying amount	**5,471,336**	**5,365,676**
Loans and receivables credit institutions and customers	**7,937,751**	**7,352,316**

Breakdown by residual term

Euro thousand	31 Dec 2019	31 Dec 2018
On demand	265,663	352,369
Up to 3 months	800,201	625,647
Up to 1 year	284,961	238,494
Up to 5 years	1,012,264	684,415
More than 5 years	103,373	85,781
Loans and receivables credit institutions (gross)	**2,466,462**	**1,986,707**

Euro thousand	31 Dec 2019	31 Dec 2018
On demand	207,711	176,837
Up to 3 months	73,198	113,792
Up to 1 year	216,803	316,409
Up to 5 years	676,245	716,329
More than 5 years	4,352,998	4,092,791
Loans and receivables customers (gross)	**5,526,955**	**5,416,158**

Sensitivity analysis

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

The following table shows the changes in fair value after adjustment of the 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	0	0
Change in risk markup +/- 100 bp	2	-2
Change in rating 1 stage down / up	0	0
Change in rating 2 stages down / up	0	-1

Loans and receivables credit institutions
31 Dec 2018

Euro thousand	Positive change in fair value	Negative change in fair value
Change in risk markup +/- 10 bp	0	0
Change in risk markup +/- 100 bp	3	-3
Change in rating 1 stage down / up	0	0
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	727	-721
Change in risk markup +/- 100 bp	7,584	-6,923
Change in rating 1 stage down / up	154	-237
Change in rating 2 stages down / up	253	-578

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	860	-852
Change in risk markup +/- 100 bp	8,964	-8,194
Change in rating 1 stage down / up	408	-511
Change in rating 2 stages down / up	1,184	-1,145

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	14	0	0	0	14
Increases due to origination and acquisition	20	0	0	0	20
Decreases due to derecognition	-24	0	0	0	-24
Changes due to change in credit risk	57	0	0	0	57
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	0	0	0	0
As at 31 Dec 2018	67	0	0	0	67
Increases due to origination and acquisition	1	0	0	0	1
Decreases due to derecognition	-20	0	0	0	-20
Changes due to change in credit risk	-1	1	0	0	0
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	0	0	0	0
As at 31 Dec 2019	**46**	**1**	**0**	**0**	**47**

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	4,518	6,162	37,192	0	47,872
Increases due to origination and acquisition	1,099	131	544	0	1,773
Decreases due to derecognition	-1,110	-1,388	-4,436	0	-6,933
Changes due to change in credit risk	-367	1,756	5,321	0	6,710
Thereof transfer to stage 1	11,164	-8,948	-2,217	0	0
Thereof transfer to stage 2	-1,051	1,100	-49	0	0
Thereof transfer to stage 3	-68	-2	69	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	-366	0	-366
Other adjustments	264	245	916	0	1,425
As at 31 Dec 2018	4,404	6,906	39,172	0	50,482
Increases due to origination and acquisition	886	384	1,666	0	2,936
Decreases due to derecognition	-517	-1,122	-3,170	0	-4,809
Changes due to change in credit risk	-27,308	16,612	22,113	0	11,417
Thereof transfer to stage 1	2,338	-2,334	-3	0	0
Thereof transfer to stage 2	-6,856	7,601	-744	0	0
Thereof transfer to stage 3	-13,684	-2,424	16,107	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	-4,598	0	-4,598
Other adjustments	26,287	-11,624	-14,471	0	192
As at 31 Dec 2019	**3,752**	**11,156**	**40,712**	**0**	**55,619**

Risk provision – financial investments measured at amortised cost

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 01 Jan 2018	681	0	0	681
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	-227	0	0	-227
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	7	0	0	7
As at 31 Dec 2018	464	0	0	464
Increases due to origination and acquisition	32	0	0	32
Decreases due to derecognition	-1	0	0	-1
Changes due to change in credit risk	-52	0	0	-52
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	**442**	**0**	**0**	**442**

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	72	0	0	72
Increases due to origination and acquisition	0	0	0	0
Decreases due to derecognition	-19	0	0	-19
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	-5	0	0	-5
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	0	0	0
As at 31 Dec 2018	26	0	0	26
Increases due to origination and acquisition	0	0	0	0
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	**4**	**0**	**0**	**4**

16) Assets held for trading

Euro thousand	31 Dec 2019	31 Dec 2018
Fixed-income securities	1,873	6,067
Equities and other variable-yield securities	40	86
Positive fair values of derivative instruments	58,307	54,343
Exchange rate related transactions	28	26
Interest rate related transactions	58,279	54,317
Assets held for trading	**60,220**	**60,496**

Breakdown by residual term

Euro thousand	31 Dec 2019	31 Dec 2018
Up to 3 months	94	238
Up to 1 year	685	329
Up to 5 years	939	1,337
More than 5 years	155	4,161
Fixed-income securities	**1,873**	**6,067**

Since the acquisition of the CO function the company 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
Amortised cost	2,067,451	1,707,603
Fair value through OCI	118,232	337,242
Fair value through profit or loss	39,400	47,060
Gross carrying amount	2,225,083	2,091,904
Risk provision	-442	-464
Net carrying amount	**2,224,641**	**2,091,440**

Risk provisions for financial investments measured at fair value through OCI are part of the fair value reserve for debt instruments. Hence, they are not shown together with assets less risk provisions on the asset side of the balance sheet 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	47,329	204,285
Up to 1 year	133,595	45,176
Up to 5 years	714,417	708,278
More than 5 years	1,295,419	1,093,847
Fixed-income securities	**2,190,760**	**2,051,586**

Breakdown of debt securities in accordance with the Austrian Banking Act

Euro thousand	31 Dec 2019	31 Dec 2018
Listed securities	1,847,203	1,773,349
Fixed-income securities	1,846,518	1,772,654
Equity and other variable-yield securities	685	695
Securities allocated to fixed assets	1,849,523	1,726,425
Securities eligible for rediscounting	1,792,104	1,701,247

All securities held with the intention of belonging more than one year to the Group are shown in position securities allocated to fixed assets.

18) Investment property

Euro thousand	Investment properties
Costs as at 1 Jan 2018	27,903
Reclassification	5,044
Additions	0
Disposals	-3,558
Assets held for sale	-53
Costs as at 31 Dec 2018	29,335
Reclassification	694
Additions	17
Disposals	-1,222
Assets held for sale	0
Costs as at 31 Dec 2019	**28,824**

Euro thousand	Investment properties
Cumulative valuation 01 Jan 2018	2,861
Reclassification	-4
Disposals	-4,152
Assets held for sale	-25
Valuation losses	-402
Valuation gains	4,716
Cumulative valuation 31 Dec 2018	2,994
Reclassification	1,106
Disposals	602
Assets held for sale	0
Valuation losses	-681
Valuation gains	214
Cumulative valuation 31 Dec 2019	**4,235**

Euro thousand	Investment properties
Carrying amount 01 Jan 2018	30,764
Carrying amount 31 Dec 2018	32,329
Carrying amount 31 Dec 2019	33,059

The valuations shown in the table above are included within result from financial instruments and investment properties. These valuations include holdings of investment property assets in the amount of euro -527 thousand (2018: euro 636 thousand) at the reporting date.

In 2019, investment properties with a carrying amount of euro 620 thousand (2018: euro 7,710 thousand) was disposed of.

Investment properties contain 12 completed properties (2018: 12) with a carrying amount of euro 20,624 thousand (2018: euro 19,684 thousand), as well as undeveloped land with a carrying amount of euro 12,435 thousand (2018: euro 12,645 thousand). These properties are located in Austria. At reporting date, the investement properties are measured at fair value.

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

The non-observable input factors are provided by independent external experts and reflect the current market assessment taking into account the specific features of each property. The main input parameters are shown below, with a distinction made between finished properties and undeveloped real estate. 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.

Completed properties

	2019			2018		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	64	4,450	1,719	64	4,450	1,647
Rentable space in sqm	38	2,762	1,414	38	2,762	1,425
Occupancy rate	62 %	100 %	86 %	56 %	100 %	91 %
Discount rate	3.00 %	7.00 %	4.99 %	3.30 %	7.00 %	5.07 %

Sensitivity analysis

Euro thousand	Changes in the carrying amount if assumption is increased	if assumption is decreased
31 Dec 2019		
Discount rate (0.25 % change)	-983	1,087
Discount rate (0.50 % change)	-1,877	2,295
31 Dec 2018		
Discount rate (0.25 % change)	-929	1,026
Discount rate (0.50 % change)	-1,775	2,164

Undeveloped land

	2019			2018		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	25	2,850	957	25	2,860	903
Plot size in sqm	540	48,263	14,982	540	48,263	15,109
value per sqm	5	718	171	5	718	169

Sensitivity analysis

Euro thousand	Changes in the carrying amount if assumption is increased	if assumption is decreased
31 Dec 2019		
Land value (10 % change)	1,244	-1,244
Land value (5 % change)	622	-622
31 Dec 2018		
Land value (10 % change)	1,265	-1,265
Land value (5 % change)	632	-632

The Group 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	30,753
Additions	3,721
Comprehensive income proportional	665
Impairment	-908
Reversal of impairment	3,605
Carrying amount as at 31 Dec 2018	37,835
Additions	8
Comprehensive income proportional	3,193
Impairment	-1,843
Reversal of impairment	0
Carrying amount as at 31 Dec 2019	**39,194**

Associates

VBW holds shares in the following associated companies. Volksbank Kärnten eGen (VB Kärnten) and VB Verbund-Beteiligung eG (VB Bet).

VBW holds a 25.24 % (2018: 25.26 %) share in VB Kärnten with registered office in Klagenfurt. The company's main business purpose consists of banking operations and bank-related brokering and services.

VBW holds a 29.07 % (2018: 29.04 %) share in VB Bet with registered office in Vienna. The main business of the company is holding of participations within the Association of Volksbanks.

None of the companies are listed on the stock exchange.

Additional information regarding associates

Euro thousand	VB Kärnten 2019	2018	VB Bet 2019	2018
Assets				
Liquid funds	11,010	11,607	0	0
Loans and receivables credit institutions (net)	189,896	173,310	36,347	41,554
Loans and receivables customers (net)	1,182,036	1,145,976	0	0
Financial investments	20,683	22,010	0	1
Other assets	52,000	45,080	70,554	58,413
Total assets	**1,455,624**	**1,397,983**	**106,901**	**99,968**
of which current assets	554,726	442,416	86,901	99,967
Liabilities and Equity				
Amounts owed to credit institutions	44,591	34,612	0	0
Amounts owed to customers	1,256,958	1,210,382	0	0
Debts evidenced by certificates	2,067	2,955	0	0
Lease liabillities	3,054	0	0	0
Subordinated liabilities	23,384	26,384	0	0
Other liabiliites	15,907	21,271	2,457	220
Equity	109,662	102,378	104,444	99,748
Total liabilities and equity	**1,455,624**	**1,397,983**	**106,901**	**99,968**
of which current liabilities	246,196	1,085,254	2,457	220
Statement of comprehensive income				
Interest and similar income	28,123	26,955	272	1,631
Interest and similar expense	-2,885	-3,229	-167	-1,690
Net interest income	25,238	23,726	105	-59
Risk provisions	-1,451	-2,081	0	-17
Result before taxes	5,058	5,444	-237	2,417
Income taxes	-490	-1,246	-333	8
Result after taxes	4,568	4,198	-570	2,425
Other comprehensive income	1,202	-772	5,306	-3,281
Comprehensive income	**5,770**	**3,426**	**4,737**	**-855**

Not recognised proportional loss

Euro thousand	VB Kärnten 2019	2018	VB Bet 2019	2018
Loss of the period proportional	0	0	0	0
Change in other comprehensive income of the period proportional	0	0	0	0
Cumulative loss	0	0	0	0
Cumulative other comprehensive income	0	0	0	0

Reconciliation

Euro thousand	VB Kärnten 2019	2018	VB Bet 2019	2018
Equity	109,662	102,378	104,444	99,748
Equity interest	25.24%	25.26%	29.07%	29.04%
Equity proportional	27,679	25,861	30,362	28,967
Cumulative impairment and reversals	-9,631	-7,789	0	0
Valuation previous years	-9,313	-9,313	97	109
Carrying amount as at 31 Dec 2019	8,734	8,759	30,460	29,077

In the reconciliation, the proportionate equity is reconciled with the carrying amount. As the other companies are aggregated, it is not possible to state the shareholding. The line valuations previous years includes the fair value measurement of the contribution of the CO business unit.

According to the statutory provisions of the Cooperative Societies Act (GenG), VBW only receives its original capital contribution back if it terminates its share in VB Kärnten or VB Bet (not in the event of liquidation or sale). Any dividends of VB Kärnten or VB Bet are limited in the sense that the supervisory regulations must be followed and the equity capital may not fall below a certain amount.

20) Participations

Euro thousand	31 Dec 2019	31 Dec 2018
Investments in unconsolidated affiliates	3,267	3,225
Investments in companies with participating interest	3,972	3,948
Investments in other companies	45,728	35,900
Participations	**52,967**	**43,073**

A list of unconsolidated affiliates can be found in note 55). Participations with a carrying amount of euro 10 thousand (2018: euro 124 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 18,892 thousand (2018: euro 12,578 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, measured by using the DCF method

Proportional market value in euro thousand 31 Dec 2019		Interest rate -0.50%	Actual	0.50%
Income component	-10.00%	13,026	12,335	11,719
	Actual	14,367	**13,600**	12,915
	10.00%	15,708	14,864	14,111

31 Dec 2018		-0.50%	Actual	0.50%
Income component	-10.00%	12,616	11,959	11,372
	Actual	13,906	**13,175**	12,523
	10.00%	15,195	14,391	13,674

Participations, measured by net assets

Euro thousand	Proportional market value		
31 Dec 2019	If assumption is decreased	Actual	If assumptions is increased
Net assets (10 % change)	4,119	**4,577**	5,035
31 Dec 2018	**If assumption is decreased**	**Actual**	**If assumptions is increased**
Net assets (10 % change)	4,009	**4,454**	4,900

Participations, measured based on external appraisals

Euro thousand 31 Dec 2019	Lower band	Actual	Upper band
Proportional market value	27,844	**30,781**	33,718
31 Dec 2018	**Lower band**	**Actual**	**Upper band**
Proportional market value	20,039	**22,097**	24,120

21) Intangible assets

Euro thousand	Software	Goodwill	Others	Total
Costs as at 1 Jan 2018	30,740	13,772	24,824	69,337
Change in the scope of consolidation	361	0	0	361
Additions	64	0	0	64
Disposals	-71	0	0	-71
Costs as at 31 Dec 2018	31,095	13,772	24,824	69,691
Change in the scope of consolidation	0	0	0	0
Additions	2,561	0	0	2,561
Disposals	-49	0	0	-49
Costs as at 31 Dec 2019	**33,607**	**13,772**	**24,824**	**72,203**

Euro thousand	Software	Goodwill	Others	Total
Cumulative valuation 01 Jan 2018	-30,163	-13,772	-1,983	-45,918
Change in the scope of consolidation	-357	0	0	-357
Disposals	71	0	0	71
Depreciation	-200	0	-1,291	-1,492
Cumulative valuation 31 Dec 2018	-30,650	-13,772	-3,274	-47,696
Change in the scope of consolidation	0	0	0	0
Disposals	49	0	0	49
Depreciation	-667	0	-1,291	-1,959
Cumulative valuation 31 Dec 2019	**-31,268**	**-13,772**	**-4,566**	**-49,606**

Euro thousand	Software	Goodwill	Others	Total
Carrying amount 01 Jan 2018	577	0	22,841	23,418
Carrying amount 31 Dec 2018	445	0	21,550	21,995
Thereof with limited useful life	445	0	21,550	21,995
Carrying amount 31 Dec 2019	2,339	0	20,258	22,597
Thereof with limited useful life	2,339	0	20,258	22,597

Other intangible assets comprise customer relationships which were capitalised during the course of a business combination in accordance with IFRS 3 and are subject to regular depreciation for a period of 20 years.

22) Tangible assets

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Costs as at 1 Jan 2018	193,606	8,079	57,002	0	258,687
Change in the scope of consolidation	4,447	467	1,840	366	7,120
Reclassification	-6,752	-336	655	-366	-6,799
Additions	856	52	1,515	3	2,426
Disposals	-4,147	-157	-8,149	-3	-12,456
Assets held for sale	-69,932	0	0	0	-69,932
Costs as at 31 Dec 2018	118,079	8,104	52,863	0	179,046
Change in the scope of consolidation	0	0	0	0	0
Reclassification	-485	-11	-198	0	-694
Additions	4,736	803	6,137	3	11,678
Disposals	-7,248	-6,610	-4,332	-3	-18,193
Assets held for sale	-116	0	-231	0	-347
Costs as at 31 Dec 2019	**114,967**	**2,286**	**54,238**	**0**	**171,491**

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Cumulative valuation 01 Jan 2018	-70,600	-7,633	-48,376	0	-126,609
Change in the scope of consolidation	-2,669	-426	-1,746	-283	-5,124
Reclassification	2,464	314	-550	283	2,511
Disposals	2,505	155	7,931	3	10,594
Assets held for sale	11,907	0	0	0	11,907
Depreciation	-4,096	-211	-2,558	-3	-6,867
Impairment	-283	0	0	0	-283
Reversal of impairment	343	0	1,112	0	1,456
Cumulative valuation 31 Dec 2018	-60,428	-7,799	-44,187	0	-112,414
Change in the scope of consolidation	0	0	0	0	0
Reclassification	164	0	0	0	164
Disposals	4,592	6,609	3,681	3	14,885
Assets held for sale	61	0	0	0	61
Depreciation	-2,641	-235	-2,767	-3	-5,646
Impairment	0	0	0	0	0
Reversal of impairment	0	0	0	0	0
Cumulative valuation 31 Dec 2019	**-58,252**	**-1,425**	**-43,273**	**0**	**-102,950**

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Carrying amount 01 Jan 2018	123,006	446	8,626	0	132,078
Carrying amount 31 Dec 2018	57,651	305	8,676	0	66,632
Carrying amount 31 Dec 2019	56,714	862	10,966	0	68,541

Right of use

Euro thousand	Rental contracts	Total
Amortised cost 31 Dec 2019	102,172	102,172
Additions	36,872	36,872
Depreciation	3,261	3,261
Carrying amount 31 Dec 2019	**98,911**	**98,911**

At VBW a building was sold, and the branch located therein was subsequently leased back again. The transaction caused expenses amounting to euro 1,049 thousand, which are offset against the result from the sale and reported in the other operating result.

