VOLKSBANK

ANNUAL REPORT

ASSOCIATION OF VOLKSBANKS

2016

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MANAGEMENT REPORT OF THE ASSOCIATION OF VOLKSBANKS

Report on the business development and economic situation

Business development

For the Association of Volksbanks, 2016 was a year of mergers and the first full year of VB Wien (VBW) assuming the function as central organisation (CO) of the Association of Volksbanks – in addition to its own retail business. As CO of the Austrian Association of Volksbanks according to section 30a Austrian Banking Act (BWG), VBW assumes extensive management and steering functions and is also responsible, among others, for risk and liquidity management across the Association. The members of the Association of Volksbanks assume unlimited liability among each other. The pro rata allocation of the CO's costs and risks of the members has contractually been agreed.

The members of the Association of Volksbanks continue to position themselves as strong regional banks with a focus on Retail and Corporates in Austria. To intensify securities business, the cooperation with Union Investment Austria GmbH was expanded in 2016, by way of a new marketing agreement, and reorientation of the branches was started with a view to bundling consultancy business.

Apart from the mergers in the business year, the focus was on implementation of cost-intensive projects due to regulatory requirements and on strategically important topics. The future requirements of IFRS 9, MiFID and the digitalisation within sales are most important in this respect.

On 29 June 2016, VBW obtained unlimited regulatory approval of the Association of Volksbanks. Accordingly, the regulatory authorities have appreciated and recognised the massive organisational and economic progress achieved since the spin-off in 2015. In particular, the arranged conclusion of the new association agreement, the strengthening of equity and the improvement of the risk situation within the Association have been important mile-stones in this respect.

The Supervisory Review and Evaluation Process (SREP) was carried out with effect on 31 December 2015. By resolution dated 25 November 2016, the recommendation regarding capital was determined with respect to Pillar 2, which must be – and currently is – complied with on the level of the Association.

By selling start:bausparkasse and IMMO-BANK on 1 December 2016, the Association of Volksbanks reached another important milestone in becoming a strong and efficient Association of Volksbanks on 1 December 2016. The sale of start:group, resulting from a change of strategy, not only made the structure of the Association more efficient, but has also sustainably strengthened the core capital of the Association of Volksbanks, thus allowing for the intensive continuation of the growth offensive in SME financing as well as in consultancy-oriented retail business. Within the scope of the transaction, VBW has also managed to sell the shares in IMMO BANK held via an intermediate holding company.

In 2016, the Association of Volksbanks paid special attention to the management of non-performing loans (NPL). In the previous business year, having considered the more stringent regulatory requirements already, the NPL ratio was reduced to 4.5%.

The issuer rating of the Association of Volksbanks awarded by Fitch Ratings remained unchanged in 2016: BB+ with positive outlook. The rating for VBW´s covered bonds awarded by Fitch was changed from BBB to BBB+ with positive outlook.

At the end of 2016, the law amending the stability levy (Stabilitätsabgabe) was adopted in Austria. The Association of Volksbanks decided to pay the non-recurring special payment in the amount of euro 28 million in the first quarter of 2017 and to provide for this by way of a deferral, in order to avoid a burden on future results due to the levy.

Economic environment

Austria's gross domestic product (GDP) has grown by 1.5% year on year in 2016. This constitutes a noticeable increase of the growth dynamics compared to 2015. It means that the growth gap in relation to the euro zone, which had still amounted to one percentage point in 2015, should have decreased to 0.2 percentage points.

According to calculations by the Austrian Institute of Economic Research (WIFO) relating to macroeconomic accounting, a considerable increase in private consumption, which has grown by 1.5% compared to the previous year, was one of the main drivers of this development. Another strong development in the past year was seen in the sphere of gross capital investments, which have increased by 3.1%, thus noticeably contributing to growth, which was increasingly reflected in the demand for loans towards year-end. Foreign trade has been picking up further. At an estimated 2.8%, the growth in imports was markedly higher than in exports (1.8%). Nevertheless, a current account surplus was achieved in 2016 as well. All industries separately reported by the WIFO have contributed to GDP growth.

While overall in 2016 the Austrian unemployment rate increased compared to 2015, it was lower again than at the end of 2015, amounting to 5.7% in December according to the European method of calculation. According to the national method of calculation, the seasonally adjusted rate of unemployment in the fourth quarter was 9%. In the euro zone, too, the rate of unemployment improved moderately but continuously – starting out from much higher figures – decreasing from 10.4% at the beginning of the year to 9.6% in December.

According to the Harmonised Index of Consumer Prices, the inflation rate in Austria fluctuated between 0.6% and 1.6% in 2016. Accordingly, as in the previous years, Austria counted among the countries with the highest inflation rates within the euro zone. In the common currency zone, the inflation rate was still negative in the first half of the year and only increased noticeably towards the end of the year (December: 1.1%). The main reason for the price increase was the oil price, recovering by almost 50% to a little under 50 USD per barrel in 2016, after it had dropped by 35% in the previous year.

Even during the phase of declining inflation rates, the European Central Bank (ECB) reduced its main refinancing rate from 0.05% to 0.00% in March 2016. The interest rate for the prime refinancing facility was reduced from 0.30% to 0.25%, while the deposit rate was decreased by 10 basis points to -0.40%. In March, the ECB also decided to increase its monthly securities purchases from euro 60 billion to euro 80 billion, and to issue a second tranche of its targeted long-term refinancing operations (TLTRO2). Three of the total of four transactions offered, with maturities of four years, were carried out in 2016 already.

In the first half of the year, the yields of government bonds in Austria and Germany declined. In the third quarter, the German yield in the 10-year maturity range dropped to below zero.

In the last quarter of the year – in line with improved European inflation rates and monetary tightening in the USA – part of this development was offset. Overall, the yield of the 10-year federal government bond in Austria decreased from 0.85% to 0.43%. In Germany, it went down from 0.57% to 0.21%. The three-month Euribor continuously decreased throughout the year, declining from -0.13% at the beginning of the year to -0.31% at the end of the year.

Due to the opposing monetary policy (in 2016, the US FED again increased its key interest rate by 25 basis points), among others, the euro depreciated by about 4% compared to the US dollar over the course of the year, while the exchange rate with the Swiss franc only slightly decreased.