23) Tax assets and liabilities

Euro thousand	31 Dec 2019 Tax assets	31 Dec 2019 Tax liabilities	31 Dec 2018 Tax assets	31 Dec 2018 Tax liabilities
Current tax	6,343	758	4,541	758
Deferred tax	56,691	999	57,177	1,085
Tax total	**63,035**	**1,757**	**61,718**	**1,842**

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 compre-hensive income
Loans and receivables credit institutions (net)	377	0	29	1	348	348	0
Loans and receivables customers (net)	12,196	0	17,914	0	-5,719	-5,719	0
Assets held for trading	40	0	37	1	4	4	0
Financial investments (net)	7,224	80,102	7,017	65,068	-14,828	-13,443	-1,385
Investment property	0	3,036	0	2,528	-508	-508	0
Participations	7,896	-2	2,913	-2	4,983	5,148	-165
Intangible and tangible assets	0	34,075	47	9,821	-24,301	-23,984	-317
Amounts owed to customers	0	3	0	10	7	7	0
Debts evidenced by certificates and subordinated liabilities	19,795	310	17,783	395	2,097	1,197	141
Lease liabilities	25,232	0	0	0	25,232	25,232	0
Liabilities held for trading	0	15	0	5	-10	-10	0
Provisions for pensions, se-verance payments and other provisions	9,369	4,944	8,551	4,661	535	-469	1,004
Other assets and liabilities	89,910	20,693	70,059	17,643	16,801	16,801	0
Other balance sheet items	0	0	0	6,119	6,119	0	6,119
Tax loss carryforwards	26,830	0	37,990	0	-11,160	-11,160	0
Deferred taxes before netting	**198,867**	**143,175**	**162,342**	**106,250**	**-400**	**-6,556**	**5,396**
Offset between deferred tax assets and deferred tax liabilities	-142,176	-142,176	-105,165	-105,165	0	0	0
Reported deferred taxes	**56,691**	**999**	**57,177**	**1,085**	**-400**	**-6,556**	**5,396**

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

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

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

In accordance with IAS 12, no deferred tax liabilities for temporary differences relating to investments in subsidiaries with an amount of euro -11,634 thousand (2018: euro -11,709 thousand) and no deferred tax assets with an amount of euro -14,688 thousand (2018: euro -7,991 thousand) were recognised, as they are not expected to reverse in the for-seeable future.

For tax loss carryforwards in the amount of euro 201,620 thousand (2018: euro 203,542 thousand) no deferred taxes were recognised. Deferred tax assets for tax loss carryforwards and other deferred tax assets (tax base) in the amount of euro 6,375 thousand (2018: euro 0 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 the not recognised tax loss carryforwards, euro 201,620 thousand (2018: euro 203,542 thousand) can be carried forward without restriction and especially concern VBW itself.

24) Other assets

Euro thousand	31 Dec 2019	31 Dec 2018
Deferred items	1,977	943
Other receivables and assets	34,018	26,401
Positive fair values of derivative instruments	96,944	86,831
Other assets	**132,939**	**114,175**

Other receivables and assets essentially consist of open outgoing invoices and deferrals in the amount of euro 8,633 thousand (2018: euro 12,836 thousand), property sales in the amount of euro 4,323 thousand (2018: euro 4,152 thousand), auxiliary accounts of the banking business in the amount of euro 14,600 thousand (2018: euro 3,837 thousand) and amounts owed to staff in the amount of euro 3,452 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	46,559	37,154
Positive fair values of derivative instruments	**46,559**	**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
Investment property	0	79
Tangible assets	56,482	57,803
Other assets	0	97
Assets held for sale	**56,482**	**57,979**

Apart from real estate which is no longer used for operational purposes, in the 2018 and 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 EUR 22,822 thousand will be captured.

26) Amounts owed to credit institutions

Euro thousand	31 Dec 2019	31 Dec 2018
Central banks	83,437	310,342
Other credit institutions	2,719,475	2,750,417
Amounts owed to credit institutions	**2,802,911**	**3,060,759**

Amounts owed to credit institutions are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2019	31 Dec 2018
On demand	2,588,501	2,608,649
Up to 3 months	77,170	338,442
Up to 1 year	59,405	42,372
Up to 5 years	10,220	11,498
More than 5 years	67,615	59,798
Amounts owed to credit institutions	**2,802,911**	**3,060,759**

The information about maturities of future cash flows are shown in note 35) Cash flows based on maturities.

27) Amounts owed to customers

Euro thousand	31 Dec 2019	31 Dec 2018
Savings deposits	1,982,268	2,175,697
Other deposits	4,456,332	4,168,535
Amounts owed to customers	**6,438,600**	**6,344,232**

Amounts owed to customers are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2019	31 Dec 2018
On demand	5,590,690	5,330,481
Up to 3 months	226,700	148,392
Up to 1 year	490,164	648,497
Up to 5 years	130,081	195,430
More than 5 years	965	21,432
Amounts owed to customers	**6,438,600**	**6,344,232**

The information about maturities of future cash flows are shown in note 35) Cash flows based on maturities.

28) Debts evidenced by certificates

Euro thousand	31 Dec 2019	31 Dec 2018
Bonds		
Amortised cost	1,342,499	360,100
Fair value through profit or loss - designated	110,308	106,575
Debts evidenced by certificates	**1,452,807**	**466,675**

Breakdown by residual term

Euro thousand	31 Dec 2019	31 Dec 2018
Up to 3 months	0	14,931
Up to 1 year	0	18,815
Up to 5 years	281,727	101,032
More than 5 years	1,171,081	331,897
Debts evidenced by certificates	**1,452,807**	**466,675**

The information about maturities of future cash flows are shown in note 35) Cash flows based on maturities.

29) Lease liabilities

Euro thousand	31 Dec 2019
Up to 3 months	438
Up to 1 year	2,995
Up to 5 years	19,588
More than 5 years	77,907
Lease liabilities	**100,927**

The information about maturities of future cash flows are shown in note 35) Cash flows based on maturities.

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	78,076	75,412
Liabilities held for trading	**78,079**	**75,416**

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	617	466	3,196	4,278
Increases due to origination and acquisition	470	99	762	1,332
Decreases due to derecognition	-518	-406	-1,385	-2,309
Changes due to change in credit risk	-119	291	580	752
Thereof transfer to stage 1	820	-657	-163	0
Thereof transfer to stage 2	-77	229	-152	0
Thereof transfer to stage 3	-5	-5	10	0
Other adjustments	25	16	5	47
As at 31 Dec 2018	476	465	3,158	4,099
Increases due to origination and acquisition	312	104	219	635
Decreases due to derecognition	-185	-230	-819	-1,233
Changes due to change in credit risk	-11,332	11,012	1,493	1,173
Thereof transfer to stage 1	246	-198	-48	0
Thereof transfer to stage 2	-651	657	-7	0
Thereof transfer to stage 3	-1,064	-36	1,099	0
Other adjustments	11,352	-10,328	-1,023	0
As at 31 Dec 2019	**623**	**1,024**	**3,027**	**4,674**

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	6,128	1,000	8,018	2,830	17,976
Changes in the scope of consolidation	2,697	0	50	30	2,777
Reclassification	-144	0	-635	635	-144
Unwinding	0	0	0	31	31
Utilisation	-6,214	-123	-1,534	-1,401	-9,272
Release	-734	0	-4,310	-216	-5,260
Addition	4,761	3,753	642	146	9,301
As at 31 Dec 2018	6,494	4,629	2,231	2,055	15,409
Changes in the scope of consolidation	0	0	0	0	0
Reclassification	0	0	-9	9	0
Unwinding	0	0	0	12	12
Utilisation	-2,728	-17	-366	-51	-3,163
Release	-992	-1,501	-862	-266	-3,620
Addition	1,316	1,181	359	105	2,961
As at 31 Dec 2019	**4,090**	**4,292**	**1,353**	**1,864**	**11,600**

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

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	11,342	43,933	7,202	62,476
Changes in the scope of consolidation	1,456	1,480	290	3,227
Current service costs	70	2,099	520	2,689
Interest costs	138	518	87	743
Payments	-867	-4,151	-264	-5,282
Actuarial gains or losses arising from changes in financial assumptions	-1,172	-1,568	-638	-3,378
Actuarial gains or losses arising from changes in demogra-phic assumptions	672	-537	512	647
Net present value as at 31 Dec 2018	11,639	41,774	7,709	61,122
Changes in the scope of consolidation	0	0	0	0
Current service costs	49	1,884	487	2,420
Interest costs	129	480	80	688
Payments	-824	-3,317	-295	-4,436
Actuarial gains or losses arising from changes in financial assumptions	795	3,220	-342	3,674
Actuarial gains or losses arising from changes in demogra-phic assumptions	0	0	0	0
Net present value as at 31 Dec 2019	**11,788**	**44,042**	**7,639**	**63,469**

Net present value of plan assets

Euro thousand	Provision for pensions
Net present value of plan assets as at 1 Jan 2018	892
Result on plan assets	36
Contributions to plan assets	51
Net present value of plan assets as at 31 Dec 2018	979
Result on plan assets	-46
Contributions to plan assets	37
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 the 2020 business year, contribution payments to plan assets are expected in the amount of euro 4 thousand (2018: euro 4 thousand).

Euro thousand	Provision for pensions	Provision for severance payments	Provision for anniversary bonuses	Total
31 Dec 2018				
Long-term employee provision	11,639	41,774	7,709	61,122
Net present value of plan assets	-979	0	0	-979
Net liability recognised in balance sheet	**10,659**	**41,774**	**7,709**	**60,143**
31 Dec 2019				
Long-term employee provision	11,788	44,042	7,639	63,469
Net present value of plan assets	-971	0	0	-971
Net liability recognised in balance sheet	**10,817**	**44,042**	**7,639**	**62,498**

Historical information

Euro thousand	2019	2018	2017	2016	2015
Net present value of obligations	63,469	61,122	62,476	59,445	44,793
Net present value of plan assets	971	979	892	877	862

Composition of plan assets

	31.12.2019			31.12.2018		
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	151	0	151
Shares EU countries	103	0	103	90	0	90
Shares USA and Japan	120	0	120	154	0	154
Other shares	73	0	73	67	0	67
Derivatives	32	26	58	27	19	46
Real estate	0	63	63	0	60	60
Fixed deposit	0	4	4	0	0	0
Cash in hand	0	11	11	0	22	22
Total	**866**	**105**	**971**	**878**	**101**	**979**

The column Plan assets - quoted shows all plan assets that have a market price that is 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)	-4,671	5,353
Future wage and salary increases (0.50 % modification)	2,941	-2,718
Future pension increases (0.25 % modification)	281	-269
Future mortality (1 year modification)	708	-684
31 Dec 2019		
Discount rate (0.75 % modification)	-5,039	5,777
Future wage and salary increases (0.50 % modification)	3,100	-2,870
Future pension increases (0.25 % modification)	325	-310
Future mortality (1 year modification)	823	-788

As of 31 December 2019, the weighted average term of defined-benefit obligations for pensions was 10.6 years (2018: 10.3 years) and for severance payment 13.1 years (2018: 13.0 years).

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

33) Other liabilities

Euro thousand	31 Dec 2019	31 Dec 2018
Deferred items	51	76
Other liabilities	50,235	57,126
Negative fair values of derivative instruments	387,829	383,473
Other liabilities	**438,115**	**440,676**

Other liabilities essentially consist of deferrals and incoming invoices in the amount of euro 22,209 thousand (2018: euro 33,995 thousand), auxiliary accounts of the banking business in the amount of euro 3,535 thousand (2018: euro 0 thousand), taxes and fiscal liabilities in the amount of euro 7,239 thousand (2018: euro 10,336 thousand) as well as commitments to staff in the amount of euro 4,992 thousand (2018: euro 1,244 thousand).

The table below shows the negative fair values of derivatives included in position other liabilities which are 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	357,439	271,550
Negative fair values of derivative instruments	**369,085**	**291,163**

34) Subordinated liabilities

Euro thousand	31 Dec 2019	31 Dec 2018
Subordinated capital	402,636	402,416
Supplementary capital	15,147	15,939
Subordinated liabilities	**417,783**	**418,355**

Subordinated liabilities are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2019	31 Dec 2018
Up to 3 months	0	0
Up to 1 year	0	684
Up to 5 years	18,225	18,248
More than 5 years	399,558	399,423
Subordinated liabilities	**417,783**	**418,355**

Presentation of cash in- and outflows of subordinated liabilities

Euro thousand	Subordinated liabilities
As at 1.1.2018	**425,778**
Cash inflow	105
Cash outflow	-7,735
Non-cash changes	
Changes in the scope of consolidation	0
Others	207
Total non-cash changes	207
As at 31.12.2018	**418,3550**
Cash inflow	0
Cash outflow	-792
Non-cash changes	
Changes in the scope of consolidation	0
Others	220
Total non-cash changes	220
As at 31.12.2019	**417,783**

35) Cash flows based on maturities

The table below presents the future cash flows from liabilities classified according to their maturity

Euro thousand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Undiscounted cash flows	Carrying amount
31 Dec 2019						
Amounts owed to credit institutions	2,665,818	59,826	12,439	70,199	**2,808,282**	2,802,911
Amounts owed to customers	5,891,678	512,531	130,956	1,478	**6,536,642**	6,438,600
Debts evidenced by certificates	0	17,532	342,634	1,209,414	**1,569,580**	1,452,807
Lease liabilities	899	4,367	27,769	93,799	**126,834**	100,927
Derivative instruments trading book	0	0	19,264	58,484	**77,749**	78,079
Derivative instruments investment book	0	0	30,587	355,776	**386,362**	387,829
Subordinated liabilities	0	11,181	62,573	430,027	**503,780**	417,783

Euro thousand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Undiscounted cash flows	Carrying amount
31 Dec 2018						
Amounts owed to credit institutions	2,917,126	22,804	11,551	109,474	**3,060,955**	3,060,759
Amounts owed to customers	4,824,557	713,527	215,219	691,990	**6,445,293**	6,344,232
Debts evidenced by certificates	15,000	34,110	159,427	372,157	**580,694**	466,675
Lease liabilities	0	0	0	0	**0**	0
Derivative instruments trading book	0	391	26,091	48,320	**74,802**	75,416
Derivative instruments investment book	0	83,261	41,826	255,944	**381,032**	383,473
Subordinated liabilities	0	11,865	62,776	440,892	**515,533**	418,355

Cash flows for contingent liabilities are displayed in note 45) Contingent liabilities and credit risks.

36) Equity

As at 31 December 2019, the subscribed capital of VBW before deduction of treasury stocks amounted to euro 137,547 thousand (2018: euro 137.547 thousand). It consists of registered shares as follows:

		Euro thousand
1,467,163	No-par value shares	137,547

Changes in subscribed capital

Number of units	Shares
Shares outstanding as of 1 Jan 2018	1,417,534
Contribution VB Horn	49,629
Shares outstanding as of 31 Dec 2018	1,467,163
Shares outstanding as of 31 Dec 2019	**1,467,163**

Dividend payment

Euro thousand	2019	2018
Dividend voting equity	0	8,310
Dividend non-voting equity	8,974	681
Total	**8,974**	**8,991**

The dividend payment for non-voting equity includes the coupon for the AT1 emission in the amount of euro 8,525 thousand as well as the distribution to the federal government from the participation right in RZG in the amount of euro 449 thousand (2018: euro 681 thousand). Further details regarding the participation right of the federal government are described in note 2).

Additional tier I 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.

Shareholder contributions

Contributions made by the shareholders of VBW to RZG are presented in the development of the Groups Equity under sahareholders contributions.

Return on capital employed

The return on capital employed for the business year was 0.45 % (2018: 0.61 %) and was calculated as the ratio of the result after taxes to total assets as at the reporting date.

Non-controlling interest

	Minority interest		
Company name	**2019**	**2018**	**Assignment**
3V-Immobilien Errichtungs-GmbH; Wien	<0,001 %	<0,001 %	Other companies
Gärtnerbank Immobilien GmbH; Wien	<0,001 %	<0,001 %	Other companies
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Wien	<0,001 %	<0,001 %	Other companies
VB Services für Banken Ges.m.b.H.; Wien	1.110 %	1.110 %	Other companies
VB Verbund-Beteiligung Region Wien eG; Wien	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.; Wien	0.005 %	0.005 %	Other companies

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

Additional information non-controlling interest

Euro thousand	Other companies 2019	2018
Assets		
Loans and receivables credit institutions (net)	38,628	43,615
Loans and receivables customers (net)	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

Since these companies do not hold liquid funds and their business activity can basically be described as operational business activities, no cash flow statement is presented in accordance with IAS 1.31.