In the first three quarters of 2016, the economic development within Austria reflected the West-East divide that had prevailed in the previous year already, which only Burgenland deviated from with its increase of gross value added of 1.8% year on year in the first six months, losing some of that dynamic, however, in the third quarter. In the first half of the year, Vienna (0.8%) and Lower Austria (1.0%) lagged behind the general growth rate in Austria of 1.3%. Salzburg (+2.3%), followed by Vorarlberg (2.4%), Upper Austria (1.5%), Styria (1.3%) and Tyrol (1.2%) were the most dynamic, while the lowest growth rate was recorded in Carinthia (0.7%).

While the Viennese economy recorded accelerated growth overall, it suffered from a decline in material goods production (-2.6% in the second quarter and -10.6% in the third quarter, which was partly due to industry-specific special factors such as the declining gold price and its effects on the Austrian Mint). In the retail sector, too, sales were declining. On the other hand, the service sector – especially tourism – showed a very positive development in the first half of the year. The construction sector recovered and reached a production growth rate of 5.3% year on year in the third quarter. The employment rate increased, concurring with the trend throughout Austria. How-ever, due to the increasing number of available labour, Vienna recorded the highest seasonally adjusted unemployment rate, according to the national method of calculation, also in the third quarter (13.6%).

In Lower Austria, material goods production, which is very important for this federal state, developed feebly, as in the previous year, recording the poorest development among all federal states. While production figures in construction showed the second highest growth rate after Tyrol in the first half of the year, the sector lost some of its momentum in the third quarter. Also with respect to overnight stays, Lower Austria still ranked second in the first half of the year, with the summer season being relatively disappointing overall. As in Vienna, the service sector was going strong overall, recording strong employment growth. Nevertheless, the rate of unemployment increased at an above-average rate, essentially due to demographic factors, in the second and third quarters of 2016 (to 10.2%). In the fourth quarter, it decreased again.

In Burgenland, material goods production and tourism contributed significantly to the above-average development, while the building activity curve flattened. In the third quarter, a slightly negative annual growth rate was observed in construction. While the labour market performed better than the region of eastern Austria in general, it slackened considerably in the second and third quarters. The seasonally adjusted unemployment rate remained almost stable at first. In the fourth quarter, it decreased by 0.3 percentage points to 9.3%.

Styria recorded above-average growth in the construction sector and the highest increase in overnight stays of all federal states in the summer season of 2016 and in the third quarter of the year. The retail sector recorded a real-term sales increase. After slightly decreasing at first, material goods production recovered somewhat in the third quarter. After the labour market had moved within the Austrian average in the first half of the year, the unemployment rate increased disproportionately in the third quarter, only to recover again noticeably in the fourth quarter. The seasonally adjusted unemployment rate in the final quarter of 2016 was 8.1%.

In the second and third quarter, Carinthia recorded strong growth within its material goods production segment, especially in the high and medium technology sectors. While tourism was feeble in the second quarter, solid growth of overnight stays was achieved overall in the summer season. In the third quarter, Carinthia reported the second highest increase (7.4% year on year) in overnight stays after Styria. Due to the below-average development of available labour, the unemployment rate declined in the second quarter. At 11.0%, however, seasonally adjusted unemployment was the second highest within Austria also in the fourth quarter.

As in the previous year, the performance of the construction sector in Upper Austria was below average and even recorded a decline of production in the first three quarters of 2016. On the other hand, the retail sector reported the highest growth in sales within Austria in the first half of the year, remaining above average – at +1.7% year on year – also in the third quarter. The development in the service sector was above-average in the first three quarters. While material goods production still reported moderate growth in the first half of the year, it displayed a slight decrease in the third quarter compared to the previous year. Overnight stays increased, but tourism lagged behind the overall development in Austria in the first three quarters. The unemployment rate increased in the second and third quarters, but was still the third lowest among the nine federal states at 6.3% in the third quarter and decreased to 6.1% in the fourth quarter.

Salzburg ranked second among the federal states in the first half of 2016, both in terms of growth in material goods production (esp. in car and beverage production) and in terms of the tourist summer season. In the third quarter, material goods production experienced a slow-down. With an increase in overnight stays of 6.7% year on year, the development in tourism remained above-average, but dropped to rank 4. The retail sector also showed above-average growth in the first three quarters, and construction expanded. The unemployment rate decreased in the second half of the year. At 5.6%, the rate of unemployment remained far below the national average in the fourth quarter. For three consecutive years already, Salzburg has been recording the lowest unemployment rate of all Austrian federal states.

Once more, the favourable development in material goods production helped Tyrol to achieve an above-average increase in gross value added in the first half of the year. Moreover, Tyrol was the only federal state to achieve employment growth in material goods production in the first half of the year. The highest growth rates in terms of value added and production were recorded by the mechanical engineering, electrical equipment and construction sectors. The retail sector, too, registered above-average growth. During summer season, Tyrolean tourism achieved above-average growth of overnight stays; at 6% year on year the third quarter was slightly above average. Until the third quarter, the seasonally adjusted unemployment rate decreased to 6.4%, with youth unemployment – fortunately – registering a particularly marked decrease. In the fourth quarter, Tyrol achieved the highest growth of employment of all Austrian federal states. In the fourth quarter, the seasonally adjusted unemployment rate of 6.3% was noticeably lower than the national average.

While the construction growth curve was flattening somewhat, the economy in Vorarlberg benefited once again from an above-average development in material goods production in the first half of the year. The retail sectorrecorded real-term sales growth, and the tourist summer season brought above-average increases in overnight stays. In the third quarter, both material goods production and the construction, retail and tourist sectors recorded growth rates in production and overnight stays that were top within Austria. The situation on the labour market brightened. In the fourth quarter, Vorarlberg registered a seasonally adjusted unemployment rate of 5.9%, the second lowest behind Salzburg.

The prices of Austrian residential properties continued to increase in the first three quarters of 2016. As in the previous year, the price dynamics in Vienna, which had been characterised by particularly high growth rates until 2014, were below average. In the third quarter, the Vienna Residential Property Price Index exceeded its previous year's value by 2.5%, while that for the other federal states exceeded the same by 9.5%. The prices of new proprietary flats in Vienna increased significantly (+13.8%), while those of building plots in Vienna decreased in 2016. Outside Vienna, the development of different types of property was more balanced, with proprietary flats again recording the highest price increases by far at +13.9%.