37) Own funds

The own funds of the VBW credit institution group which were calculated pursuant to the Capital Requirement Regulations (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	341,416	341,416
Retained earnings	409,962	380,421
Accumulated other comprehensive income (and other reserves)	-87,957	-97,606
Amount of capital instruments subject to phase out from CET1	6,272	8,363
Non-controlling interest	0	0
Common tier I capital before regulatory adjustments	669,693	632,594
Common tier I capital: regulatory adjustments		
Regulatory value adjustments	0	0
Intangible assets (net of related tax liability)	-22,597	-21,995
Value adjustments due to the requirement for prudent valuation	-1,109	-1,338
CET1 instruments of financial sector entities where the institution has a significant investment	-606	0
Amount exceeding the threshold of 17.65 %	-6,381	-5,526
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	0
Additional CET 1 deductions pursuant to article 3 CRR	-14,169	-9,434
Total regulatory adjustments	-44,862	-38,292
Common equity tier I capital - CET1	**624,831**	**594,302**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	220,000	0
Additional tier I capital before regulatory adjustments	220,000	0
Additional tier I capital: regulatory adjustments		
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	0
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**220,000**	**0**
Tier I capital (CET1 + AT1)	**844,831**	**594,302**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts	406,278	405,991
Capital instruments subject to phase out from tier II	0	0
Tier II capital before regulatory adjustments	406,278	405,991
Tier II capital: regulatory adjustments		
Regulatory adjustments - transitional provisions	0	0
CET1 instruments of financial sector entities	0	0
Total regulatory adjustments	0	0
Tier II capital - T2	**406,278**	**405,991**
Own funds	**1,251,109**	**1,000,293**
Common equity tier I capital ratio (tier I)	14.89 %	14.28 %
Tier I capital ratio	20.13 %	14.28 %
Equity ratio	29.82 %	24.04 %
each in relation to total risk exposure amount		

The risk-weighted assessment 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	3,537,507	3,188,634
Total risk exposure amount - settlement risk	0	33
Total risk exposure amount for position, foreign exchange and commodities risks	84,611	85,885
Total risk exposure amount for operational risk	529,542	552,151
Total risk exposure amount for credit valuation adjustment (cva)	44,462	55,024
Other risk exposure amount	0	279,376
Total risk exposure amount	**4,196,121**	**4,161,104**

The following table shows the own funds of the VBW credit institution group 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	341,416	341,416
Retained earnings	409,962	380,421
Accumulated other comprehensive income (and other reserves)	-87,957	-97,606
Common tier I capital before regulatory adjustments	663,421	624,231
Common tier I capital: regulatory adjustments		
Intangible assets (net of related tax liability)	-22,597	-21,995
Value adjustments due to the requirement for prudent valuation	-1,109	-1,338
CET1 instruments of financial sector entities where the institution has a significant investment	-1,233	0
Deferred tax assets arising from temporary difference (amount above 10 % threshold, net of related tax liability)	0	0
Amount exceeding the threshold of 17.65 %	-6,972	-7,002
Additional CET 1 deductions pursuant to article 3 CRR	-14,169	-9,434
Total regulatory adjustments	-46,080	-39,768
Common equity tier I capital - CET1	**617,341**	**584,463**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	220,000	0
Additional tier I capital before regulatory adjustments	220,000	0
Additional tier I capital: regulatory adjustments		
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	0
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**220,000**	**0**
Tier I capital (CET1 + AT1)	**837,341**	**584,463**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts	412,550	414,354
Tier II capital before regulatory adjustments	412,550	414,354
Tier II capital: regulatory adjustments		
Total regulatory adjustments	0	0
Tier II capital - T2	**412,550**	**414,354**
Own funds	**1,249,891**	**998,817**

Common equity tier I capital ratio (tier I)	14.72 %	14.06 %
Tier I capital ratio	19.97 %	14.06 %
Equity ratio	29.81 %	24.02 %
each in relation to total risk exposure amount		

The risk-weighted assessment 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	3,534,462	3,184,944
Total risk exposure amount - settlement risk	0	33
Total risk exposure amount for position, foreign exchange and commodities risks	84,611	85,885
Total risk exposure amount for operational risk	529,542	552,151
Total risk exposure amount for credit valuation adjustment (cva)	44,462	55,024
Other risk exposure amount	0	279,376
Total risk exposure amount	**4,193,077**	**4,157,414**

Group issues which are included in tier I or tier II

31 Dec 2019

ISIN	Name	Identification IFRS	Redemption date	Conditions	Nominal value in euro thousand
CET1					
QOXDB4409005	Participation certificate 2006	subordinated liabilities at amortised cost	perpetual	Average 3m Euribor + 130 bp	9,907
AT1					
AT000B121991	Additional tier 1 capital	Additional tier 1 capital	perpetual	7,75 % p.a.; from 9 April 2024 all 5 Y with 5 Y-CMS plus 788 bp	220,000
Tier II issues					
QOXDBA032238	Subordinated 12/22	subordinated liabilities at amortised cost	01 Dec 2022	3.50 % p. a.	600
AT000B121967	Subordinated 17/27	subordinated liabilities at amortised cost	06 Oct 2027	2.75% p.a.; from 6 Oct 2023 5Y-Mid Swap + 255 bp p.a.	400,000
QOXDBA000383	Supplementary capital 12/22	subordinated liabilities at amortised cost	01 Dec 2022	12m Euribor + 62.5 bp, max. 7.00 % p.a., at least 4.00 % p.a.	4,000
	Promissory note bond	subordinated liabilities at amortised cost	20 Mar 2021	3m Euribor + 75 bp p.q.	4,000

31 Dec 2018

ISIN	Name	Identification IFRS	Redemption date	Conditions	Nominal Vale in euro thousand
CET1					
QOXDB4409005	Participation certificate 2006	subordinated liabilities at amortised cost	perpetual	Average 3m Euribor + 130 bp	9,907
Tier II Emission					
QOXDBA032238	Subordinated 12/22	subordinated liabilities at amortised cost	01 Dec 2022	3.50 % p. a.	600
AT000B121967	Subordinated 17/27	subordinated liabilities at amortised cost	06 Oct 2027	2.75% p.a.; from 6 Oct 2023 5Y-Mid Swap + 255 bp p.a.	400,000
QOXDBA000383	Supplementary capital 12/22	subordinated liabilities at amortised cost	01 Dec 2022	12m Euribor + 62.5 bp, max. 7.00 % p.a., at least 4.00 % p.a.	4,000
AT0000A05QZ7	Supplementary capital 07/19	subordinated liabilities at amortised cost	16 Jul 2019	Average 3m Euribor + 35 bp, not negative	792
	Promissory note bond	subordinated liabilities at amortised cost	20 Mar 2021	3m Euribor + 75 bp p.q.	4,000

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

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

In the 2018 business year, 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	1,913,513	0	0	1,913,513	1,913,513
Loans and receivables credit institutions (gross)	2,466,343	0	119	2,466,462	
Individual loan loss provision	0	0	0	0	
Loans and receivables credit institutions less individual loan loss provision	2,466,343	0	119	2,466,462	2,462,935
Loans and receivables customers (gross)	5,360,537	0	166,419	5,526,955	
Individual loan loss provision	-40,712	0	0	-40,712	
Loans and receivables customers less individual loan loss provision	5,319,825	0	166,419	5,486,244	5,278,507
Assets held for trading	0	0	60,220	60,220	60,220
Financial investments (gross)	2,067,451	118,232	39,400	2,225,083	
Individual loan loss provision	0	0	0	0	
Financial investments less individual loan loss provision	2,067,451	118,232	39,400	2,225,083	2,268,382
Participations	0	52,967	0	52,967	52,967
Derivative instruments	0	0	96,944	96,944	96,944
Financial assets total	**11,767,132**	**171,198**	**363,102**	**12,301,432**	**12,133,468**
Amounts owed to credit institutions	2,802,911	0	0	2,802,911	2,802,946
Amounts owed to customers	6,438,600	0	0	6,438,600	6,418,938
Debts evidenced by certificates	1,342,499	0	110,308	1,452,807	1,469,803
Lease liabilities	100,927	0	0	100,927	100,927
Liabilities held for trading	0	0	78,079	78,079	78,079
Derivative instruments	0	0	387,829	387,829	387,829
Subordinated liabilities	417,783	0	0	417,783	436,597
Financial liabilities total	**11,102,721**	**0**	**576,216**	**11,678,938**	**11,695,119**

Euro thousand	Amortised cost	Fair value through OCI	Fair value through profit or loss	Carrying amount - total	Fair value
31 Dec 2018					
Liquid funds	1,565,504	0	0	1,565,504	1,565,504
Loans and receivables credit institutions (gross)	1,986,448	0	259	1,986,707	
Individual loan loss provision	0	0	0	0	
Loans and receivables credit institutions less individual loan loss provision	1,986,448	0	259	1,986,707	1,987,214
Loans and receivables customers (gross)	5,216,727	0	199,431	5,416,158	
Individual loan loss provision	-39,172	0	0	-39,172	
Loans and receivables customers less individual loan loss provision	5,177,555	0	199,431	5,376,986	5,440,426
Assets held for trading	0	0	60,496	60,496	60,496
Financial investments (gross)	1,707,603	337,242	47,060	2,091,904	
Individual loan loss provision	0	0	0	0	
Financial investments less individual loan loss provision	1,707,603	337,242	47,060	2,091,904	2,103,389
Participations	0	43,073	0	43,073	43,073
Derivative instruments	0	0	86,831	86,831	86,831
Financial assets total	**10,437,110**	**380,314**	**394,076**	**11,211,501**	**11,286,932**
Amounts owed to credit institutions	3,060,759	0	0	3,060,759	3,060,677
Amounts owed to customers	6,344,232	0	0	6,344,232	6,365,419
Debts evidenced by certificates	360,100	0	106,575	466,675	481,956
Lease liabilities	0	0	0	0	0
Liabilities held for trading	0	0	75,416	75,416	75,416
Derivative instruments	0	0	383,473	383,473	383,473
Subordinated liabilities	418,355	0	0	418,355	403,752
Financial liabilities total	**10,183,446**	**0**	**565,464**	**10,748,909**	**10,770,692**

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	119	119
Loans and receivables customers	0	0	166,419	166,419
Assets held for trading	597	59,623	0	60,220
Financial investments	120,519	5,553	31,559	157,632
Fair value through profit or loss	2,288	5,553	31,559	39,400
Fair value through OCI	118,232	0	0	118,232
Participations	0	0	52,927	52,927
Fair value through OCI - designated	0	0	52,927	52,927
Derivative instruments	0	96,944	0	96,944
Financial assets total	**121,116**	**162,120**	**251,024**	**534,260**
Debts evidenced by certificates	0	0	110,308	110,308
Liabilities held for trading	0	78,079	0	78,079
Derivative instruments	0	387,829	0	387,829
Financial liabilities total	**0**	**465,908**	**110,308**	**576,216**
31 Dec 2018				
Loans and receivables credit institutions	0	0	259	259
Loans and receivables customers	0	0	199,431	199,431
Assets held for trading	4,703	55,793	0	60,496
Financial investments	342,498	7,352	34,451	384,301
Fair value through profit or loss	5,257	7,352	34,451	47,060
Fair value through OCI	337,242	0	0	337,242
Participations	0	0	43,027	43,027
Fair value through OCI - designated	0	0	43,027	43,027
Derivative instruments	0	86,831	0	86,831
Financial assets total	**347,201**	**149,976**	**277,167**	**774,345**
Debts evidenced by certificates	0	0	106,575	106,575
Liabilities held for trading	0	75,416	0	75,416
Derivative instruments	0	383,473	0	383,473
Financial liabilities total	**0**	**458,889**	**106,575**	**565,464**

Please refer to note 3) t) Participations and investments in companies measured at equity and investments in companies measured at equity for a description of the valuation procedures used for participations. Participations in the amount of euro 40 thousand (2018: euro 46 thousand) were measured at amortised cost due to their insignificance.

When determining market values for level 2 financial investments, VBW 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 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 financial instruments measured at Level 2 market value were reclassified as Level 1 financial instruments. In the previous year financial instruments with a carrying amount of euro 1,186 thousand, which were still measured at Level 2 market value as at 31 December 2017, were reclassified as Level 1 financial instruments due to an increase in trading activity. In 2019 as well as 2018 no reclassifications from Level 1 into 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	Participations	Financial assets total	Debts evi-denced by certificates	Financial liabilities total
As at 01 Jan 2018	**522**	**167,877**	**33,780**	**43,161**	**245,341**	**104,827**	**104,827**
Change in the scope of consolidation	0	38,810	0	1,335	40,145	0	0
Reallocation to level 3	0	0	0	1	1	0	0
Additions	0	38,222	208	18	38,449	1,325	1,325
Disposals	-262	-42,078	0	-121	-42,461	0	0
Revaluation							
Through profit or loss	-1	-3,401	462	0	-2,940	-2,025	-2,025
Through OCI	0	0	0	-1,367	-1,367	2,449	2,449
As at 31 Dec 2018	**259**	**199,431**	**34,451**	**43,027**	**277,167**	**106,575**	**106,575**
Change in the scope of consolidation	0	0	0	0	0	0	0
Reallocation to level 3	0	0	0	-223	-223	0	0
Additions	0	1,141	131	3,954	5,227	0	0
Disposals	-140	-35,706	-6,433	-8	-42,287	-3	-3
Revaluation							
Through profit or loss	0	1,552	3,410	0	4,962	3,173	3,173
Through OCI	0	0	0	6,178	6,178	563	563
As at 31 Dec 2019	**119**	**166,419**	**31,559**	**52,927**	**251,024**	**110,308**	**110,308**

The valuations shown in the table above are included in the item result from financial instruments and investment properties (income statement) or fair value reserve (other comprehensive íncome). The valuations recorded in the income statement include holdings of financial assets and liabilities to the amount of euro 4,961 thousand (2018: euro -5,795 thousand) at the reporting date.

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

As at 31 December 2019 financial investments include participation certificates with a carrying amount of euro 31,127 thousand (2018: euro 30,687 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 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	-1,367
Change in markup +/- 100 BP	614	-604
Change in redemption - 5 %	0	-1,508

31 Dec 2018 Euro thousand	Positive change in fair value	Negative change in fair value
Change in maturity + 1 year	0	-1,361
Change in markup +/- 100 BP	612	-601
Change in redemption - 5 %	0	-1,502

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 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

Please refer to note 14) Loans and receivables credit institutions and customers for further details regarding the sensitivity analysis regarding the fair values of loans from and receivables to credit institutions and customers.

The sensitivity analysis regarding the fair values of investment properties (IAS 40) are shown in note 18) Investment property.

The sensitivity analysis regarding the fair values of participations are shown 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 consolidated balance sheet or the consolidated statement of comprehensive income.

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

Euro thousand	Level 1	Level 2	Level 3	Fair value total	Carrying amount
31 Dec 2019					
Liquid Funds	0	1,913,513	0	1,913,513	1,913,513
Loans and receivables credit institutions (gross)	0	0	0	0	2,466,343
Individual loan loss provision	0	0	0	0	0
Loans and receivables credit institutions less individual loan loss provision	0	0	2,462,816	2,462,816	2,466,343
Loans and receivables customers (gross)	0	0	0	0	5,360,537
Individual loan loss provision	0	0	0	0	-40,712
Loans and receivables customers less individual loan loss provision	0	0	5,112,089	5,112,089	5,319,825
Financial investments (gross)	0	0	0	0	2,067,451
Individual loan loss provision	0	0	0	0	0
Financial investments less individual loan loss provision	2,098,966	11,785	0	2,110,750	2,067,451
Financial assets total	**2,098,966**	**1,925,298**	**7,574,904**	**11,599,168**	**11,767,132**
Amounts owed to credit institutions	0	0	2,802,946	2,802,946	2,802,911
Amounts owed to customers	0	0	6,418,938	6,418,938	6,438,600
Debts evidenced by certificates	0	0	1,359,495	1,359,495	1,342,499
Lease liabilities	0	0	100,927	100,927	100,927
Subordinated liabilities	0	0	436,597	436,597	417,783
Financial liabilities total	**0**	**0**	**11,118,903**	**11,118,903**	**11,102,721**

Euro thousand	Level 1	Level 2	Level 3	Fair value total	Carrying amount
31 Dec 2018					
Liquid Funds	0	1,565,504	0	1,565,504	1,565,504
Loans and receivables credit institutions (gross)	0	0	0	0	1,986,448
Individual loan loss provision	0	0	0	0	0
Loans and receivables credit institutions less individual loan loss provision	0	0	1,986,954	1,986,954	1,986,448
Loans and receivables customers (gross)	0	0	0	0	5,216,727
Individual loan loss provision	0	0	0	0	-39,172
Loans and receivables customers less individual loan loss provision	0	0	5,240,995	5,240,995	5,177,555
Financial investments (gross)	0	0	0	0	1,707,603
Individual loan loss provision	0	0	0	0	0
Financial investments less individual loan loss provision	822,708	13,696	882,683	1,719,088	1,707,603
Financial assets total	**822,708**	**1,579,200**	**8,110,633**	**10,512,542**	**10,437,110**
Amounts owed to credit institutions	0	0	3,060,677	3,060,677	3,060,759
Amounts owed to customers	0	0	6,365,419	6,365,419	6,344,232
Debts evidenced by certificates	0	0	375,381	375,381	360,100
Lease liabilities	0	0	0	0	0
Subordinated liabilities	0	0	403,752	403,752	418,355
Financial liabilities total	**0**	**0**	**10,205,228**	**10,205,228**	**10,183,446**

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

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

Fair value hierarchy

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

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

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

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

39) Derivatives

Derivative financial instruments

2019 Euro thousand	Up to 3 months	Up to 1 year	Face value Up to 5 years	More than 5 years	Total	Fair Value 31 Dec 2019
Interest related transactions	194,545	357,457	1,458,790	4,708,649	6,719,441	-293,665
Caps & Floors	62,207	61,207	247,790	228,189	599,393	0
Futures - interest related	1,300	35,000	0	0	36,300	0
Interest rate swaps	131,038	261,250	1,211,001	4,480,460	6,083,748	-293,665
Exchange rate related transactions	883,452	167,026	445,109	182,206	1,677,792	-16,349
Cross currency interest rate swaps	317,322	110,792	445,109	182,206	1,055,428	-16,349
FX swaps	565,237	45,313	0	0	610,550	0
Forward exchange transactions	893	10,922	0	0	11,814	0
Other transactions	10,855	2,385	15,825	213,267	242,333	-643
Options	10,855	2,385	15,825	213,267	242,333	-643
Total	**1,088,851**	**526,868**	**1,919,724**	**5,104,122**	**8,639,566**	**-310,657**

2018 Euro thousand	Up to 3 months	Up to 1 year	Face value Up to 5 years	More than 5 years	Total	Fair Value 31 Dec 2018
Interest related transactions	444,209	134,178	1,725,474	3,052,582	5,356,443	-221,979
Caps & Floors	6,958	91,272	387,270	258,697	744,196	-402
Futures - interest related	7,200	0	35,000	0	42,200	0
Interest rate swaps	430,052	42,906	1,303,204	2,793,885	4,570,047	-221,576
Exchange rate related transactions	696,428	205,307	546,866	298,316	1,746,917	-94,341
Cross currency interest rate swaps	154,394	183,409	546,866	298,316	1,182,985	-94,341
FX swaps	539,380	15,545	0	0	554,924	0
Forward exchange transactions	2,654	6,354	0	0	9,008	0
Other transactions	10,029	2,811	14,258	235,298	262,395	-1,395
Options	10,029	2,811	14,258	235,298	262,395	-1,395
Total	**1,150,666**	**342,296**	**2,286,598**	**3,586,196**	**7,365,756**	**-317,714**

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

The following table shows the market value divided into balance sheet items.

31 Dec 2019 Euro thousand	Assets	Liabilities	Total
Interest related transactions	58,279	78,076	-19,797
Exchange rate related transactions	28	4	24
Trading portfolio	**58,307**	**78,079**	**-19,773**
Interest related transactions	85,846	359,714	-273,868
Exchange rate related transactions	5,307	21,680	-16,373
Other transactions	5,792	6,435	-643
Other assets / liabilities	**96,944**	**387,829**	**-290,884**
Total	**155,251**	**465,908**	**-310,657**
Sum interest related transactions	144,125	437,790	-293,665
Sum exchange rate related transactions	5,334	21,683	-16,349
Sum other transactions	5,792	6,435	-643

31 Dec 2018 Euro thousand	Assets	Liabilities	Total
Interest related transactions	54,317	75,412	-21,095
Exchange rate related transactions	26	4	22
Trading portfolio	**54,343**	**75,416**	**-21,072**
Interest related transactions	70,827	271,711	-200,884
Exchange rate related transactions	1,679	96,042	-94,363
Other transactions	14,325	15,720	-1,395
Other assets / liabilities	**86,831**	**383,473**	**-296,642**
Total	**141,175**	**458,889**	**-317,714**
Sum interest related transactions	125,145	347,123	-221,979
Sum exchange rate related transactions	1,705	96,046	-94,341
Sum other transactions	14,325	15,720	-1,395

40) Hedging

Fair value hedges of interest rate risk

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 -5.280 thousand in VBW 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 2.943.168 thousand as of 31.12.2019), the ineffectiveness is equal to only 0.2% of the hedged portfolio. The hedging strategy applied by VB Wien 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	578,107	578,107
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	384,712	384,712
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	578,107	890	23,162	Positive/ negative fair values of derivative instruments	-18,544	-476	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	**2,902,161**	**46,120**	**357,569**		**-80,374**	**-4,863**	

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	384,712	0	3,532	Positive/ negative fair values of derivative instruments	-3,160	532	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	**1,585,683**	**37,154**	**271,551**		**2,943**	**-1,119**	

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	578,100	0	21,761	Loans and receivables customers	18,068	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	**1,804,607**	**1,228,496**	**374,294**		**75,510**	**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	388,405	0	3,693	Loans and receivables customers	3,693	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	**1,613,645**	**278,386**	**288,254**		**-4,062**	**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 derivati-ve 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**

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

41) Assets and liabilities denominated in foreign currencies

At balance sheet date, assets denominated in foreign currencies totalled euro 587,444 thousand (2018: euro 833,667 thousand), whereas liabilities denominated in foreign currencies amounted to euro 142,176 thousand (2018: euro 172,127 thousand).

42) Trust transactions

Euro thousand	31 Dec 2019	31 Dec 2018
Trust assets		
Loans and receivables credit institutions	61,821	53,430
Loans and receivables customers	67,913	63,800
Trust liabilities		
Amounts owed to credit institutions	61,821	53,430
Amounts owed to customers	67,913	63,800

43) Subordinated assets

Euro thousand	31 Dec 2019	31 Dec 2018
Financial investments	2,401	4,518

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 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	226,684
Amounts owed to customers	14,625	15,512

In the context of corporate funding via Oesterreichische Kontrollbank (OeKB), loans and receivables 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 customers if the Group performs in accordance with the contract.

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

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

45) Contingent liabilities and credit risks

Euro thousand	31 Dec 2019	31 Dec 2018
Contingent liabilities		
Liabilities arising from guarantees	270,478	291,728
Guaranteed letter of credit	1,196	1,205
Others (amounts guaranteed)	18,247	19,755
Commitments		
Unutilised loan commitments	2,672,897	3,152,667

Based on the management´s estimation of cash outflow for financial guarantees, a provision was built for off-balance risks to the amount of the probable cash outflow under consideration of possible available collaterals. It amounts to euro 3,027 thousand (2018: euro 3,158 thousand).

VBW 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 VBW.

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 VBW) that have existed or were completed within the last twelve months and have a significant impact on the financial situation or profitability of VBW Group or have recently had such an impact.

The table below presents future cash flows of contingent liabilities classified according to their contractual maturity, concerning guarantees also according to their expected maturity

Euro thousand	Loan commitments	Guarantees as contracted	Guarantees expected
31 Dec 2019			
Carrying amount	2,672,897	270,478	0
Undiscounted cash flows	**2,672,897**	**270,478**	**3,027**
Up to 3 months	2,672,897	270,478	303
Up to 1 year	0	0	1,211
Up to 5 years	0	0	1,514
31 Dec 2018			
Carrying amount	3,152,667	291,728	0
Undiscounted cash flows	**3,152,667**	**291,728**	**3,158**
Up to 3 months	3,152,667	291,728	316
Up to 1 year	0	0	1,263
Up to 5 years	0	0	1,579

As for loan commitments, the first possible time of utilisation was used for the presentation of the contractual term. Contracted guarantees are reported when the utilisation is first possible, while column guarantees expected shows management estimates of the expected utilisation over the period.

46) Repurchase transactions and other transferred assets

As at 31 December 2019, VBW as pledgor had buy-back commitments under genuine repurchase agreements to 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 credit institutions	0	0	44,327	0
Loans and receivables customers	163	1,598	0	0
Fixed-income securities	0	0	273	405,802
Amounts owed to credit institutions	0	0	189,861	0
Amounts owed to customers	4,504	1,950	22,547	0
Provisions	0	3	6	0
Transactions	4,126	3,415	256,580	0
Administrative expenses	-613	-30,436	-14	0
Other operating income	116	1	7,226	0
Other operating expenses	-589	-104	0	0
31 Dec 2018				
Loans and receivables credit institutions	0	0	34,228	0
Loans and receivables customers	159	1,625	0	0
Fixed-income securities	0	0	271	593,466
Amounts owed to credit institutions	0	0	173,297	0
Amounts owed to customers	4,157	215	61,984	0
Provisions	0	3	6	0
Transactions	4,110	3,966	302,585	0
Administrative expenses	-419	-37,569	-14	0
Other operating income	111	63	5,998	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 together irrespective of whether plus or minus figures.

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

The shareholder Republic of Austria exercises a significant influence on the VBW Group. Disclosures are limited to securities of the issuer Republic of Austria. The simplification option allowed by IAS 24.26 for companies in the sphere of the pubic sector was exercised.

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

Euro thousand	31 Dec 2019	31 Dec 2018
Outstanding loans and receivables	377	451
Redemptions	23	98

At the VBW Group, the Management Board members as well as members of the supervisory board of the parent company are classified as management members in key positions. The presentation of the remuneration of key personel is included in note 10) General administrative expenses. No further contracts were closed with members in key positions.

As at 31 December 2019 loans and receivables credit institutions/customers contained transactions with the Volksbank-Sector amounting to euro 2,061,152 thousand (2018: euro 1,532,367 thousand) and amounts owed to credit institutions/customers included transactions with the Volksbank-Sector amounting to euro 2,515,414 thousand (2018: euro 2,536,449 thousand).

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 covered bonds.

49) Branches

	31 Dec 2019	31 Dec 2018
Domestic	63	70
Total number of branches	**63**	**70**

All branches are in Austria.

50) Events after the balance sheet date

Due to the spread of the virus Covid 19 a revision of the current economic expections for 2020 is possible. 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 Managing Board on March 12 2020.

51) Segment reporting

The VBW Group now has two business segments retail and CO which correspond to strategic business fields. These segments fulfil a variety of tasks and are controlled in varying ways in accordance with the internal management and reporting structure. In this process, a business unit is organised as a profit centre, which means that all results are allocated to the business unit, irrespective of whether these results are generated in the business unit itself or by the parent company.

A report is submitted to the Managment Board and management for each business segment. These reports are based on VBWs' and the subsidiaries' separate financial statements. Interest results of the profit centre are calculated on the principles of the market interest method. Transfer prices for assessments and refinancing between entities within the Group are in line with standard market conditions. Expenses are divided between business segments based on the proportional service performance. The cost of Group projects is also allocated to business segments.

Retail

The retail segment comprises the standard banking services provided to private customers, SMEs and commercial clients in terms of investment and financing, advisory and investment services for securities, payment services, brokerage of insurance products, and foreign exchange business.

Services are typically performed through the branches as well as through internet and direct sales. Accordingly, this segment includes the results for the branches and the commercial clients profit centre.

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 management in connection with regulatory requirements through management of 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 syndicate financing division including large-scale house-building is another 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 as well as the results of VB Infrastruktur und Immobilien GmbH, wich provides services for Facility Management are also included here.

Finally, all other activities are reported which are undertaken in managing the Association of Volksbanks and which VBW performs as CO in accordance with the CRR and Austrian Banking Act.

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.

Segment reporting by business segments

1-12/2019 Euro thousand	Retail	CO	Consolidation	Total
Net interest income	102,654	17,351	0	120,005
Risk provisions	-8,590	1,412	0	-7,178
Net fee and comission income	58,413	-2,818	198	55,793
Net trading income	259	-2,546	0	-2,287
Result from financial instruments and investment properties	1,874	19,363	-3,351	17,885
Other operating result	4,149	144,040	-50,663	97,527
General administrative expenses	-143,003	-124,274	53,816	-213,460
Restructuring result	0	0	0	0
Result from companies measured at equity	-165	-336	0	-501
Annual result before taxes	**15,593**	**52,191**	**0**	**67,784**
Income taxes	-8,387	-2,364	0	-10,751
Annual result after taxes	**7,206**	**49,872**	**0**	**57,033**
31 Dec 2019				
Total assets	**6,541,971**	**7,572,113**	**-1,410,234**	**12,703,850**
Loans and receivables customers	5,276,454	244,157	-49,275	5,471,336
Companies measured at equity	30,460	8,734	0	39,194
Amounts owed to customers	5,254,294	1,280,697	-96,391	6,438,600
Debts evidenced by certificates, including subordinated liabilities	112,981	1,757,609	0	1,870,591

1-12/2018 Euro thousand	Retail	CO	Consolidation	Total
Net interest income	102,011	22,717	0	124,728
Risk provisions	952	3,881	0	4,832
Net fee and comission income	57,014	-3,259	67	53,822
Net trading income	250	740	0	990
Result from financial instruments and investment properties	2,959	9,399	-3,186	9,172
Other operating result	8,851	135,360	-44,045	100,166
General administrative expenses	-141,119	-128,304	47,164	-222,258
Restructuring result	-4,270	243	0	-4,027
Result from companies measured at equity	4,321	213	0	4,534
Annual result before taxes	**30,969**	**40,989**	**0**	**71,959**
Income taxes	78	-1,546	0	-1,468
Annual result after taxes	**31,048**	**39,443**	**0**	**70,491**
31 Dec 2018				
Total assets	**6,466,527**	**6,447,649**	**-1,408,683**	**11,505,492**
Loans and receivables customers	5,151,092	264,826	-50,243	5,365,676
Companies measured at equity	29,077	8,759	0	37,835
Amounts owed to customers	5,396,956	1,013,883	-66,607	6,344,232
Debts evidenced by certificates, including subordinated liabilities	114,562	770,468	0	885,030

52) Risk report

General

Assuming and professionally managing the risks associated with the business activities is a core function of every bank. In its capacity as CO of the association of credit institutions under section 30a Austrian Banking Act, consisting of VBW and the affiliated banks of the Volksbank-Sector, VBW performs this central task for the Association of Volksbanks, so that the latter has in place administrative, accounting and control 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 self-assessment 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 11.50 %, as determined for the Association of Volksbanks, that applies as of 1 January 2020 consists of the following: Pillar 1 CET1 requirement of 4.5 %, Pillar 2 requirement of 2.50 %, capital conservation buffer of 2.5 %, systemic 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 systemic risk buffer and buffer for systemically important 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 12.00 % (Pillar 1 requirement of 6.0 %, Pillar 2 requirement of 2.50 %, capital conservation buffer of 2.5 %, systemic risk buffer 1.0 % or buffer for systemically important institutions 1.0 %), having increased by 0.25 percentage points compared to the previous year.

As of 1 January 2020, the total capital requirement amounts to 14.00 % (Pillar 1 requirement of 8.0 %, Pillar 2 requirement of 2.50 %, capital conservation buffer of 2.5 %, systemic risk buffer 1.0 % or buffer for systemically important institutions 1.0 %), having increased by 0.25 percentage points compared to the previous year.

Risk policy principles

The risk policy principles of VBW 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

VBW 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 continuously being developed also within VBW, in order to define risk appetite and the level of risk tolerance that VBW 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, in particular. The framework is verified and adjusted to any regulatory requirements, changes of the market environment or the business model on an ongoing basis. VBW 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 VBW 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.

kk) 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, that both VBW and all affiliated banks are subject to. The ICAAP starts by identifying the material risks, 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 environment if necessary; they are approved by the Managing Board of the CO. A comprehensive revision of the Internal Capital Adequacy Assessment Process took place in 2019, due to the ECB Guide published in November 2018 for the internal capital adequacy assessment process. In that respect, the risk-bearing capacity statement and the internal stress test were enhanced.

Risk inventory

The risk inventory aims to define the materiality of existing and newly assumed risks. The risk inventory results are summarised and analysed for VBW. 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 are taken into account within the risk-bearing capacity calculation.

Risk strategy

The risk strategy of VBW 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 environment. It provides the rules for the handling of risks and ensures risk-bearing capacity at all times. The risk strategy is prepared in the course of business planning. Across the Association, the contents of the risk strategy and of business planning are linked up by incorporating the targets of the Risk Appetite Statement in GI Controlling – Planning and Reporting.

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 to implement central strategic goals of VBW, 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 resp. the strategic planning process. The limit system broken down by risk subtypes and the RAS provide the framework for the maximum risk that VBW 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 countermeasures 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, RTF)
- Credit risk ratios (e.g. NPL ratio, coverage ratio, exposures to foreign customers, net allocation for risk provisions, forbearance ratio)
- Interest rate risk ratios (e.g. OeNB interest rate risk coefficient, EBA interest rate risk coefficient, PVBP)
- Liquidity risk ratios (e.g. LCR, NSFR, 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, leverage ratio, compliance risk)

Risk-bearing capacity calculation

The risk-bearing capacity calculation constitutes a central element within the 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 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 compares the aggregate risk amount calculated in accordance with applicable legal provisions with regulatory own funds. Ensuring regulatory risk-bearing capacity is stipulated under the law and constitutes a minimum requirement. The composition of the regulatory aggregate risk position of VBW corresponds to that of any regionally operating retail bank.

The economic perspective contributes to ensuring the continued existence of the VBW 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 (risk covering potentials). Economic risks are risks that may impair the economic value of the institution, and accordingly may impair the capital adequacy under an economic perspective. For the quantification of the aggregate risk position, internal procedures, that is largely Value at Risk (VaR), with a confidence level of 99.9 % and a time horizon of one year are applied. In doing so, all quantifiable risks that were identified as material 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 own funds available for loss absorption upon continuation of the business activities are recognised as risk covering potentials. The aggregate bank risk limit is set at 100 % of available internal capital. A prerequisite for the capital adequacy under an economic perspective is for internal capital to be sufficient to cover the risks and to support the strategy on an ongoing basis.

The normative perspective ensures that the Association of Volksbanks is able, throughout a period of several years, to meet its own funds requirement and to cope with 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 account and own funds positions over three years. In the process, the strategic planning as well as three crisis scenarios are simulated and the development of regulatory own funds ratios calculated taking into account the effects of the relevant scenario. Therefore, the key parameters of the normative perspective are the regulatory own funds ratios CET1, tier 1 and total capital. The normative perspective was implemented throughout the Association and hence also includes VBW.

Stress testing

For credit, market and liquidity risks, as well as for operational risk, specific stress tests resp. 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 the changed risk parameters for the individual risk categories and business areas derived therefrom. Apart from the effects on the risk positions, the effects of the crisis scenarios on regulatory own funds and the internal capital under the economic perspective are determined. At this point, the requirements of the normative perspective overlap with the requirements regarding scenario analyses for the bank-wide internal stress test: the development of regulatory own funds ratios is simulated for various crisis scenarios over a period of several years. 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, additional limits were defined, riskier industries monitored more closely, and planning targets for strategic risk indicators derived.

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 demand within the SREP. In the years between the EBA/ECB stress tests across risk types, the supervisory authority performs a risk-specific stress test. Therefore, the Association of Volksbanks participated in the liquidity stress test in 2019.

Risk reporting

The reporting framework implemented at VBW is meant to ensure that all significant risks are fully identified, monitored and 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 – for the risk-bearing capacity calculation and capital ratios: quarterly – aggregate bank risk report serves as a core element of the reporting framework. The aggregate bank 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 aggregate bank risk report provides the Managing Board with management-related information on a monthly basis and is provided to the Supervisory Board of VBW quarterly. Complementing the aggregate bank 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 VBW belongs to the Association of Volksbanks, which was classified as a significant credit institution, VBW has worked out a recovery 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.

II) 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 VBW, 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 & Recovery 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 VBW 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; clear processes have been defined for this purpose. 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 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, and accordingly also within VBW, 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, VBW 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 and accordingly within VBW 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 of Volksbanks has defined 13 possible types of default event that are used for the consistent classification of default events across the Association. Among others, default identification also builds on the early warning and forbearance processes described above. Additionally, there are other (checking) processes, e.g. the analysis of expected cash flows within the regular or event-driven exposure checks, which 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 resp. 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 also 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 of Volksbanks 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 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 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) for the purpose of determining 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, Volksbank assesses whether the default risk for any financial instrument has increased significantly since first-time recognition. To identify any significant increases of default risk, companies may bundle financial instruments in groups based on common default risk characteristics and hence may perform an analysis aimed at identifying any significant increases in default risk promptly. 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 severe 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, as well as for SME 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 the euro zone, the unemployment rate and the growth in the demand for corporate loans. For portfolios with only few defaults (banks, countries, municipalities etc.), the default time series of external rating agencies are combined with qualitative analyses per segment. For instance, the SME and Corporate model is applied to incorporate forward-looking information in risk assessments in the portfolio of externally rated large corporations as well. 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 since 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). Any default may be recovered and transferred back to Stage 1 or Stage 2 six months after commencement of the period of good conduct at the earliest, provided that good conduct is shown within said period of six months, and the other prerequisites set down in the CRR and the internal guidelines are met.

VBW applies an unlikeliness-to-pay (UTP) valuation process 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.

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 – corresponds to a probability of default, based on the VB master scale, of a maximum of 0.35 % – are classified as level 1 (Low Credit Risk Exemption, IFRS 9 5.5.10).

The transfer from Stage 2 to Stage 1 takes place immediately on the measurement date after the qualitative and quantitative Stage 2 criteria lapsing (without consideration of 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. Collective parameters and assumptions are used if applicable.