Tourism performed very well in 2016. Both overnight stays and arrivals reached new record highs. In the 2015 / 2016 winter season, overnight stays increased by 4% as compared to 2014 / 2015,reaching a record level both among domestic and foreign guests. The highest increase was reported in the holiday apartments segment – as was the case for the full year of 2016. Hotels recorded increases, while overnight stays in private accommodation declined. This growth was distributed quite evenly throughout the federal states. The highest increase was seen in Burgenland (+8%), the lowest in Lower Austria (+3.1%). The greatest number of overnight stays was booked in Tyrol (26.8 million), followed by Salzburg (15.1 million), Vienna (6.3 million), Styria (5.4 million), Vorarlberg (5.1 million), Carinthia (3.6 million), Upper Austria and Lower Austria (2.7 million each), as well as Burgenland (1.0 million). With an increase of 5.1% in overnight stays, also the summer season was very encouraging. Here, too, all federal states recorded positive growth rates. During summer season, growth dynamics were strongest in Burgenland (+9%), even though it ranked last in terms of absolute figures. Other than that, the ranking was equal to the preceeding winter season.

Result of the Association for the 2016 business year

According to IFRS 5, start:group which was sold in the 2016 business year is reported as a discontinued operation. Therefore, the previous year's comparative figures from the individual items of the income statement were reclassified to result of a discontinued operation.

The result of the Association before taxes amounts to euro -84 million (2015: euro -106 million). The income of the Association after taxes and minority shares amounts to euro -80 million (2015: euro -69 million). The annual result was greatly driven by the compensation paid to the federal government based on the sale of start:group in the amount of euro -39 million, which is included in the result of a discontinued operation and in the current result, and by a non-recurring special payment of the bank levy in the amount of euro -28 million.

The net interest income for the 2016 business year amounts to euro 423 million, thus undercutting the income for the reference period (2015: euro 489 million) by euro 66 million. The decrease is essentially due to the following causes: on the one hand, loans and advances to customers have decreased compared to the previous year, which is an effect of the current demand for loans. On the other hand, the low level of interest rates has caused margins to be compressed, both in the retail sphere and in the sphere of longer term investments within financial investments. Additionally, negative interest rates result from investments with the central bank.

At euro -92 million, the risk provision item shows higher provisions, by euro 39 million compared to the previous period (2015: euro -53 million). While the quality of the portfolio has remained the same, the increase is essentially due to the development of the statistical parameter (LGD) and the extension of default criteria (UTP), which have to be considered during calculation of flat-rate specific risk provisions.

The net fee and commission income in the period under review amounts to euro 240 million, an increase by euro 11 million as compared to the previous period (2015: euro 229 million). This is primarily due to higher commissions from credit business.

The net trading income in the 2016 business year amounts to euro 9 million, which constitutes a decrease by euro 5 million compared to the previous period (2015: euro 14 million).

General administrative expenses of euro 615 million (2015: euro 643 million) constitute a decrease of euro 27 million compared to the previous year. Compared to the end of 2015 the headcount decreased by 814 from 4,994 to 4,180 employees. This decrease coincided with a reduction of staff costs by euro 9 million from 371 million (previous year) to euro 361 million in 2016. Administrative expenses have been reduced by euro -23 million, due to the utilisation of synergies from the mergers within the Association and the optimisation of the branch network.. On the other hand, write-offs of fixed assets in the amount of euro 41 million in 2015 have increased to euro 46 million, due to special write-offs following the progressive optimisation of business locations.

The other operating result for the 2016 business year amounts to euro -28 million (2015: euro 27 million). The change of the other operating result by euro -56 million is primarily due to the non-recurring payment of the stability levy in the amount of euro -28 million, as well as a payment within the scope of the restructuring agreement to the federal government in the amount of euro -19 million, which was effected in the course of selling start:group.

Income from financial investments amounts to euro -9 million for the reporting period, thus undercutting the comparative period (2015: euro 7 million) by euro 15 million. Valuations from participations in the amount of euro -5 million, valuations from real property rented out to third parties under IAS 40 in the amount of euro -5 million, as well as valuations and realisation proceeds of euro -8 million were opposed to positive derivative valuations of euro 6 million and securitisation payables in connection with the sale of start:group in the amount of euro 2 million.

In the reporting period,the result of discontinued operations amounts to euro -16 million (2015: euro -175 million). In 2015, this result, in total an amount of euro -192 million, was caused byVBAG and VB Romania S.A. leaving the Associationand by the reclassification of the individual income statement items from start:group in the amount of euro 17 million. In 2016 the result arose from the sale of start:group (current result euro -5 million, deconsolidation result euro -11 million).

Due to the tax planning of the next four years, it was possible to recognise deferred tax assets for part of the tax loss carried forward in the 2016 business year,. For tax loss carried forward in the amount of euro 499 million, no deferred tax assets are recognised. Deferred tax is presented for the remaining valuation differences, especially in connection with the valuation of derivatives and securities.

Financial position and own funds

As at 31 December 2016, total assets amount to euro 24.5 billion, decreasing by euro 3.3 billion as compared to the end of 2015 (euro 27.8 billion), essentially due to the sale of start:group.

Compared to the end of the previous period (2015: euro 0.6 billion), loans and advances to credit institutions have remained the same.

As at 31 December 2016, the loans and advances to customers amount to euro 19.4 billion and have decreased by euro 3.2 billion compared to the end of the previous year (2015: euro 22.6 billion), with changes essentially resulting from the disposal of start:group (euro -2.7 billion) and from the disposal of banks that have left the Association in 2016 (euro -0.2 billion). The other reductions result from lower demand for loans and / or the wind-down of non-performing loans.

Financial investments of euro 2.4 billion remain the same as in the previous year.

Amounts owed to credit institutions have almost remained the same as compared to the end of 2015 (euro 0.4 billion).

Amounts owed to customers in the amount of euro 20.0 billion have decreased by euro 2.3 billion compared to the end of 2015 (euro 22.3 billion). A decrease of euro -2.2 billion results from the disposal of start:group, a decrease of euro -0.3 billion from the deconsolidation of banks no longer belonging to the Association as of 2016; on the other hand, euro 0.2 billion of additional customer deposits were gained in 2016. Accordingly, the loan / deposit ratio has decreased to clearly below 100%.