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

- over a period of 12 months, for financial instruments in Stage 1 (including financial instruments with a low default risk (Low Credit Risk Exemption),
- over the residual term, for financial instruments in 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 provisions, 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 inventory risk provisions Euro m	Increase Coverage Ratio I Percentage points
Impairment by 15 %	9.61	6.49
Impairment by 25 %	14.90	10.07

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 the 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, commercial 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>Others</td><td>• Expert estimates and scenario analyses</td></tr>
</table>

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 redemption 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 resp. 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 VBW, its major units and their 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 credit institutions, gross
- Loans and receivables customers, gross
- Assets held for trading: only fixed-income securities are included, but no positive fair 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-related portfolio

Euro thousand	31 Dec 2019	31 Dec 2018
Liquid funds	1,864,726	1,510,901
Loans and receivables credit institutions	2,466,462	1,986,707
At amortised costs	2,466,343	1,986,448
At fair value	119	259
Loans and receivables customers	5,526,955	5,416,158
At amortised costs	5,360,537	5,216,727
At fair value	166,419	199,431
Assets held for trading - fixed-income securities	1,873	6,067
At fair value	1,873	6,067
Financial investments - fixed-income securities	2,190,760	2,051,586
At amortised costs	2,067,451	1,707,603
At fair value	123,309	343,983
Contingent liabilities	271,673	292,933
Credit risks	2,672,897	3,152,667
Total	**14,995,347**	**14,417,018**

As at 31 December 2019, the total credit risk-related portfolio amounted to euro 14,995,347 thousand (2018: euro 14,417,018 thousand). Loans and receivables 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. At VBW, there are no receivables from finance leases.

Loans and receivables 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 VBW in its role as CO of the Association of Volksbanks, 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 unutilised loan commitments 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 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 VBW assumes the central liquidity management function within the Association of Volksbanks, an essential customer segment of credit risk-related positions is the public sector. This segment includes the amount owed by the central bank and the major part of financial investments. In loans and receivables customers, the largest customer segment of the credit risk-relevant items is the SME segment with euro 2,513,633 thousand as at 31 December 2019 (2018: euro 2,575,983 thousand), followed by the Private Customer segment.

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

Portfolio distribution 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	2,466,462	0	0	0	0	0	2,466,462
At amortised costs	2,466,343	0	0	0	0	0	2,466,343
At fair value	119	0	0	0	0	0	119
Loans and receivables customers	0	2,415,430	2,513,633	262,965	24,546	310,382	5,526,955
At amortised costs	0	2,290,159	2,479,973	262,410	20,788	307,206	5,360,537
At fair value	0	125,270	33,660	555	3,758	3,176	166,419
Assets held for trading - fixed-income securities	1,285	0	0	588	0	0	1,873
At fair value	1,285	0	0	588	0	0	1,873
Financial investments - fixed-income securities	991,669	0	0	68,933	1,130,158	0	2,190,760
At amortised costs	974,082	0	0	68,932	1,024,437	0	2,067,451
At fair value	17,587	0	0	1	105,721	0	123,309
Contingent liabilities	1,865	29,695	235,275	2,711	77	2,049	271,673
Credit risks	1,792,886	290,049	352,987	49,530	122,461	64,984	2,672,897
Total	**5,254,167**	**2,735,174**	**3,101,895**	**384,728**	**3,141,968**	**377,415**	**14,995,347**

31 Dec 2018 Euro thousand	Banks	Retail private	SME	Corporates	Public sector	Others	Total
Liquid funds	0	0	0	0	1,510,901	0	1,510,901
Loans and receivables credit institutions	1,986,707	0	0	0	0	0	1,986,707
At amortised costs	1,986,448	0	0	0	0	0	1,986,448
At fair value	259	0	0	0	0	0	259
Loans and receivables customers	0	2,300,962	2,575,983	256,452	31,987	250,774	5,416,158
At amortised costs	0	2,169,273	2,523,036	255,794	26,950	241,674	5,216,727
At fair value	0	131,689	52,946	658	5,037	9,101	199,431
Assets held for trading - fixed-income securities	5,431	0	0	636	0	0	6,067
At fair value	5,431	0	0	636	0	0	6,067
Financial investments - fixed-income securities	686,543	0	0	57,735	1,307,308	0	2,051,586
At amortised costs	668,809	0	0	57,735	981,059	0	1,707,603
At fair value	17,734	0	0	0	326,249	0	343,983
Contingent liabilities	1,451	34,668	252,975	2,890	8	941	292,933
Credit risks	2,107,460	324,685	455,907	58,082	133,885	72,648	3,152,667
Total	**4,787,592**	**2,660,315**	**3,284,865**	**375,795**	**2,984,089**	**324,363**	**14,417,018**

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 receivables customers – especially FX loans – are gradually reduced.

Portfolio 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	2,137,425	300,652	6,836	1,649	19,899	2,466,462
At amortised costs	2,137,306	300,652	6,836	1,649	19,899	2,466,343
At fair value	119	0	0	0	0	119
Loans and receivables customers	5,281,520	231,753	213	51	13,419	5,526,955
At amortised costs	5,115,102	231,753	213	51	13,419	5,360,537
Thereof Retail private	2,143,202	142,311	3	0	4,643	2,290,159
Thereof SME	2,414,598	56,338	210	51	8,776	2,479,973
Thereof Corporates	258,667	3,743	0	0	0	262,410
Thereof other	298,634	29,360	0	0	0	327,994
At fair value	166,419	0	0	0	0	166,419
Thereof Retail private	125,270	0	0	0	0	125,270
Thereof SME	33,660	0	0	0	0	33,660
Thereof Corporates	555	0	0	0	0	555
Thereof other	6,934	0	0	0	0	6,934
Assets held for trading – fixed-income securities	1,873	0	0	0	0	1,873
At fair value	1,873	0	0	0	0	1,873
Financial investments – fixed-income securities	2,173,739	0	0	0	17,021	2,190,760
At amortised costs	2,050,430	0	0	0	17,021	2,067,451
Thereof Banks	974,082	0	0	0	0	974,082
Thereof Corporates	68,932	0	0	0	0	68,932
Thereof Public sector	1,007,416	0	0	0	17,021	1,024,437
Thereof other	0	0	0	0	0	0
At fair value	123,309	0	0	0	0	123,309
Thereof Banks	17,587	0	0	0	0	17,587
Thereof Corporates	1	0	0	0	0	1
Thereof Public sector	105,721	0	0	0	0	105,721
Thereof other	0	0	0	0	0	0
Contingent liabilities	271,211	55	407	0	0	271,673
Thereof Banks	1,725	55	85	0	0	1,865
Thereof Retail private	29,695	0	0	0	0	29,695
Thereof SME	234,953	0	323	0	0	235,275
Thereof Corporates	2,711	0	0	0	0	2,711
Thereof other	2,127	0	0	0	0	2,127
Credit risks	2,670,842	3	2,038	0	14	2,672,897
Thereof Banks	1,792,886	0	0	0	0	1,792,886
Thereof Retail private	290,034	2	0	0	13	290,049
Thereof SME	350,947	2	2,038	0	1	352,987
Thereof Corporates	49,530	0	0	0	0	49,530
Thereof other	187,444	0	0	0	0	187,444
Total	**14,401,335**	**532,463**	**9,494**	**1,700**	**50,354**	**14,995,347**

31 Dec 2018 Euro thousand	EUR	CHF	USD	GBP	Others	Total
Liquid funds	1,510,901	0	0	0	0	1,510,901
Loans and receivables credit institutions	1,439,859	504,221	16,073	1,416	25,137	1,986,707
At amortised costs	1,439,600	504,221	16,073	1,416	25,137	1,986,448
At fair value	259	0	0	0	0	259
Loans and receivables customers	5,141,829	258,921	864	44	14,499	5,416,158
At amortised costs	4,942,398	258,921	864	44	14,499	5,216,727
Thereof Retail private	2,002,239	160,933	487	0	5,614	2,169,273
Thereof SME	2,450,585	63,145	378	44	8,885	2,523,036
Thereof Corporates	252,218	3,575	0	0	0	255,794
Thereof other	237,356	31,268	0	0	0	268,624
At fair value	199,431	0	0	0	0	199,431
Thereof Retail private	131,689	0	0	0	0	131,689
Thereof SME	52,946	0	0	0	0	52,946
Thereof Corporates	658	0	0	0	0	658
Thereof other	14,138	0	0	0	0	14,138
Assets held for trading - fixed-income securities	6,067	0	0	0	0	6,067
At fair value	6,067	0	0	0	0	6,067
Financial investments - fixed-income securities	2,011,334	22,966	0	0	17,286	2,051,586
At amortised costs	1,690,317	0	0	0	17,286	1,707,603
Thereof Banks	668,809	0	0	0	0	668,809
Thereof Corporates	57,735	0	0	0	0	57,735
Thereof Public sector	963,773	0	0	0	17,286	981,059
Thereof other	0	0	0	0	0	0
At fair value	321,017	22,966	0	0	0	343,983
Thereof Banks	17,734	0	0	0	0	17,734
Thereof Corporates	0	0	0	0	0	0
Thereof Public sector	303,283	22,966	0	0	0	326,249
Thereof other	0	0	0	0	0	0
Contingent liabilities	291,736	53	1,143	0	0	292,933
Thereof Banks	783	53	615	0	0	1,451
Thereof Retail private	34,668	0	0	0	0	34,668
Thereof SME	252,447	0	529	0	0	252,975
Thereof Corporates	2,890	0	0	0	0	2,890
Thereof other	948	0	0	0	0	948
Credit risks	3,150,981	2	1,304	0	380	3,152,667
Thereof Banks	2,107,460	0	0	0	0	2,107,460
Thereof Retail private	324,684	2	0	0	0	324,685
Thereof SME	454,222	0	1,304	0	380	455,907
Thereof Corporates	58,082	0	0	0	0	58,082
Thereof other	206,533	0	0	0	0	206,533
Total	**13,552,707**	**786,163**	**19,385**	**1,461**	**57,303**	**14,417,018**

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 295,164 thousand (2018: EUR 333.717 thousand).

Development by countries

The main business activity of the Association of Volksbanks, and thus of VBW, focuses on the Austrian market. This is also evident from the following tables: at 31 December 2019, Austrian exposures accounted for 86.8 % of the credit risk-related portfolio (2018: 88.3 %).

Portfolio distribution by countries

31 Dec 2019 Euro thousand	Austria	Germany	Switzerland	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	2,052,719	205,665	9,849	0	160,333	19	37,878	2,466,462
At amortised costs	2,052,599	205,665	9,849	0	160,333	19	37,878	2,466,343
At fair value	119	0	0	0	0	0	0	119
Loans and receivables customers	5,391,797	38,888	34,841	1,081	35,611	16,136	8,602	5,526,955
At amortised costs	5,227,510	38,804	34,560	1,081	35,577	15,061	7,944	5,360,537
Thereof Retail private	2,262,428	14,957	1,024	1,081	2,460	4,936	3,272	2,290,159
Thereof SME	2,450,891	14,883	4,175	0	1,425	8,598	0	2,479,973
Thereof Corporates	220,229	8,964	0	0	31,691	1,526	0	262,410
Thereof other	293,962	0	29,360	0	0	0	4,672	327,994
At fair value	164,287	84	282	0	34	1,075	658	166,419
Thereof Retail private	123,173	84	282	0	0	1,075	658	125,270
Thereof SME	33,626	0	0	0	34	0	0	33,660
Thereof Corporates	555	0	0	0	0	0	0	555
Thereof other	6,934	0	0	0	0	0	0	6,934
Assets held for trading - fixed-income securities	1,873	0	0	0	0	0	0	1,873
At fair value	1,873	0	0	0	0	0	0	1,873
Financial investments - fixed-income securities	756,177	136,847	1,040	0	1,072,779	200,085	23,831	2,190,760
At amortised costs	693,545	132,894	1,040	0	1,063,103	153,037	23,831	2,067,451
Thereof Banks	274,017	122,192	1,040	0	572,525	0	4,307	974,082
Thereof Corporates	12,645	0	0	0	36,763	0	19,524	68,932
Thereof Public sector	406,883	10,702	0	0	453,815	153,037	0	1,024,437
At fair value	62,631	3,953	0	0	9,676	47,048	0	123,309
Thereof Banks	7,431	3,953	0	0	6,203	0	0	17,587
Thereof Corporates	1	0	0	0	0	0	0	1
Thereof Public sector	55,200	0	0	0	3,473	47,048	0	105,721
Contingent liabilities	270,948	402	28	0	27	38	230	271,673
Thereof Banks	1,768	97	0	0	0	0	0	1,865
Thereof Retail private	29,195	219	2	0	22	28	230	29,695
Thereof SME	235,201	33	26	0	5	10	0	235,275
Thereof Corporates	2,658	54	0	0	0	0	0	2,711
Thereof other	2,127	0	0	0	0	0	0	2,127
Credit risks	2,670,704	1,531	33	3	21	487	119	2,672,897
Thereof Banks	1,792,886	0	0	0	0	0	0	1,792,886
Thereof Retail private	288,994	500	32	3	21	383	117	290,049
Thereof SME	351,850	1,031	0	0	0	104	1	352,987
Thereof Corporates	49,530	0	0	0	0	0	0	49,530
Thereof other	187,444	0	0	0	0	0	0	187,444
Total	**13,008,944**	**383,333**	**45,791**	**1,083**	**1,268,771**	**216,764**	**70,660**	**14,995,347**

31 Dec 2018 Euro thousand	Austria	Germany	Switzerland	Liechten- stein	EEA	EU CEE	Others	Gesamt
Liquid funds	1,510,901	0	0	0	0	0	0	1,510,901
Loans and receivables credit institutions	1,545,167	140,548	18,726	0	233,564	492	48,210	1,986,707
At amortised costs	1,544,908	140,548	18,726	0	233,564	492	48,210	1,986,448
At fair value	259	0	0	0	0	0	0	259
Loans and receivables customers	5,275,352	43,260	36,492	1,154	30,762	18,822	10,315	5,416,158
At amortised costs	5,078,397	43,156	36,144	1,154	30,725	17,563	9,588	5,216,727
Thereof Retail private	2,141,304	13,765	632	1,154	3,537	4,737	4,143	2,169,273
Thereof SME	2,491,290	15,861	4,244	0	1,540	10,101	0	2,523,036
Thereof Corporates	217,551	9,871	0	0	25,647	2,724	0	255,794
Thereof other	228,252	3,659	31,268	0	0	0	5,445	268,624
At fair value	196,954	104	348	0	37	1,259	727	199,431
Thereof Retail private	129,248	104	348	0	1	1,259	727	131,689
Thereof SME	52,910	0	0	0	36	0	0	52,946
Thereof Corporates	658	0	0	0	0	0	0	658
Thereof other	14,138	0	0	0	0	0	0	14,138
Assets held for trading - fixed-income securities	6,067	0	0	0	0	0	0	6,067
At fair value	6,067	0	0	0	0	0	0	6,067
Financial investments - fixed-income securities	957,625	59,799	1,051	0	807,580	201,607	23,924	2,051,586
At amortised costs	710,289	55,305	1,051	0	790,979	126,054	23,924	1,707,603
Thereof Banks	241,860	48,566	1,051	0	373,023	0	4,309	668,809
Thereof Corporates	12,720	0	0	0	25,400	0	19,615	57,735
Thereof Public sector	455,709	6,739	0	0	392,556	126,054	0	981,059
At fair value	247,336	4,493	0	0	16,601	75,553	0	343,983
Thereof Banks	6,741	2,416	0	0	8,576	0	0	17,734
Thereof Corporates	0	0	0	0	0	0	0	0
Thereof Public sector	240,595	2,077	0	0	8,025	75,553	0	326,249
Contingent liabilities	292,286	293	38	0	27	59	230	292,933
Thereof Banks	1,331	119	0	0	0	0	0	1,451
Thereof Retail private	34,365	10	12	0	22	29	230	34,668
Thereof SME	252,792	123	26	0	5	30	0	252,975
Thereof Corporates	2,850	41	0	0	0	0	0	2,890
Thereof other	948	0	0	0	0	0	0	948
Credit risks	3,149,253	2,338	342	1	46	515	172	3,152,667
Thereof Banks	2,107,460	0	0	0	0	0	0	2,107,460
Thereof Retail private	322,367	1,277	341	1	45	482	172	324,685
Thereof SME	454,811	1,062	0	0	1	33	0	455,907
Thereof Corporates	58,082	0	0	0	0	0	0	58,082
Thereof other	206,533	0	0	0	0	0	0	206,533
Total	**12,736,650**	**246,237**	**56,650**	**1,155**	**1,071,979**	**221,495**	**82,852**	**14,417,018**

Development by sectors[1]

The most important sector within loans and receivables customers of VBW are private households with 43.7 % as at 31 December 2019 (2018: 42.5 %). As at 31 December 2019, the largest commercial sector within loans and receivables customers at VBW is the real estate sector. It accounts for a share of 35.5 % (2018: 35.6 %). As at 31 December 2019, the largest commercial sector within loans and receivables customers in the SME segment is again the real estate sector, accounting for 61.65 % (2018: 60.78 %), followed by the retail and repair sector with a share of 7.77 % (2018: 8.04 %). As at 31 December 2019, the largest commercial sector within loans and receivables customers in the Corporate segment is again the real estate sector, accounting for 40.26 % (2018: 44.75 %).

[1]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 industries

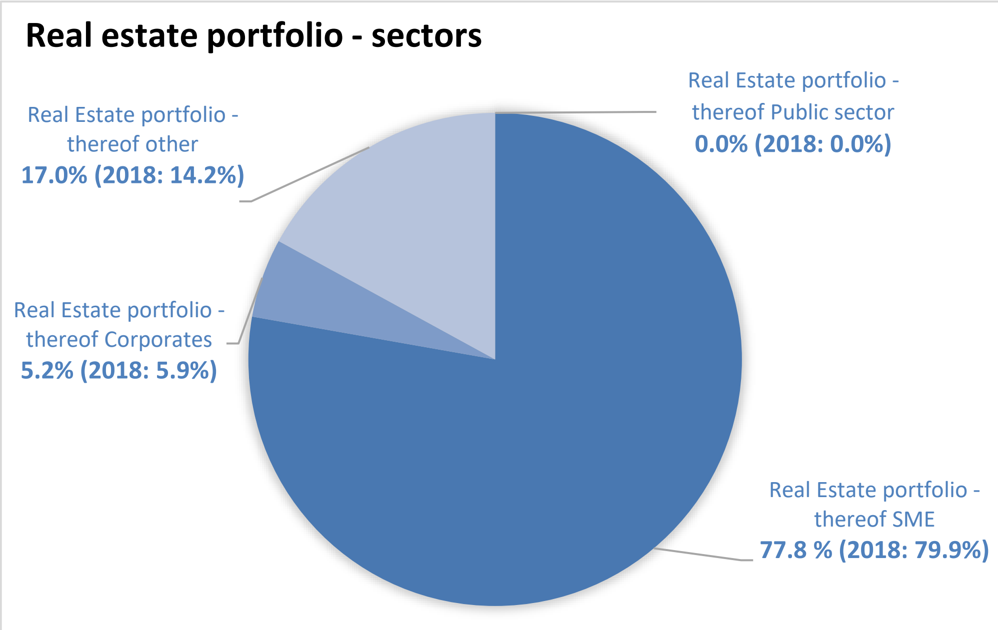
31 Dec 2019 Euro thousand	Private households	Financial services incl. banks	Public authorities	Real estate	Construction industry
Liquid funds	0	0	1,864,726	0	0
Loans and receivables credit institutions	0	2,466,462	0	0	0
At amortised costs	0	2,466,343	0	0	0
At fair value	0	119	0	0	0
Loans and receivables customers	2,415,430	97,097	24,546	1,961,484	149,067
At amortised costs	2,290,159	97,057	20,788	1,946,147	146,903
At fair value	125,270	40	3,758	15,337	2,164
Assets held for trading – fixed-income securities	0	1,285	0	144	0
At fair value	0	1,285	0	144	0
Financial investments – fixed-income securities	0	989,955	1,130,158	0	0
At amortised costs	0	976,425	1,024,437	0	0
At fair value	0	13,530	105,721	0	0
Contingent liabilities	29,634	157,601	77	19,232	12,494
Credit risks	289,765	1,823,005	122,461	208,376	31,023
Total	**2,734,829**	**5,535,404**	**3,141,968**	**2,189,235**	**192,584**

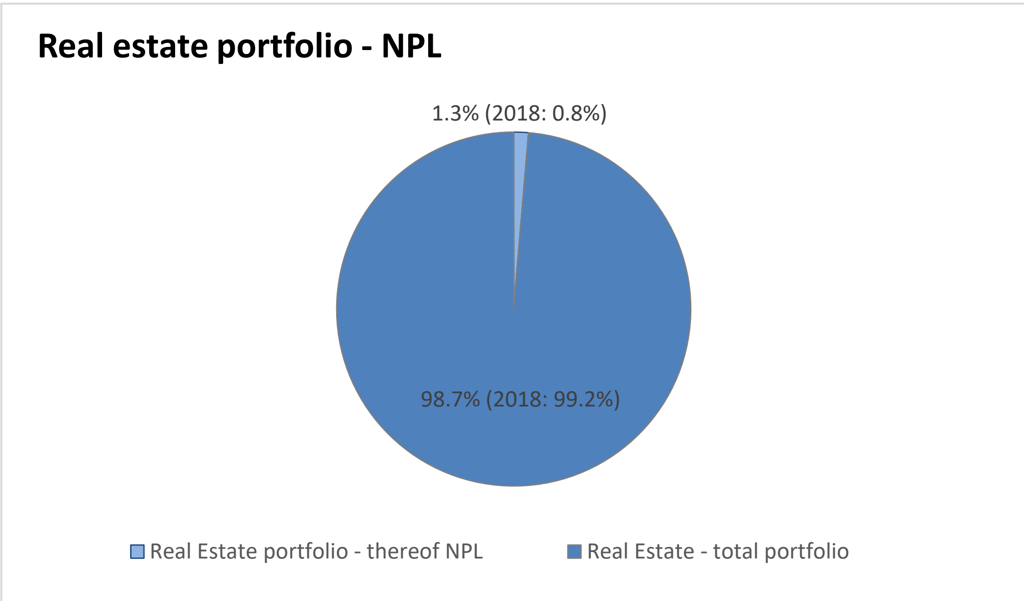
31 Dec 2019 Euro thousand	Tourism	Trade and repairs	Physicians/ healthcare	Food/ agriculture and forestry	Others	Total
Liquid funds	0	0	0	0	0	1,864,726
Loans and receivables credit institutions	0	0	0	0	0	2,466,462
At amortised costs	0	0	0	0	0	2,466,343
At fair value	0	0	0	0	0	119
Loans and receivables customers	137,823	202,790	109,419	164,792	264,509	5,526,955
At amortised costs	133,541	200,284	108,827	153,904	262,927	5,360,537
At fair value	4,283	2,505	592	10,888	1,582	166,419
Assets held for trading – fixed-income securities	0	0	0	0	445	1,873
At fair value	0	0	0	0	445	1,873
Financial investments – fixed-income securities	0	0	0	5,161	65,486	2,190,760
At amortised costs	0	0	0	5,161	61,428	2,067,451
At fair value	0	0	0	0	4,058	123,309
Contingent liabilities	9,998	13,636	2,346	1,753	24,902	271,673
Credit risks	22,387	56,547	4,766	20,561	94,007	2,672,897
Total	**170,208**	**272,972**	**116,530**	**192,268**	**449,349**	**14,995,347**

31 Dec 2018 Euro thousand	Private households	Financial services incl. banks	Public authorities	Real estate	Construction industry
Liquid funds	0	0	1,510,901	0	0
Loans and receivables credit institutions	0	1,986,707	0	0	0
At amortised costs	0	1,986,448	0	0	0
At fair value	0	259	0	0	0
Loans and receivables customers	2,301,240	97,750	31,987	1,927,235	131,642
At amortised costs	2,169,551	97,243	26,950	1,900,124	129,612
At fair value	131,689	507	5,037	27,111	2,030
Assets held for trading – fixed-income securities	0	5,431	0	356	0
At fair value	0	5,431	0	356	0
Financial investments – fixed-income securities	0	702,930	1,307,308	0	0
At amortised costs	0	685,196	981,059	0	0
At fair value	0	17,734	326,249	0	0
Contingent liabilities	34,606	174,824	8	15,122	11,226
Credit risks	324,350	2,139,459	133,885	301,003	36,475
Total	**2,660,196**	**5,107,101**	**2,984,089**	**2,243,717**	**179,343**

31 Dec 2018 Euro thousand	Tourism	Trade and repairs	Physicians/ healthcare	Food/ agriculture and forestry	Others	Total
Liquid funds	0	0	0	0	0	1,510,901
Loans and receivables credit institutions	0	0	0	0	0	1,986,707
At amortised costs	0	0	0	0	0	1,986,448
At fair value	0	0	0	0	0	259
Loans and receivables customers	133,802	216,273	116,107	152,257	307,864	5,416,158
At amortised costs	129,114	213,653	115,243	137,838	297,398	5,216,727
At fair value	4,688	2,620	864	14,419	10,465	199,431
Assets held for trading - fixed-income securities	0	0	0	0	280	6,067
At fair value	0	0	0	0	280	6,067
Financial investments - fixed-income securities	0	0	0	14,148	27,201	2,051,586
At amortised costs	0	0	0	14,148	27,201	1,707,603
At fair value	0	0	0	0	0	343,983
Contingent liabilities	15,064	16,294	2,837	1,839	21,113	292,933
Credit risks	35,539	47,257	12,352	20,564	101,782	3,152,667
Total	**184,404**	**279,824**	**131,297**	**188,808**	**458,240**	**14,417,018**

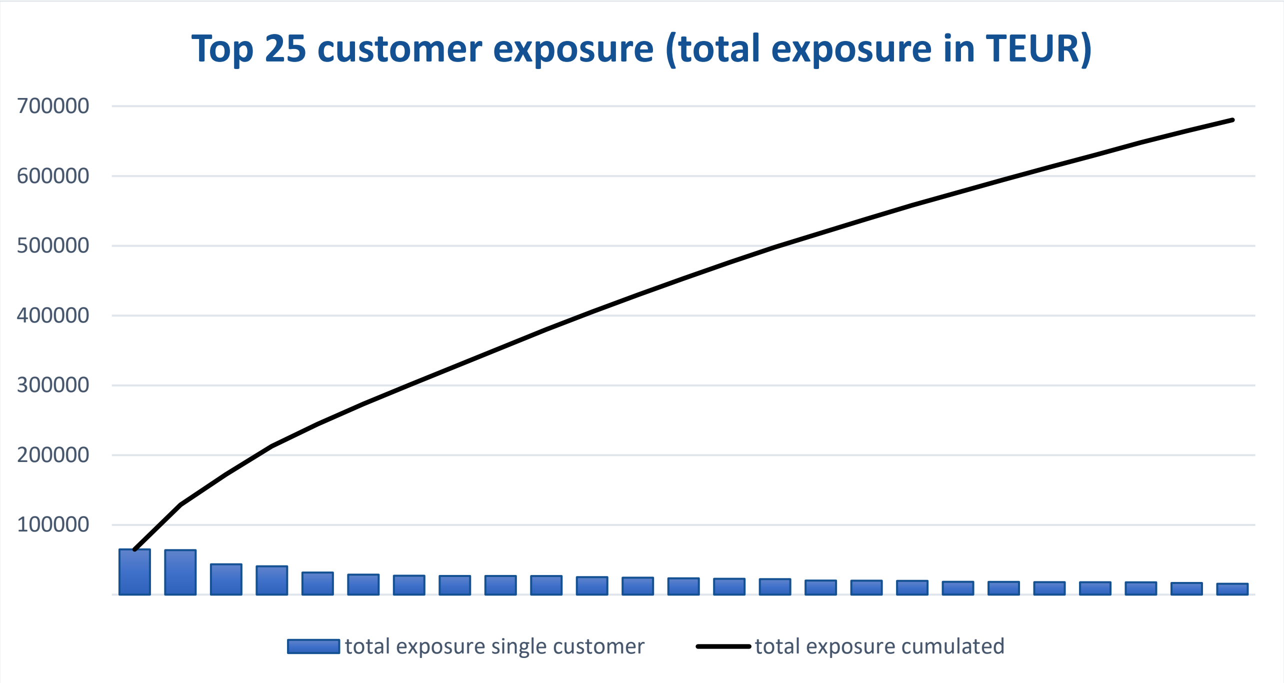
The following charts show the distribution of the real estate portfolio by segments, and the proportion of non-performing loans within the real estate portfolio. The major part of the real estate portfolio is found in the SME segment, with 77.8 % (2018: 79.9 %); at 1.3 % (2018: 0.8 %), the NPL ratio in the real estate portfolio is below the NPL ratio of internal risk control of 2.19 % (2018: 1.97 %), as at 31 December 2019.





Presentation of the Top 25 exposures

The following chart shows the Top 25 loans and receivables customers of VBW as at 31 December 2019 with the total exposure per individual customer as well as the cumulative total exposure of euro 680.251 thousand, and reflects the business model of VBW with a focus on small-volume private and SME customers. The Top 25 loans and receivables customers correspond to some 10.6 % of total loans and receivables customers within VBW (Top no. 1 customer: 1.0 % of total loans and receivables customers). The values are shown in line with the internal risk perspective, meaning loans and receivables customers as well as credit risks and contingent liabilities to customers excluding internal transactions within the Association and the portion of the Association’s guarantee that is not allocated to VBW.



Development by ratings

The division of the individual risk categories is effected according to the internal rating levels applicable within the Association. Receivables of risk category 1 have the highest credit rating (lowest expected default rate), while receivables of risk category 4 have the lowest credit rating, and receivables of risk category 5 constitute defaulted receivables (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)	Gesamt
Liquid funds	1,864,726	0	0	0	0	0	1,864,726
Loans and receivables credit institutions	157,012	2,304,448	5,002	0	0	0	2,466,462
At amortised costs	157,012	2,304,328	5,002	0	0	0	2,466,343
At fair value	0	119	0	0	0	0	119
Loans and receivables customers	213,632	1,941,435	2,980,088	254,656	132,984	4,162	5,526,955
At amortised costs	205,213	1,853,822	2,925,830	248,618	123,042	4,012	5,360,537
Thereof Retail private	62,776	1,283,022	831,607	70,177	41,782	795	2,290,159
Thereof SME	31,207	403,919	1,790,013	175,174	76,456	3,204	2,479,973
Thereof Corporates	34,319	115,581	105,951	3,267	3,281	11	262,410
Thereof other	76,912	51,300	198,260	0	1,522	1	327,994
At fair value	8,418	87,613	54,258	6,038	9,942	150	166,419
Thereof Retail private	5,788	79,054	28,306	4,311	7,732	79	125,270
Thereof SME	423	7,603	21,627	1,727	2,210	71	33,660
Thereof Corporates	0	0	555	0	0	0	555
Thereof other	2,208	956	3,769	0	0	0	6,934
Assets held for trading - fixed-income securities	0	1,418	455	0	0	0	1,873
At fair value	0	1,418	455	0	0	0	1,873
Financial investments - fixed-income securities	1,160,257	1,020,515	9,987	0	1	0	2,190,760
At amortised costs	1,063,223	994,241	9,987	0	0	0	2,067,451
Thereof Banks	452,320	511,774	9,987	0	0	0	974,082
Thereof Corporates	10,417	58,515	0	0	0	0	68,932
Thereof Public sector	600,486	423,951	0	0	0	0	1,024,437
At fair value	97,033	26,274	0	0	1	0	123,309
Thereof Banks	8,010	9,577	0	0	0	0	17,587
Thereof Corporates	0	0	0	0	1	0	1
Thereof Public sector	89,024	16,697	0	0	0	0	105,721
Contingent liabilities	2,314	69,538	164,984	4,519	3,501	26,818	271,673
Thereof Banks	90	1,734	41	0	0	0	1,865
Thereof Retail private	1,424	8,870	19,275	95	9	22	29,695
Thereof SME	722	57,243	142,688	4,421	3,418	26,783	235,275
Thereof Corporates	0	1,246	1,376	3	74	13	2,711
Thereof other	77	445	1,604	0	0	0	2,127
Credit risks	212,787	2,000,056	438,266	14,907	4,051	2,830	2,672,897
Thereof Banks	0	1,792,886	0	0	0	0	1,792,886
Thereof Retail private	88,860	98,969	99,157	1,488	287	1,288	290,049
Thereof SME	2,273	79,366	253,805	12,894	3,235	1,414	352,987
Thereof Corporates	109	26,873	21,372	525	528	123	49,530
Thereof other	121,545	1,961	63,933	0	0	5	187,444
Total	**3,610,728**	**7,337,409**	**3,598,782**	**274,082**	**140,536**	**33,809**	**14,995,347**

31 Dec 2018			Risk category				
Euro thousand	**1 (1A - 1E)**	**2 (2A - 2E)**	**3 (3A - 3E)**	**4 (4A - 4E)**	**5 (5A - 5E)**	**6 (NR)**	**Gesamt**
Liquid funds	1,510,901	0	0	0	0	0	1,510,901
Loans and receivables credit institutions	255,929	1,730,212	415	150	0	0	1,986,707
At amortised costs	255,929	1,729,956	413	150	0	0	1,986,448
At fair value	0	256	3	0	0	0	259
Loans and receivables customers	216,184	1,536,769	3,206,437	327,933	125,958	2,878	5,416,158
At amortised costs	205,233	1,425,123	3,145,956	319,844	117,708	2,863	5,216,727
Thereof Retail private	62,401	1,109,238	873,045	78,442	45,509	637	2,169,273
Thereof SME	31,821	199,063	1,985,297	234,667	69,974	2,214	2,523,036
Thereof Corporates	28,891	86,241	136,126	3,823	702	12	255,794
Thereof other	82,120	30,581	151,487	2,913	1,522	0	268,624
At fair value	10,950	111,646	60,481	8,088	8,250	15	199,431
Thereof Retail private	6,417	100,143	14,013	5,140	5,961	14	131,689
Thereof SME	466	11,393	36,713	2,948	1,426	1	52,946
Thereof Corporates	0	0	658	0	0	0	658
Thereof other	4,067	110	9,097	0	864	0	14,138
Assets held for trading – fixed-income securities	0	5,788	279	0	0	0	6,067
At fair value	0	5,788	279	0	0	0	6,067
Financial investments – fixed-income securities	1,147,497	894,544	9,545	0	0	0	2,051,586
At amortised costs	855,324	842,734	9,545	0	0	0	1,707,603
Thereof Banks	245,571	413,694	9,545	0	0	0	668,809
Thereof Corporates	10,361	47,374	0	0	0	0	57,735
Thereof Public sector	599,393	381,666	0	0	0	0	981,059
At fair value	292,173	51,810	0	0	0	0	343,983
Thereof Banks	8,837	8,897	0	0	0	0	17,734
Thereof Corporates	0	0	0	0	0	0	0
Thereof Public sector	283,336	42,913	0	0	0	0	326,249
Contingent liabilities	1,674	68,984	180,592	9,187	3,647	28,849	292,933
Thereof Banks	112	1,298	41	0	0	0	1,451
Thereof Retail private	1,505	10,245	22,479	423	10	6	34,668
Thereof SME	54	54,972	156,768	8,754	3,601	28,827	252,975
Thereof Corporates	0	2,464	364	10	36	16	2,890
Thereof other	3	5	941	0	0	0	948
Credit risks	223,372	2,337,921	552,795	30,094	1,308	7,177	3,152,667
Thereof Banks	0	2,107,460	0	0	0	0	2,107,460
Thereof Retail private	89,533	97,449	133,914	2,462	191	1,136	324,685
Thereof SME	749	99,689	321,726	26,702	1,118	5,923	455,907
Thereof Corporates	225	31,206	25,616	930	0	105	58,082
Thereof other	132,865	2,117	71,538	0	0	13	206,533
Total	**3,355,558**	**6,574,217**	**3,950,062**	**367,363**	**130,913**	**38,904**	**14,417,018**

Portfolio distribution by ratings and stages

31 Dec 2019 Euro thousand	Risk category 1 (1A - 1E)	2 (2A - 2E)	3 (3A - 3E)	4 (4A - 4E)	5 (5A - 5E)	6 (NR)	Total
Liquid funds	1,864,726	0	0	0	0	0	1,864,726
Loans and receivables credit institutions	157,012	2,304,448	5,002	0	0	0	2,466,462
At amortised costs	157,012	2,304,328	5,002	0	0	0	2,466,343
Thereof Stage 1	157,003	2,304,328	4,999	0	0	0	2,466,330
Thereof Stage 2	9	0	3	0	0	0	12
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	0	119	0	0	0	0	119
Loans and receivables customers	213,632	1,941,435	2,980,088	254,656	132,984	4,162	5,526,955
At amortised costs	205,213	1,853,822	2,925,830	248,618	123,042	4,012	5,360,537
Thereof Stage 1	205,202	1,833,046	2,543,608	89,634	0	607	4,672,098
Thereof Stage 2	12	20,775	382,222	158,983	0	3,405	565,397
Thereof Stage 3	0	0	0	0	123,042	0	123,042
At fair value	8,418	87,613	54,258	6,038	9,942	150	166,419
Assets held for trading – fixed-income securities	0	1,418	455	0	0	0	1,873
At amortised costs	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	1,418	455	0	0	0	1,873
Financial investments – fixed-income securities	1,160,257	1,020,515	9,987	0	1	0	2,190,760
At amortised costs	1,063,223	994,241	9,987	0	0	0	2,067,451
Thereof Stage 1	1,063,223	994,241	9,987	0	0	0	2,067,451
Thereof Stage 2	0	0	0	0	0	0	0
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	97,033	26,274	0	0	1	0	123,309
Contingent liabilities	2,314	69,538	164,984	4,519	3,501	26,818	271,673
Thereof Stage 1	2,308	68,696	155,665	1,633	0	26,710	255,012
Thereof Stage 2	5	842	9,319	2,886	0	108	13,160
Thereof Stage 3	0	0	0	0	3,501	0	3,501
Credit risks	212,787	2,000,056	438,266	14,907	4,051	2,830	2,672,897
Thereof Stage 1	211,321	1,995,965	390,594	9,125	0	1,424	2,608,430
Thereof Stage 2	1,466	4,091	47,673	5,782	0	1,405	60,417
Thereof Stage 3	0	0	0	0	4,050	0	4,050
Total	**3,610,728**	**7,337,409**	**3,598,782**	**274,082**	**140,536**	**33,809**	**14,995,347**