As at 31 December 2016, debts evidenced by certificates amount to euro 1.0 billion and have decreased by euro 0.8 billion compared to 31 December 2015 (euro 1.7 billion), essentially due to the disposal of start:group. If debts evidenced by certificates are included in the loan / deposit ratio, the latter only amounts to a little over 90%, demonstrating the solid funding of the Association of Volksbanks.

In the reporting year, the equity items (including company shares and non-controlling interests) reduced from euro 1.8 billion to euro 1.7 billion as at the end of 2016, which is due to the result of the 2016 business year as well as to banks leaving the Association, hence, no longer included in the scope of consolidation in the 2016 business year.

Report on branch establishments

The Association of Volksbanks does not have any branch establishments.

Financial and non-financial performance indicators

Financial performance indicators

As at 31 December 2016, the regulatory own funds of the VBW KI Group amount to euro 2.0 billion (2015: euro 2.3 billion). The aggregate risk amount was euro 13.3 billion (2015: euro 15.1 billion) as at 31 December 2016. The Tier I capital ratio in relation to total risk amounts to 12.4% (2015: 12.1%), the equity ratio in relation to total risk is 15.1% (2015: 15.4%). Regulatory own funds, aggregate risk amount and the key indicators calculated therefrom were determined according to CRR (EU Regulation No. 575/2013). For more detailed information, please refer to the notes (especially chapter 35).

Key indicator	2016	2015
Return on Equity before taxes	-3.9%	3.2%
Return on Equity after taxes	-3.8%	4.3%
Cost-income ratio	84.5%	82.9%

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

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

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

Non-financial performance indicators

Human Resources

The year 2016 was primarily characterised by the preparation and implementation of the mergers within the Association. The path embarked on already in 2014 was consistently continued. The employees and executives of the Volksbank-sector were facing very tough challenges in the course of the resulting change process.

Apart from the successful integration of the various groups of employees and the harmonisation of the processes and service provisions, the primary focus remains on the unobstructed provision of services to our customers. Moreover, the Volksbank-sector sets great store by comprehensive training and professional development. The corresponding programmes are updated and developed on a current basis. This is to ensure the traditionally high quality standard appreciated by both our staff and customers also in future. The Association considers the joint development of new concepts to be very important; accordingly, great importance is attached to the transfer of knowledge and the exchange of experiences among the Volksbanks.

At the end of 2016, the Association of Volksbanks employs a staff of 4,180 (full-time equivalents). As at 31 December 2016, the number of branches was 402.

Essential organisational and IT projects

The environment of the banks is highly dynamic. This includes changes within the market, with respect to customer behaviour, technological innovations, but also a great number of regulatory changes. This fact is reasonably accounted for, and the given requirements are met through implementation projects among others. Herein-after, some of these implementation projects of the Association of Volksbanks are explained:

Digital Volksbank Banking

Under the heading "Digital Volksbank Banking", the roll-out was launched in the market in 2016, based on the implementation project "Electronic Banking Platform – Mobile Generation" initiated in 2015. The comprehensive offer in digital desktop banking (including personalisation, personal financial management, global search function etc.) was supplemented by three innovative Volksbank apps (Banking app with all functions available on the desktop, Quick app for quick enquiry of account balance, and TAN app as the new safe signature process). By using agile methods in software development, and also within the project approach, innovative features such as fingerprint registration or smart transfer by means of drag & drop were implemented. Further expansion of digital banking as an information, communication and distribution channel between the customer and the bank is planned for 2017.

Sales management

In order to increase productivity in Sales and to make the accomplishment of targets transparent, a consistent system of indicators was introduced and a software chosen, in order to be able to promptly provide the relevant target groups with information, for instance on the number of initial appointments and on the conversion rate, on new production in credit business or service income. In future, this will allow for sales activities to be managed according to key divisions (branch sales, corporates etc.) and defined productivity indicators.

Markt Service Center (MSC)

In the MSC project, uniform processes (throughout the Association) for handling customer, account and portfolio processes have been developed. Theseprocesses were technically implemented in the ARZ application arctis MSC; data quality tests were developed and implemented. In order to centralise technical service in the future, as well as with a view to uniform development, a service client was developed. This service client allows for centralised parametrisation for the entire Association of Volksbanks. VBW has started pilot operation based on the settings of the service client and additionally set up MSC support processes specifically for VBW (e.g. for property valuations). The roll-out throughout the bank is planned to take place by May 2017.

Early warning system

The Early Warning System (EWS) & NPL (Non-Performing Loans) Management project aims at a more consistent and optimised handling of customers with financial difficulties. For this purpose, uniform processes, in particular for early identification, dunning and dealing with non-performing loans, were developed, reconciled and rolled out within the Association of Volksbanks.

IFRS 9 programme

Regarding the Association of Volksbanks, a multi-year programme for the implementation of IFRS 9, with the aim of meeting the requirements under IFRS 9, which will take effect on 1 January 2018, was established. This programme is aligned with the content-related key aspects of IFRS 9, for example the changes derived from classification and measurement, from the amendment regarding impairments as well as hedge accounting. In a first step, the requirements of IFRS 9 were analysed, which then resulted in the technical requirements relevant for the bank. Based on that, the adjustments required with respect to system engineering and processes were evaluated and the measures required for implementation initiated. Additionally, within the scope of the project, current analyses regarding the expected effects of IFRS 9 are carried out. Completion in terms of system engineering and processes is planned for mid-2017, in order to take up parallel operation under IFRS 9, during which system engineering and processes will be optimised if necessary until IFRS 9 actually takes effect.

GMP project

The joint Austrian reporting platform (GMP) that provides for reporting-relevant information to be transmitted to OeNB across Austria on the basis of a joint data model, via a jointly used software (Abacus), through Austrian Reporting Services GmbH (AuRep) replaced the voucher-based reports MonStat, Vera A1c, Finrep Solo in 2016. This replacement is effected by creating so-called Basic and Smart Cubes at system level, in which the reporting-relevant data are supplied to AuRep according to the defined specifications. Additionally, the so-called FMS Cubes were used productively. In 2017 the implementation of new reporting requirements concerning Ana Credit, Vera A1a, BAM, Vera A1d, Vera A3g, P6, SHS is planned.