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	1,510,901	0	0	0	0	0	1,510,901
Loans and receivables credit institutions	255,929	1,730,212	415	150	0	0	1,986,707
At amortised costs	255,929	1,729,956	413	150	0	0	1,986,448
Thereof Stage 1	255,929	1,729,955	412	150	0	0	1,986,446
Thereof Stage 2	0	0	1	0	0	0	1
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	0	256	3	0	0	0	259
Loans and receivables customers	216,184	1,536,769	3,206,437	327,933	125,958	2,878	5,416,158
At amortised costs	205,233	1,425,123	3,145,956	319,844	117,708	2,863	5,216,727
Thereof Stage 1	205,060	1,410,539	2,871,520	147,542	0	582	4,635,242
Thereof Stage 2	174	14,584	274,436	172,303	0	2,281	463,777
Thereof Stage 3	0	0	0	0	117,708	0	117,708
At fair value	10,950	111,646	60,481	8,088	8,250	15	199,431
Assets held for trading – fixed-income securities	0	5,788	279	0	0	0	6,067
At amortised costs	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	5,788	279	0	0	0	6,067
Financial investments – fixed-income securities	1,147,497	894,544	9,545	0	0	0	2,051,586
At amortised costs	855,324	842,734	9,545	0	0	0	1,707,603
Thereof Stage 1	855,324	842,734	9,545	0	0	0	1,707,603
Thereof Stage 2	0	0	0	0	0	0	0
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	292,173	51,810	0	0	0	0	343,983
Contingent liabilities	1,674	68,984	180,592	9,187	3,647	28,849	292,933
Thereof Stage 1	1,674	68,036	173,513	5,674	0	28,816	277,714
Thereof Stage 2	0	948	7,078	3,512	0	33	11,572
Thereof Stage 3	0	0	0	0	3,647	0	3,647
Credit risks	223,372	2,337,921	552,795	30,094	1,308	7,177	3,152,667
Thereof Stage 1	222,503	2,335,280	527,458	22,645	0	6,194	3,114,080
Thereof Stage 2	869	2,641	25,337	7,449	0	983	37,279
Thereof Stage 3	0	0	0	0	1,308	0	1,308
Total	**3,355,558**	**6,574,217**	**3,950,062**	**367,363**	**130,913**	**38,904**	**14,417,018**

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 customers exclusively.

Euro thousand	31 Dec 2019
Amortised cost before modification	334,278
Net modification gain/loss	-4,067
Gross carrying amount at 31 Dec. of financial assets for which loss allowance has changed to 12-months measurement during period	13,242

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 2.19 % for VBW (2018: 1.97 %).

The NPL coverage ratio through risk provisions or Coverage Ratio I for internal reporting amounts to 30.53 % for VBW as at 31 December 2019 (2018: 29.81 %).

The NPL coverage ratio through risk provisions and collateral securities or Coverage Ratio III for internal reporting amounts to 100.05 % for VBW as at 31 December 2019 (2018: 104.73 %).

These ratios under the internal risk perspective exclusively refer to loans and receivables customers as well as credit risks and contingent liabilities towards customers excluding internal transactions within the Association and the portion of the Association's guarantee that is not allocated to VBW. For this reason, these figures are different from the values presented in the following table. The credit risks and contingent liabilities in the table below also include transactions concluded with other Volksbanks. The items substantially increase the NPL denominator, thus reducing, for instance, the NPL ratio significantly (see explanatory notes below); accordingly, this perspective is less relevant for risk control. Moreover, the following table shows the full amounts of the transactions covered by the Association's guarantee. As, however, VBW as the CO of the Association of Volksbanks has passed on parts of the risk under any assumed loan portfolio to other Volksbanks, these parts will not be taken into account within the internal risk perspective for the purpose of steering VBW.

The credit risk volume relevant for calculating the NPL ratio amounted to euro 6,430,071 thousand in internal reporting (2018: euro 6,462,068 thousand). As mentioned already, this amount excludes the pro rata guarantee of the Association as well as the internal transactions of the Association and is accordingly much lower than the euro 8,471,526 thousand shown in the following table as at 31 December 2019 (2018: euro 8,861,757 thousand).

Also the total of NPL, risk provisions and collaterals in the NPL portfolio in internal reporting slightly differs from the values shown in the following table, which is due to the pro rata allocation of defaulted guarantee transactions of the Association to the remaining Volksbanks. There are no internal transactions within the Association.

Portfolio distribution NPL Portfolio:

31 Dec 2019 Euro thousand	Loan volume – total	NPL	NPL Ratio	Risk provisions for NPL
Liquid funds	1,864,726	0	0.00%	0
Loans and receivables credit institutions	2,466,462	0	0.00%	0
At amortised costs	2,466,343	0	0.00%	0
At fair value	119	0	0.00%	0
Loans and receivables customers	5,526,955	132,984	2.41%	40,712
At amortised costs	5,360,537	123,042	2.30%	40,712
Thereof Retail private	2,290,159	41,782	1.82%	14,007
Thereof SME	2,479,973	76,456	3.08%	25,297
Thereof Corporates	262,410	3,281	1.25%	1,342
Thereof other	327,994	1,522	0.46%	65
At fair value	166,419	9,942	5.97%	0
Thereof Retail private	125,270	7,732	6.17%	0
Thereof SME	33,660	2,210	6.56%	0
Thereof Corporates	555	0	0.00%	0
Thereof other	6,934	0	0.00%	0
Assets held for trading - fixed-income securities	1,873	0	0.00%	0
At amortised costs	0	0	0.00%	0
At fair value	1,873	0	0.00%	0
Financial investments - fixed-income securities	2,190,760	1	0.00%	0
At amortised costs	2,067,451	0	0.00%	0
At fair value	123,309	1	0.00%	0
Contingent liabilities	271,673	3,501	1.29%	2,208
Credit risks	2,672,897	4,051	0.15%	819
Total	**14,995,347**	**140,536**	**0.94%**	**43,739**
Loans and receivables customers, contingent liabilities, credit risks	8,471,526	140,535	1.66%	43,739
Liquid funds, loans and receivables credit institutions and customers	9,858,143	132,984	1.35%	40,712

31 Dec 2019 Euro thousand	NPL coverage ratio (Loan loss allowance)	Collateral for NPL	NPL cover-age ratio (Loan loss allowance + collateral)
Liquid funds	0.00%	0	0.00%
Loans and receivables credit institutions	0.00%	0	0.00%
Loans and receivables customers	30.61%	97,435	103.88%
At amortised costs	33.09%	89,517	105.84%
Thereof Retail private	33.52%	32,381	111.02%
Thereof SME	33.09%	55,475	105.64%
Thereof Corporates	40.91%	140	45.18%
Thereof other	4.24%	1,522	104.24%
At fair value	0.00%	7,918	79.64%
Thereof Retail private	0.00%	6,131	79.29%
Thereof SME	0.00%	1,787	80.89%
Thereof Corporates	0.00%	0	0.00%
Assets held for trading - fixed-income securities	0.00%	0	0.00%
Financial investments - fixed-income securities	0.00%	0	0.00%
Contingent liabilities	63.08%	1,748	113.01%
Credit risks	20.22%	0	20.22%
Total	**31.12%**	**99**	**101.70%**
Loans and receivables customers, contingent liabilities, credit risks	31.12%	99,183	101.70%
Liquid funds, loans and receivables credit institutions and customers	30.61%	97,435	103.88%

31 Dec 2018

Euro thousand	Loan volume - total	NPL	NPL Ratio	Risk provisions for NPL
Liquid funds	1,510,901	0	0.00%	0
Loans and receivables credit institutions	1,986,707	0	0.00%	0
Loans and receivables customers	5,416,158	125,958	2.33%	39,172
Thereof Retail private	2,169,273	45,509	2.10%	12,198
Thereof SME	2,523,036	69,974	2.77%	26,352
Thereof Corporates	255,794	702	0.27%	214
Thereof other	268,624	1,522	0.57%	408
Assets held for trading - fixed-income securities	6,067	0	0.00%	0
Financial investments - fixed-income securities	2,051,586	0	0.00%	0
Contingent liabilities	292,933	3,647	1.25%	2,795
Credit risks	3,152,667	1,308	0.04%	362
Total	**14,417,018**	**130,913**	**0.91%**	**42,329**
Loans and receivables customers, contingent liabilities, credit risks	8,861,757	130,913	1.48%	42,329
Liquid funds, loans and receivables to credit institutions and customers	8,913,766	125,958	1.41%	39,172

31 Dec 2018 Euro thousand	NPL coverage ratio (Loan loss allowance)	Collateral for NPL	NPL coverage ratio (Loan loss allowance + collateral)
Liquid funds	0.00%	0	0.00%
Loans and receivables credit institutions	0.00%	0	0.00%
Loans and receivables customers	31.10%	94,785	106.35%
Thereof Retail private	26.80%	36,551	107.12%
Thereof SME	37.66%	48,910	107.56%
Thereof Corporates	30.47%	0	30.47%
Thereof other	26.83%	1,522	126.83%
Assets held for trading - fixed-income securities	0.00%	0	0.00%
Financial investments - fixed-income securities	0.00%	0	0.00%
Contingent liabilities	76.65%	1,463	116.75%
Credit risks	27.68%	0	27.68%
Total	**32.33%**	**96.248**	**105.85%**
Loans and receivables customers, contingent liabilities, credit risks	32.33%	96,248	105.85%
Liquid funds, loans and receivables credit institutions and customers	31.10%	94,785	106.35%

EWB = individual loan loss provision

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	154,995
Classified as impaired during the year	29,769
Transferred to not-impaired during the year	-11,035
Write off - NPL	-42,395
Net repayments and other movements	-421
NPL as at 31 December 2018	130,913
Classified as impaired during the year	50,123
Transferred to not-impaired during the year	-5,730
Write off - NPL	-20,555
Net repayments and other movements	-14,216
NPL as at 31 December 2019	**140,535**

The other portfolio changes in the 2018 business year include the increase of the carrying amount of NPL holdings from the Volksbank Horn merger in the amount of euro 2,615 thousand.

Development forbearance portfolio

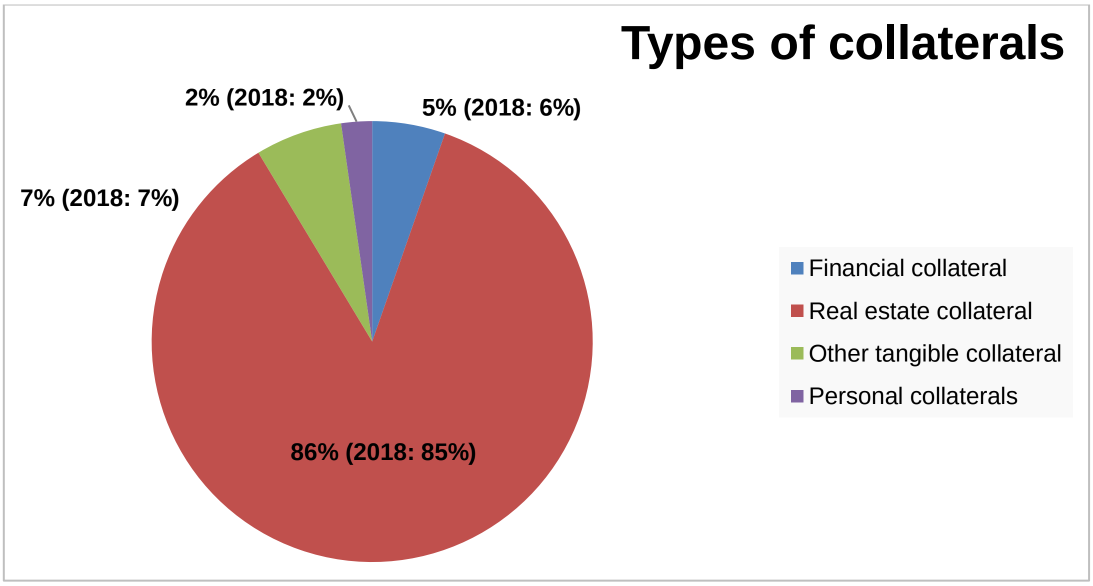
Forbearance refers to contractual concessions made by the lender to the debtor in the context of financial difficulties or imminent financial difficulties of the debtor, which the lender would not grant otherwise. Debtors whose transactions are classified as forborne are subject to special monitoring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

In relation to customer loans prior to allocation of the Association's guarantee, concessions were made for economic reasons for a total carrying amount of euro 83,708 thousand (2018: euro 78.631 thousand). This amount relates to performing forborne credit exposures in the amount of euro 33,896 thousand (2018: euro 39,076 thousand) and non-performing forborne credit exposures in the amount of euro 49,812 thousand (2018: euro 39,554 thousand).

Development of the portfolio of collaterals:

The following diagram and table show the development of the portfolio of collaterals, with real estate collaterals accounting for the major part at VBW. 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 collaterals amount - total	Real estate collaterals	Financial collaterals	Personal collaterals	Other tangible collaterals	Loan loss allowances	Provisions
Liquid funds	1,864,726	0	0	0	0	0	0	0
Loans and receivables credit institutions	2,466,462	321,088	0	0	33,186	287,902	47	0
At amortised cost	2,466,343	321,088	0	0	33,186	287,902	47	0
At fair value	119	0	0	0	0	0	0	0
Loans and receivables customers	5,526,955	5,002,941	4,587,165	275,979	85,062	54,735	55,619	0
At amortised cost	5,360,537	4,857,778	4,454,826	264,493	83,894	54,566	55,619	0
Thereof Retail private	2,290,159	2,156,315	2,011,806	141,797	702	2,010	20,165	0
Thereof SME	2,479,973	2,231,819	2,051,206	115,088	53,704	11,821	32,609	0
Thereof Corporates	262,410	177,661	112,388	2,860	23,132	39,282	1,498	0
Thereof other	327,994	291,983	279,426	4,749	6,356	1,452	1,347	0
At fair value	166,419	145,163	132,339	11,486	1,168	169	0	0
Thereof Retail private	125,270	100,990	91,402	9,416	8	163	0	0
Thereof SME	33,660	30,356	28,450	1,782	118	6	0	0
Thereof Corporates	555	534	416	0	119	0	0	0
Thereof other	6,934	13,282	12,071	288	923	0	0	0
Assets held for trading - fixed-income securities	1,873	0	0	0	0	0	0	0
At fair value	1,873	0	0	0	0	0	0	0
Financial investments	2,190,760	0	0	0	0	0	442	0
At amortised cost	2,067,451	0	0	0	0	0	442	0
At fair value	123,309	0	0	0	0	0	0	0
Contingent liabilities	271,673	52,885	37,701	12,092	3,092	0	0	2,780
Credit risks	2,672,897	0	0	0	0	0	0	1,894
Total	**14,995,347**	**5,376,913**	**4,624,866**	**288,071**	**121,340**	**342,637**	**56,108**	**4,674**

31 Dec 2018

Euro thousand	Loan volume - total	Allowable collaterals amount - total	Real estate collaterals	Financial collaterals	Personal collaterals	Other tangible collaterals	Loan loss allowances	Provisions
Liquid funds	1,510,901	0	0	0	0	0	0	0
Loans and receivables credit institutions	1,986,707	357,834	0	0	36,468	321,366	67	0
At amortised cost	1,986,448	357,834	0	0	36,468	321,366	67	0
At fair value	259	0	0	0	0	0	0	0
Loans and receivables customers	5,416,157	4,975,694	4,532,573	302,844	95,046	45,232	50,482	0
At amortised cost	5,216,727	4,792,700	4,365,752	288,612	93,336	45,000	50,482	0
Thereof Retail private	2,169,273	2,042,588	1,886,360	154,704	473	1,051	15,923	0
Thereof SME	2,523,036	2,281,111	2,088,462	123,031	67,375	2,243	32,610	0
Thereof Corporates	255,794	195,430	135,333	3,664	17,954	38,478	386	0
Thereof other	268,624	273,571	255,597	7,212	7,534	3,229	1,563	0
At fair value	199,431	182,994	166,820	14,232	1,710	232	0	0
Thereof Retail private	131,689	127,624	115,408	12,004	0	212	0	0
Thereof SME	52,946	46,630	44,181	2,228	202	20	0	0
Thereof Corporates	658	684	561	0	123	0	0	0
Thereof other	14,138	8,055	6,670	0	1,385	0	0	0
Assets held for trading - fixed-income securities	6,067	0	0	0	0	0	0	0
At fair value	6,067	0	0	0	0	0	0	0
Financial investments	2,051,586	0	0	0	0	0	464	0
At amortised costs	1,707,603	0	0	0	0	0	464	0
t fair value	343,983	0	0	0	0	0	0	0
Contingent liabilities	292,933	54,206	40,278	11,054	2,744	131	0	3,092
Credit risks	3,152,667	0	0	0	0	0	0	1,007
Total	**14,417,018**	**5,387,734**	**4,572,850**	**313,898**	**134,257**	**366,729**	**51,012**	**4,099**

Acquisition of real estate collaterals

In the past, real estate collaterals were only acquired in individual instances within VBW. Currently, this instrument is not applied any longer, the one existing real estate collateral will be disposed of in full.

Development of the netting positions

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

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**

mm) 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. VBW 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 VBW 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 side 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 over several years 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 interest rate risk 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.