Basel IV disclosure

The requirement regarding Pillar 3 concerning disclosure, as revised by EBA, was met with a separate project. The aim of the project is to meet the quantitative and qualitative requirements with respect to the disclosure obligations of the Association of Volksbanks. This results in new processes, extensions of data housekeeping and corresponding system engineering logics being created to fill in the disclosure templates. The project was started in 2016 and will be completed in 2017.

IT architecture
As in many banks, the IT architecture within the Association of Volksbanks has grown over the years to meet ongoing requirements with respect to control, risk and regulatory supervision. This resulted in several bodies of available data and a need for optimisation in certain areas within the business logic, for instance with respect to providing reporting results. In order to design the IT architecture in a future-proof and sustainable fashion with respect to the permanently increasing requirements regarding data volumes and granularity, speed of processing, degree of automation and data integrity, a start was already made in 2014 to appropriately align the IT architecture within the Association of Volksbanks. In doing so, initial requirements applicable across the bank, such as BCBS239, were used and a target IT landscape was developed that essentially creates a central data warehouse (single point of truth = SPOT) containing all data on individual and customer transactions and serving as a source for all reporting addressees. Subsequently, projects were started that implement the different dimensions of sustainable data management and data governance. In order to manage the interdependencies between the projects as well as to ensure the common orientation of the IT strategy, these projects are coordinated by way of a joint programme: "Data Architecture". Some of the projects attributed to this programme are described below.

Lingua / Data Governance
In the Lingua / Data Governance project, a standardised technical data model is being developed within the Association of Volksbanks. The aim is to create common semantics and definitions of data to provide for a common understanding of data contents and definitions across user groups on that basis and to subsequently identify any redundancies within the body of available data. Additionally, data governance is also being developed within this project. The individual roles required in connection with data management, such as data owner, data steward etc., are analysed, any existing responsibilities revised and data management processes optimised. Among others, these measures serve to further increase data quality.

AMITZ+
This multi-year project aims to automatise processes in accounting and reporting and to ensure the data integrity of the bodies of data used in these processes. A start was made by defining target processes in accounting and reporting that comprise a significant acceleration of processing routines. This will be achieved through system engineering-based automation of previously selective manual interventions to the greatest possible extent. Through the interaction of various applications via automated interfaces and by ensuring that all data are contained in the SPOT, mostly without manual interventions, an increase of data integrity and data quality and acceleration of processing times will be achieved and resources saved. These processing routines will be supported by improvements with respect to the sequencing of these processes.

SAP FI
In 2017, the Association of Volksbanks is going to use SAP FI in a uniform configuration for asset accounting, accounts payable accounting and for the general ledger. The transition to SAP FI has required the definition of a new nominal accounts structure. Transition to SAP FI supports the objectives aimed at in AMITZ+ (see above).

Other projects
Regardless of the above-mentioned projects, implementation projects were implemented within the Association of Volksbanks in 2016 with a view to meeting regulatory requirements, for instance (among others) the requirements under the Austrian Bankenpaket, under MiFiD II, SA-CCR, the Payment Account Directive, FATCA etc., but also projects to strengthen market position and to increase customer satisfaction.

Events of particular importance after the balance sheet date

As regards significant events after the balance sheet date, please refer to chapter 47) in the notes.

Report on the future development and risks of the Association

Future development of the Association

Economic environment

According to the economic forecast of the Austrian Institute of Economic Research (WIFO) published in December 2016, the Austrian economy is expected to grow by 1.5% in 2017. In March 2017, the WIFO forecast was raised to 2%. Accordingly, the growth rate in Austria is expected to essentially correspond to that in the euro zone, which WIFO currently assumes to be 1.9%, while the ECB forecasts 1.8% in March 2017.

The booming economy in other European countries and in the USA, as well as depreciation of the euro against the US dollar have caused a relatively favourable outlook for foreign trade. Moreover, there is a longer-term investment gap that might gradually be closed. According to the WIFO investment test of autumn 2016, both material goods manufacturers and structural engineering companies are planning to substantially increase their investments in 2017. The tourist winter season got off to a very favourable start with new record figures in November 2016. The snow situation over Christmas and New Year's Eve cast a pall over the further course of the season, but improved again after the end of the holidays. Strong population growth in the conurbations is likely to support the property markets also in future.

In 2017 price increases are expected to be higher in Austria than in the euro zone overall. The March forecast of the ECB for the average inflation rate in 2017 amounts to a mean of 1.7%. Accordingly, in the full year 2017, the rate of price increases is not expected to quite reach the target inflation rate of the ECB of a little under 2%, even if it is even slightly exceeded due to the oil price increase in individual months, such as February 2017.

The still moderate inflation outlook and the corresponding monetary easing by the ECB suggest that interest rate levels will remain low, although a slight upward trend may result from current monetary tightening in the USA. The improved inflation and growth perspectives may have a similar effect. According to a resolution adopted by the ECB's Monetary Council in December 2016, the ECB is going to buy securities to support inflation targeting. As of April, the volume again amounts to 60 instead of euro 80 billion. As of April, no targeted long-term refinancing operations (TLTRO2) are offered any more. Nevertheless, the ECB's securities purchases limit the potential up-ward movement of capital market interest rates.

The risks associated with this outlook are manifold. This includes, for instance, the potential restrictions of foreign trade imposed by the USA or potential tensions within the European Union in connection with the exit negotiations with Great Britain and/or possible changes of government in some member countries. While a rapid increase of interest rates would be appreciated by depositors, it would also have to be considered a risk for economic activity and the property market. Other risk factors are the constantly below-average economic development of some emerging markets, e.g. China, Brazil and Russia, which might lead to increased financial market volatility and negative effects on international demand.

Forecast – mergers planned for 2017

To achieve the planned target structure within the Association of Volksbanks, the last mergers are going to take place in the 2017 business year. The six mergers yet outstanding (incl. the merger of VBW with Sparda) are meant to be completed by Q3 2017.

Future development of the Association

After completion of the reorganisation of the Association of Volksbanks, the focus on retail banking is meant to be continued and supported, in particular, by increasing digitalisation of the sales process.

In spite of persistently high investments in the systems, in improving data quality and in spite of the still high regulatory cost, the Association of Volksbanks intends to achieve a low annual result in the positive two-digit million euro range. Despite planned growth, the CET 1 capital ratio is intended to remain at around 12% within the Association.

The low interest rate environment expected to continue in 2017 calls for a streamlining of the cost structure and an increase of productivity. For this purpose, additional cooperation models are being evaluated within the Association of Volksbanks, among others. Additional mergers cannot be excluded at present either.

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 49).

Report on research and development

The Association is not active in research and development.

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

Control environment

The ultimate goal of the Association of Volksbanks' financial reporting is to comply with all relevant legal requirements. For this purpose the CO issued a General Instruction Accounting within the scope of IFRS financial reporting. The CO´s Managing Board is responsible for the establishment and organisation of an appropriate internal control and risk management system with respect to the accounting process and has defined a framework for implementation applicable to the entire Association in the ICS group policy. Within the Association, responsibility for implementation lies with the OPRISK and Risk Governance groups within VBW.

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

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, competence rules 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

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

For the preparation of the financial statements, estimates need to be performed regularly, with an inherent risk that future developments deviate from these estimates. This applies, in particular, to the following items and facts of the Association´s financial statements, the recoverability of financial assets, banking risks, social capital, as well as the outcome of legal disputes. Publicly accessible sources are used to a certain extent, or experts are called in, in order to minimise the risk of false estimates.

Information and communication

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

Employees in group accounting are also trained with regard to amendments in international accounting on an ongoing basis, in order to identify any risks of unintentional false reporting at an early stage. Moreover, employees in group accounting also communicate this information to employees at subsidiaries.Twice a year, a management report is prepared which contains statements regarding the completeness, comprehensibility, active implementation and effectiveness of the control system with respect to the accounting process.

Compliance checks

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.

Vienna, 24 April 2017

Gerald Fleischmann
Chairman of the Managing Board

Josef Preissl
Deputy Chairman of the Managing Board

Rainer Borns
Member of the Managing Board

FINANCIAL STATEMENTS

Statement of comprehensive income

Income Statement	Note	1-12/2016 Euro thousand	restated 1-12/2015 Euro thousand	Changes Euro thousand	%
Interest receivable and similar income		507,820	614,124	-106,304	-17.31 %
Interest payable and similar expense		-84,725	-125,487	40,762	-32.48 %
Net interest income	4	423,095	488,637	-65,542	-13.41 %
Risk provisions	5	-91,983	-52,909	-39,074	73.85 %
Fee and commission income		274,845	262,143	12,702	4.85 %
Fee and commission expenses		-35,011	-33,104	-1,908	5.76 %
Net fee and commission income	6	239,833	229,040	10,794	4.71 %
Net trading income	7	8,866	13,506	-4,639	-34.35 %
General administrative expenses	8	-615,191	-642,597	27,406	-4.26 %
Restructuring cost		3,060	-321	3,381	< -200.00 %
Other operating result	9	-28,211	27,326	-55,538	< -200.00 %
Income from financial investments	10	-8,558	6,643	-15,202	< -200.00 %
Income from companies measured at equity		275	0	275	100.00 %
Income from the discontinued operations	2	-15,632	-175,102	159,470	-91.07 %
Result before taxes		-84,445	-105,777	21,332	-20.17 %
Income taxes	11	2,807	24,890	-22,083	-88.72 %
Income taxes of the discontinued operations	11	2,145	13,705	-11,560	-84.35 %
Result after taxes		-79,493	-67,182	-12,311	18.32 %
Result attributable to shareholders of the parent company (Consolidated net result)		-79,521	-68,806	-10,715	15.57 %
thereof from the continued operation		-66,034	94,090	-160,124	-170.18 %
thereof from the discontinued operation		-13,487	-162,896	149,409	-91.72 %
Result attributable to non-controlling interest		28	1,624	-1,596	-98.26 %
thereof from the continued operation		28	125	-97	-77.46 %
thereof from the discontinued operation		0	1,499	-1,499	-100.00 %

Other comprehensive income

	1-12/2016 Euro thousand	restated 1-12/2015 Euro thousand	Changes Euro thousand	%
Result after taxes	**-79,493**	**-67,182**	**-12,311**	**18.32 %**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation obligation of defined benefit plans (IAS 19)	-11,898	-1,334	-10,564	> 200.00 %
Deferred taxes of revaluation IAS 19	2,982	227	2,755	> 200.00 %
Total items that will not be reclassified to profit or loss	-8,916	-1,106	-7,809	> 200.00 %
Items that may be reclassified to result				
Currency reserve	1,023	4,163	-3,140	-75.43 %
Available for sale reserve (including deferred taxes)				
Change in fair value	3,193	22,119	-18,927	-85.57 %
Net amount transferred to profit or loss	3,876	-35,405	39,281	-110.95 %
Hedging reserve (including deferred taxes)				
Change in fair value (effective hedge)	0	122	-122	-100.00 %
Net amount transferred to profit or loss	0	0	0	0.00 %
Change in deferred taxes arising from untaxed reserve	4,587	4,408	179	4.05 %
Change from companies measured at equity	0	12,687	-12,687	-100.00 %
Total items that may be reclassified to profit or loss	**12,678**	**8,094**	**4,584**	**56.63 %**
Other comprehensive income total	**3,763**	**6,988**	**-3,225**	**-46.16 %**
Comprehensive income	**-75,730**	**-60,194**	**-15,536**	**25.81 %**
Comprehensive income attributable to shareholders of the parent company	-75,755	-61,954	-13,801	22.28 %
thereof from the continued operation	-62,091	88,126	-150,217	-170.46 %
thereof from the discontinued operation	-13,664	-150,080	136,416	-90.90 %
Comprehensive income attributable to non-controlling interest	25	1,760	-1,735	-98.59 %
thereof from the continued operation	25	127	-102	-80.42 %
thereof from the discontinued operation	0	1,633	-1,633	-100.00 %

The comparative figures were restated according to IFRS 5.