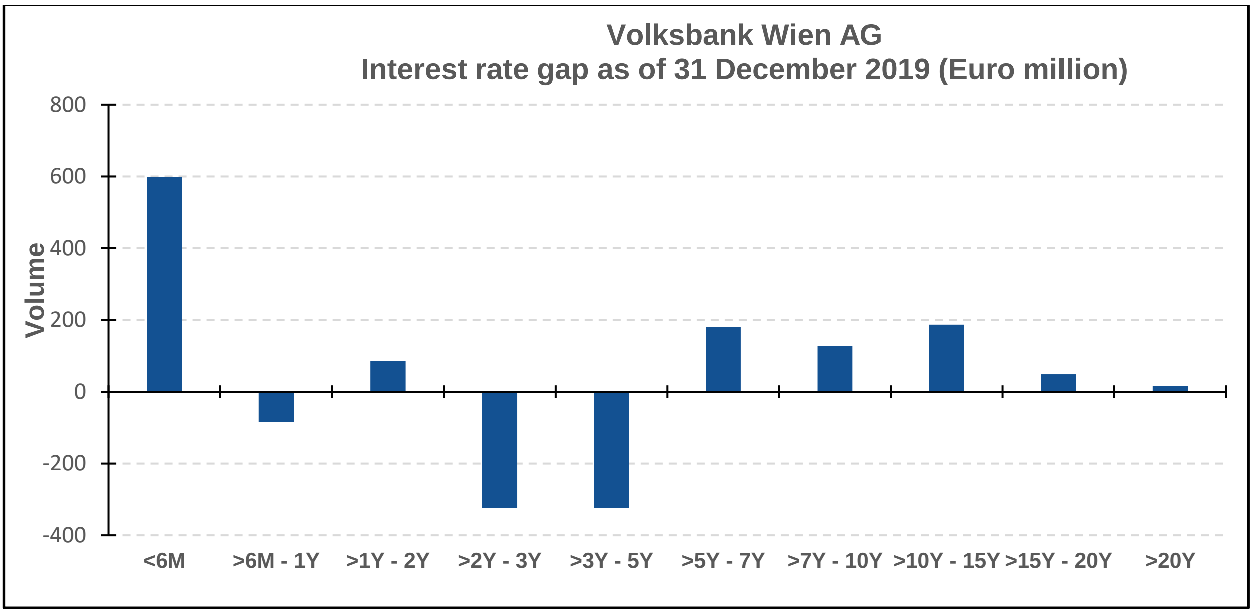
At the end of 2019, VBW reports a relatively low positive term transformation. As at 31 December 2019, the present-value interest rate risk, measured using the OeNB interest rate risk coefficient, amounted to 2.9 % of own funds, which is clearly below the regulatory outlier definition of 20 %. In mid-2019, 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 5.2 %, and is hence clearly below the notifiable limit of 15 %.

The Asset Liability Committee (ALCO) is responsible for controlling the interest rate position of VBW within the scope of risk limits defined by Risk Control and approved by the Managing Board via the risk strategy. The ALCO is convened monthly at the CO or ad hoc as required. The Asset Liability Management (ALM), 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 interest rate scenarios defined under applicable regulatory provisions (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 10 million in the least favourable scenario (a severe interest rate reduction (parallel 200 bps)). 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.

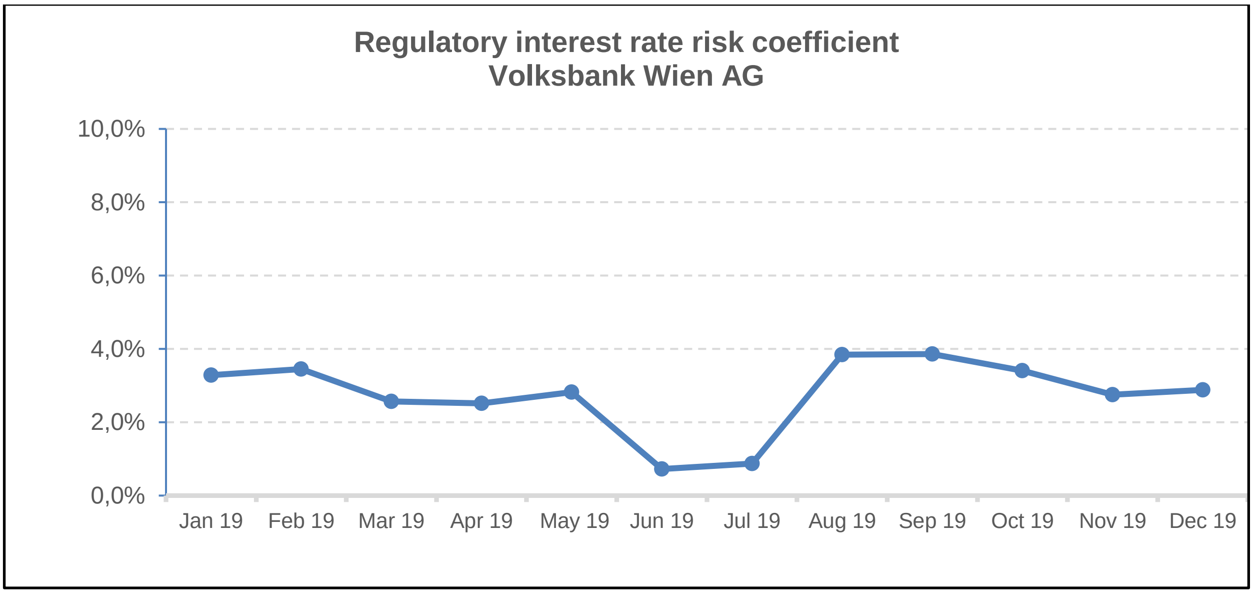
In both perspectives (present value and periodic), positions with indefinite interest rate periods (e.g. in the form of sight and savings deposits, current account facilities) are included consistently in the risk measurement process by assuming replication and/or rolling. The assumptions are determined 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 as at 31 December 2019



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

OeNB interest rate risk coefficient as at 31 December 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 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 either at VBW or 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 sensitivity to an 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 one 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 VBW

31 Dec 2019 Euro thousand	Credit spread value at risk	100 basis points-shift
Section 30a of the Austrian Banking Act - Association of Volksbanks	139,372	-155,876

31 Dec 2018 Euro thousand	Credit spread value at risk	100 basis points-shift
Section 30a of the Austrian Banking Act - Association of Volksbanks	175,005	-147,098

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 AAA risk cluster with 40 % and in the Republic of Austria risk cluster with 25 % of the portfolio. 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)	1,744,882	1,630,545
Risk category 2 (2A - 2E)	477,608	439,698
Risk category 3 (3A - 3E)	0	4,371
Risk category 4 (4A - 4E)	0	0
Risk category 5 (5A - 5E)	0	0
Risk category 6 (NR)	0	0
Total	**2,222,490**	**2,074,614**

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 a increase in credit spreads by 100 bps is around euro -1.1 million within VBW (31 December 2019). As new purchases are allocated to the category ‘measured at amortised cost’ for the major part, this sensitivity decreases continuously.

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	881,756	6,143	0	887,899
Sovereigns Austria	503,958	52,602	0	556,560
Sovereigns Italy	166,127	0	0	166,127
Sonstige Sovereigns EUR AA	54,435	31,369	0	85,804
Sovereigns Poland	69,229	10,142	0	79,371
Sovereigns Belgium	62,134	0	0	62,134
Sovereigns Portugal	59,836	0	0	59,836
Sovereigns Spain	55,522	0	0	55,522
Corporates EUR BBB	44,313	0	0	44,313
Sovereigns Slovakia	40,940	1,015	0	41,955
Total	**1,938,249**	**101,271**	**0**	**2,039,520**

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	478,458	233,631	0	712,089
Covered EUR AAA	574,736	2,146	0	576,881
Sovereigns Italy	156,346	0	0	156,346
Sovereigns Poland	62,868	35,103	0	97,971
Sovereigns Belgium	59,067	0	0	59,067
Sovereigns Portugal	56,251	0	0	56,251
Sonstige Sovereigns EUR AA	43,035	8,346	3,049	54,430
Sonstige Sovereigns EUR A	19,002	31,664	0	50,666
Sovereigns Spain	50,477	0	0	50,477
Covered EUR AA	46,177	0	0	46,177
Total	**1,546,418**	**310,889**	**3,049**	**1,860,356**

Portfolio structure by IFRS 9 categories

31 Dec 2019 Euro thousand	Bond	Syndicated loan & SSD	Fund & Equity	Total
Amortised cost	2,072,809	28,286	0	2,101,096
Fair value through OCI	115,758	0	0	115,758
Fair value through profit or loss	5,637	0	0	5,637
Total	**2,194,204**	**28,286**	**0**	**2,222,490**

31 Dec 2018 Euro thousand	Bond	Syndicated loan & SSD	Fund & Equity	Total
Amortised cost	1,713,132	28,258	0	1,741,390
Fair value through OCI	328,059	0	0	328,059
Fair value through profit or loss	2,116	0	3,049	5,165
Total	**2,043,307**	**28,258**	**3,049**	**2,074,614**

Market risk in the trading book

The market risk in the trading book of VBW is of subordinate 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 is relatively low and mainly arises from euro interest rate positions.

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

The following table shows the VaR (99 % confidence level, holding period 1 day) in the trading book, broken down 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 subordinate importance at VBW. It arises due to changes of the value of outstanding receivables and liabilities in foreign currencies through exchange rate fluctuations.

The following table shows FX sensitivity for each currency (open FX positions)

Currency Euro thousand	31 Dec 2019	31 Dec 2018
CHF	660	575
JPY	-214	-42
CZK	-200	-250
GBP	-70	-2
USD	60	-126
Others	137	38
Total	**373**	**192**

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 premium. The premiums 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 the receivables measured at fair value through profit or loss

31 Dec 2019 Euro thousand	Market liquidity costs +10 basis points	Interest rate sensitivity +10 basis points
Fair value through profit or loss - loans and receivables	-721	-129

nn) 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 VBW 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 is responsible for controlling the liquidity position of VBW within the scope of risk limits defined by Risk Control and approved by the Managing Board within ALCO. The ALCO 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, VBW distinguishes between illiquidity risk and funding risk. Illiquidity risk is the risk to be unable to fulfil payment obligations when they are due. For VBW as a retail bank, 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.

At VBW, 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 at VBW, as the company is hardly dependent on the capital market, and little price sensitivity is observed in the sphere of customer deposits.

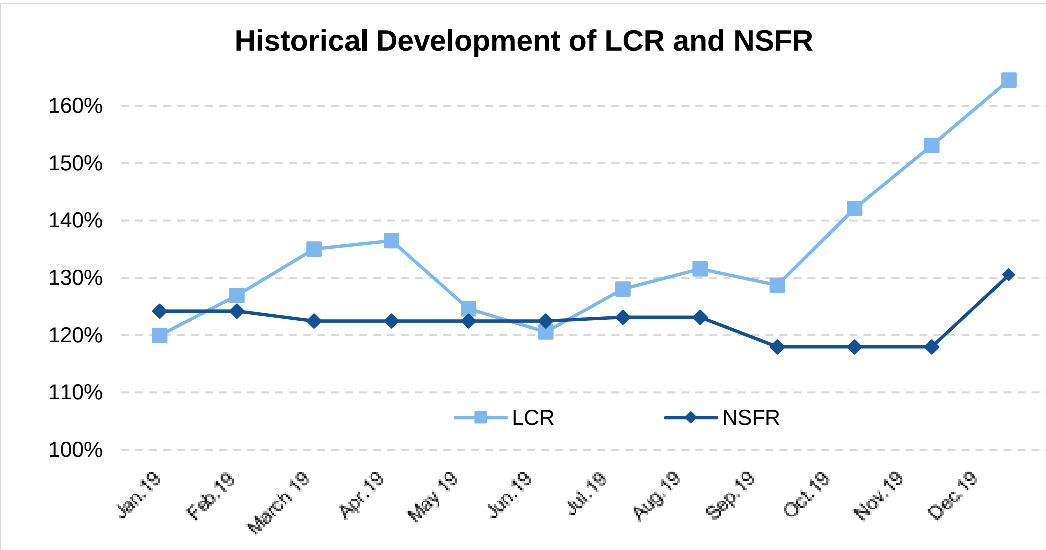
The risk measurement and limitation of illiquidity risk is effected through the regulatory indicators LCR and NSFR, the survival period from internal liquidity stress testing, and through additional operational indicators. The LCR aims to ensure the short-term financial solvency of banks under stressed 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 for VBW. 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 survival period is calculated at the level of the Association, not the individual bank.

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. In 2019, the LCR has always been above the internal target of 115 % on the last day of each month. The LCR depends on payment transactions and calendar effects causing material monthly changes. The LCR decreases during the month due to effects of payment transactions, therefore it is sometimes clearly above the limit at the end of the month. The NSFR is calculated regularly and has always been above target over the past months. In 2019, the survival period always exceeded 150 days at the last day of the month, and was thus clearly above internal limits.

LCR and NSFR development in 2019



The LCR shows typical jumps mainly due to payment transactions resp. 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 Control 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 at VBW and 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

oo) Operational risk

VBW 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

At VBW, 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. Cooperation 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 at the level of the Association, 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 of the Association of Volksbanks, apply in OpRisk Management at VBW:

- 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 VBW, 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 interrelated 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.

pp) Other risks

In terms of other risks, VBW is confronted with strategic risk, reputational risk, equity risk, direct real estate risk, model risk as well as the earnings risk.

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).

VBW 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).

The earnings risk is the risk arising from the volatility of earnings and hence the 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)]

Gesellschaftsname; Sitz	GesArt*	Anteil am Kapital	Anteil am Stimmrecht	Nennkapital in EUR Tsd.
3V-Immobilien Errichtungs-GmbH; Wien	HD	100.00 %	100.00 %	35
Gärtnerbank Immobilien GmbH; Wien	HD	100.00 %	100.00 %	35
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Wien	HD	100.00 %	100.00 %	35
VB Infrastruktur und Immobilien GmbH; Wien	HD	100.00 %	100.00 %	35
VB Rückzahlungsgesellschaft mbH; Wien	HO	100.00 %	100.00 %	35
VB Services für Banken Ges.m.b.H.; Wien	HD	98.89 %	98.89 %	327
VB Verbund-Beteiligung Region Wien eG; Wien	HO	90.54 %	90.54 %	3,843
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	HD	99.00 %	99.00 %	36
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Wien	FI	100.00 %	100.00 %	872

[1)] All fully consolidated companies are under control.

54) Companies measured at equity

Gesellschaftsname; Sitz	GesArt*	Anteil am Kapital	Anteil am Stimmrecht	Nennkapital in EUR Tsd.
VB Verbund-Beteiligung eG; Wien	HO	29.07 %	29.07 %	51,877
Volksbank Kärnten eG; Klagenfurt	KI	25.24 %	25.24 %	34,707

55) Unconsolidated affiliated companies

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousend
ARZ-Volksbanken Holding GmbH; Wien	HO	74.51 %	74.51 %	256
Immo-Contract Baden Maklergesellschaft m.b.H.; Baden	SO	93.51 %	93.51 %	175
UVB-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
VB ManagementBeratung GmbH; Wien	SO	100.00 %	100.00 %	36
VBKA-Holding GmbH; Wien	SO	100.00 %	100.00 %	35

*Abbreviations Type

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

AUDITOR'S REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Opinion

We have audited the consolidated Financial Statements of

VOLKSBANK WIEN AG,
Vienna, Austria,

and its subsidiaries ("the Group"), which comprise the 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 present fairly, in all material respects, the consolidated Financial Position of the Group as of 31 December 2019, and its consolidated Financial Performance and consolidated Cash Flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) and the Section 59a BWG (Austrian Banking Act).

Basis for our Opinion

We conducted our audit in accordance with the EU Regulation 537/2014 ("AP Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the audited Group in accordance with Austrian company 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated Financial Statements. These matters were addressed in the context of our audit of the consolidated Financial Statements 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 cost amounts to EUR 5,360.5 million, accounting for 42.2 % of total assets. The loan loss provisions for these loans to and receivables from customers at amortised cost amount to EUR 55.6 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.

AUDITOR'S REPORT

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 group´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 group'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 group'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 Group recognized deferred tax assets on tax loss carryforwards amounting to EUR 26.8 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.

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 Group's past results is respect of their planning accuracy. For these procedures, we consulted our valuation specialists.

AUDITOR'S REPORT

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

Management is responsible for the preparation and fair presentation of the consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) as well as Section 59a BWG and for such internal control as management determines is necessary to enable the preparation of consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the consolidated Financial Statements 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.

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

Moreover:
- We identify and assess the risks of material misstatement in the consolidated Financial Statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated Financial Statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated Financial Statements, including the notes, and whether the consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

AUDITOR'S REPORT

- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. 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 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

Group Management Report

In accordance with Austrian company law, the Group management report is to be audited as to whether it is consistent with the consolidated Financial Statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the Group 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 Group management reports.

Opinion

In our opinion, the Group 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 and our understanding of the Group and its environment, we did not note any material misstatements in the Group management report.

Other Information

Management is responsible for other information. Other information is all information provided in the annual report, other than the consolidated Financial Statements, the Group management report and the auditor's report. We expect the annual report to be provided to us after the date of the auditor's report.

Our opinion on the consolidated Financial Statements 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 or any apparent material misstatement of fact.

Additional Information in accordance with Article 10 AP Regulation

We were elected as auditors at the Annual General Meeting on 24 April 2018 and were appointed by the supervisory board on 24 April 2018 to audit financial statements of the Company for the financial year ending on 31 December 2019.

On 16 May 2019 we were elected for the year ending 31 December 2020 and on 28 May 2019 the supervisory board appointed us to audit of the financial statements.

AUDITOR'S REPORT

We have been auditors of the Company, without interruption, since the consolidated financial statements at 31 December 2015.

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

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

Engagement Partner
The engagement partner is Mr Walter Reiffenstuhl.

Vienna, 12 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 Group management report are identical with the audited version attached to this report. Section 281 Paragraph 2 UGB (Austrian Commercial Code) applies.

STATEMENT OF ALL LEGAL REPRESENTATIVES

VOLKSBANK WIEN AG
Statement of all Legal Representatives

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the group faces.

Vienna, 12 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

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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.

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Any role discriptions in this consolidated annual report that are used only in the masculine form apply analogously to the feminine form.

1) In relation to total risk 2) End-of-period figure Austrian Business Code/unconsolidated 3) Staff at end-of-period based on full-time equivalent
As at 31 December 2019, VOLKSBANK WIEN AG including the function as central organisation