Statement of financial position as at 31 December 2016

	Note	December 2016 Euro thousand	December 2015 Euro thousand	Changes Euro thousand	%
Assets					
Liquid funds	12	1,435,495	1,521,925	-86,430	-5.68 %
Loans and advances to credit institutions (gross)	13	642,866	619,223	23,644	3.82 %
Loans and advances to customers (gross)	14	19,385,588	22,619,294	-3,233,706	-14.30 %
Risk provisions (-)	15	-397,752	-439,513	41,762	-9.50 %
Trading assets	16	142,417	162,592	-20,175	-12.41 %
Financial investments	17	2,393,345	2,401,536	-8,191	-0.34 %
Investment property	18	72,755	90,557	-17,802	-19.66 %
Companies measured at equity	19	58,009	0	58,009	100.00 %
Participations	20	25,241	35,880	-10,639	-29.65 %
Intangible assets	21	2,057	6,930	-4,873	-70.32 %
Tangible fixed assets	22	467,354	479,716	-12,361	-2.58 %
Tax assets	23	65,566	73,211	-7,645	-10.44 %
Current taxes		1,954	18,419	-16,465	-89.39 %
Deferred taxes		63,612	54,792	8,819	16.10 %
Other assets	24	172,880	216,420	-43,540	-20.12 %
Assets held for sale	25	0	26,773	-26,773	-100.00 %
Total Assets		**24,465,822**	**27,814,543**	**-3,348,721**	**-12.04 %**
Liabilities and Equity					
Amounts owed to credit institutions	26	421,995	438,457	-16,462	-3.75 %
Amounts owed to customers	27	20,017,714	22,323,653	-2,305,939	-10.33 %
Debts evidenced by certificates	28	966,345	1,748,116	-781,771	-44.72 %
Trading liabilities	29	417,873	392,919	24,954	6.35 %
Provisions	30, 31	282,999	297,382	-14,383	-4.84 %
Tax liabilities	23	19,712	37,539	-17,828	-47.49 %
Current taxes		9,938	3,797	6,141	161.73 %
Deferred taxes		9,773	33,742	-23,969	-71.04 %
Other liabilities	32	321,731	373,497	-51,766	-13.86 %
Subordinated liabilities	33	324,906	384,930	-60,024	-15.59 %
Total nominal value cooperative capital shares	34	17,389	23,664	-6,275	-26.52 %
Subscribed capital	34	194,890	205,385	-10,496	-5.11 %
Reserves	34	1,480,118	1,588,857	-108,739	-6.84 %
Non-controlling interest	34	151	144	6	4.36 %
Total Liabilities and Equity		**24,465,822**	**27,814,543**	**-3,348,721**	**-12.04 %**

Changes in equity and cooperative capital shares

Euro thousand	Subscribed capital 1)	Reserves	Shareholders' equity	Non-controlling interest	Equity	Cooperative capital shares 2)	Equity and cooperative capital shares
As at 1 January 2015	**827,587**	**1,549,629**	**2,377,216**	**125,445**	**2,502,662**	**60,310**	**2,562,972**
Consolidated net income		-68,806	-68,806	1,624	-67,182		-67,182
Change in deferred taxes arising from untaxed reserve		4,408	4,408	0	4,408		4,408
Revaluation obligation of defined benefit plans (IAS 19 including deferred taxes)		-1,108	-1,108	1	-1,106		-1,106
Currency reserve		4,090	4,090	73	4,163		4,163
Available for sale reserve (including deferred taxes)		-13,286	-13,286	0	-13,286		-13,286
Hedging reserve (including deferred taxes)		61	61	61	122		122
Change from companies measured at equity		12,687	12,687		12,687		12,687
Comprehensive income	0	-61,954	-61,954	1,760	-60,194	0	-60,194
Dividends paid		-8,247	-8,247	-65,108	-73,355		-73,355
Changes in base amount regulation	27,084	0	27,084		27,084	-27,084	0
Changes scope of consolidation	-667,674	103,898	-563,776	-62,028	-625,805	-15,479	-641,284
Change in cooperative capital and participation capital	18,388	0	18,388		18,388	5,777	24,165
Change in treasury stocks	0	0	0		0	140	140
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation		5,531	5,531	75	5,606		5,606
As at 31 Dec 2015	**205,385**	**1,588,857**	**1,794,242**	**144**	**1,794,386**	**23,664**	**1,818,050**
Consolidated net income		-79,521	-79,521	28	-79,493		-79,493
Change in deferred taxes arising from untaxed reserve		4,587	4,587	0	4,587		4,587
Revaluation obligation of defined benefit plans (IAS 19 including deferred taxes)		-8,912	-8,912	-3	-8,916		-8,916
Currency reserve		1,023	1,023	0	1,023		1,023
Available for sale reserve (including deferred taxes)		7,069	7,069	0	7,069		7,069
Hedging reserve (including deferred taxes)		0	0	0	0		0
Change from companies measured at equity		0	0		0		0
Comprehensive income	0	-75,755	-75,755	25	-75,730	0	-75,730
Dividends paid		-1,242	-1,242	-19	-1,261		-1,261
Changes in base amount regulation	-1,623	0	-1,623		-1,623	1,623	0
Changes scope of consolidation	-7,429	-33,969	-41,398	0	-41,398	-2,652	-44,049
Change in cooperative capital and participation capital	-1,968	2,129	161		161	-5,299	-5,139
Change in treasury stocks	524	0	524		524	53	577
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation	0	99	99	0	99		99
As at 31 Dec 2016	**194,890**	**1,480,118**	**1,675,007**	**151**	**1,675,158**	**17,389**	**1,692,547**

thereof obtained in reserves:

Euro thousand	31.12.2016	31.12.2015
Currency reserve	23,040	22,017
Available for sale reserve	5,748	-565
thereof deferred taxes	-1,941	197
Hedging reserve	0	0
thereof deferred taxes	0	0

1) Subscribed capital incl. participation capital and cooperative capital shares, pursuant to IFRIC 2 eligible as equity.
2) Cooperative capital shares, pursuant to IFRIC 2 not eligible as equity.

Details are shown in note 2) an 34).

Cash flow statement

In euro thousand	Anhang (Notes)	1-12/2016	1-12/2015
Annual result (before non-controlling interest)		**-79,493**	**-67,182**
Non-cash positions in annual result			
Net interest income	4	-455,664	-482,940
Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets	8, 9	54,794	50,218
Allocation to and release of provisions, including risk provisions		66,154	7,865
Gains from the sale of financial investments and fixed assets	10	5,328	-9,542
Non-cash changes in taxes	11	-4,953	-92,550
Changes in assets and liabilities from operating activities			
Loans and advances to credit institutions	13	-663,127	453,954
Loans and advances to customers	14	261,374	990,909
Trading assets	16	-23,551	-87,323
Financial investments	17	172,781	1,261,632
Investment property	18	865	63,037
Other assets from operating activities	24	-16,547	176,428
Amounts owed to credit institutions	26	450,128	-1,917,468
Amounts owed to customers	27	121,183	-548,749
Debts evidenced by certificates	28	-246,582	-88,320
Derivatives	37	19,739	106,462
Other liabilities	32	12,125	-384,083
Interest received	4	605,010	619,812
Interest paid	4	-161,164	-137,000
Dividends received	4	9,176	2,717
Income taxes paid	11	-3,235	26,977
Cash flow from operating activities		**124,341**	**-55,145**
Proceeds from the sale or redemption of			
Securities held to maturity	17	0	67,353
Participations	20	16,831	22,960
Fixed assets	21, 22	19,405	19,881
Disposal of subsidiaries (net of cash disposed)		-16,340	-4,534
Payments for the acquisition of			
Securities held to maturity	17	-182,768	0
Participations	20	-14,706	-1,717
Fixed assets	21, 22	-39,960	-35,092
Acquisition of subsidiaries - liquid funds		0	1,545
Cash flow from investing activities		**-217,538**	**70,396**
Change in cooperative capital and participation capital	34	-4,712	3,381
Redemption of participation capital	34	0	0
Dividends paid	34	-1,261	-73,355
Changes in subordinated liabilities	33	-22,766	-23,721
Redemption of participation rights	34	0	0
Cash flow from financing activities		**-28,738**	**-93,695**
Cash and cash equivalents at the end of previous period (= liquid funds)		**1,521,925**	**1,596,274**
Cash flow from operating activities		124,341	-55,145
Cash flow from investing activities		-217,538	70,396
Cash flow from financing activities		-28,738	-93,695
Effect of currency translation		2,008	4,094
Cash and cash equivalents at the end of period (= liquid funds)		**1,401,998**	**1,521,925**

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

NOTES

1) General information

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

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

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

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

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

The present consolidated financial statements were signed by the Managing Board of VBW on 24 April 2017 and then subsequently submitted to the Supervisory Board for notice.

a) Accounting principles for the Association

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

The following exceptions to the application of individual IFRS apply to the 2016 Association financial statements:

Exceptions affecting the overall scope of consolidation

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

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

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

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

The key management personnel are:

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

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

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

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

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

Exceptions affecting the member institutions

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

Accounting principles in the comparative period

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

2) Presentation and changes in the scope of consolidation

With effect from 24 May 2016, Volksbank Marchfeld e.Gen. was excluded from the Association of Volksbanks for cause and has no longer been included in the financial statements of the Association from that time onwards.

With effect from 29 June 2016, the Spar- und Vorschuß-Verein der Beamtenschaft der Oesterreichischen Nationalbank registrierte Genossenschaft mit beschränkter Haftung in Liqu. and the Spar- und Vorschußverein "Graphik" registrierte Genossenschaft mit beschränkter Haftung in Liqu. surrendered their license for operating a credit institution. As a result they lost the classification as a credit institution attributed to the Association and dropped out of the scope of consolidation of the Association of Volksbanks at that time.

Due to the contributions to Volksbank Tirol AG (VB Tirol) in the 2016 business year, the share of HAGEBANK TIROL Holding, eingetragene Genossenschaft (Hagebank), in VB Tirol was diluted. Accordingly, the classification of Hagebank changed from financial holding to holding with effect from 1 September 2016. As the prerequisites of section 30a of the Austrian Banking Act for inclusion in the consolidation of the Association were not met either, it dropped out of the scope of consolidation of the Association of Volksbanks with effect from 1 September 2016.

As the aforementioned companies are no subordinated companies and since there is no controlling relationship within the Association, no disposal result is recorded in the income statement. The disposal of equity is presented without any effect on profit or loss in the line Changes to scope of consolidation.

In the 2016 business year, the amalgamation of the Volksbanks to achieve the planned target structure was continued. These mergers and contributions did not have any effect on the financial statements of the Association.

The closing for the sale of start:group took place on 1 December 2016. In the course of the transaction, all shares in start:bausparkasse AG (start:ag) and in IMMO-Bank Aktiengesellschaft (ImmoBank) held within the Association were sold to the BAWAG P.S.K. Group. The purchase price is composed of the basic price and a compensation for excess equity or a shortfall of equity. The calculation of the final purchase price is based on the parties' reconciled balance sheets at the closing date. A calculation based on the unaudited balance sheets at the closing date was used to calculate the deconsolidation result. According to IFRS 5, start:group is a discontinued operation, since start:group is presented as a separate division in the reporting on operations. The comparative figures of the income statement were adjusted accordingly. The valuations carried out until the sale under IFRS 5 in the amount of euro -9,267 thousand and the deconsolidation result in the amount of euro -1,823 thousand are equally reported in the result of a discontinued operation.

Calculation of the deconsolidation result of start:group

Euro thousand	2016
Assets proportional	3,070,553
Liabilities proportional	2,942,423
Available for sale reserve proportional	213
Disposal of net assets proportional	**-127,918**
Revenues proportional	126,095
Deconsolidation result	**-1,823**

Income statement of the discontinued operation start:group (including deconsolidation result)

Euro thousand	2016	2015
Net interest income	49,785	51,182
Risk provisions	-690	2,701
Net fee and commission income	-1,611	3,519
Net trading income	-5	-45
General administrative expenses	-26,247	-28,874
Other operating result	-27,978	-204
Income from financial investments	-8,887	-11,481
Result before taxes	**-15,632**	**16,798**
Income taxes	2,145	2,480
Result after taxes	**-13,487**	**19,278**
Result attributable to shareholders	**-13,487**	**19,278**
Comprehensive income attributable to non-controlling interest	0	0

In the previous year, the result of a discontinued operation includes the result of the rest of VBAG and of VB Romania S.A., measured at equity, in addition to start:group.

Due to start:group dropping out of the Association of Volksbanks, the superordinate holding company of start:ag, namely Verwaltungsgenossenschaft der start:group e.Gen. (now: VB Verbund-Beteiligung eG; VB Verb), did no longer meet the criteria under section 30a of the Austrian Banking Act for inclusion in the consolidation of the Association and therefore dropped out of the Assocation. Since VB Wien exerts a controlling influence on VB Verb, VB Verb will be included in the financial statements of the Association at equity as of 1 December 2016. As VB Verb was no subordinated company and was not subject to any controlling relationship within the Association, no disposal result is recorded in the income statement. The disposal of equity resulting from the company dropping out of full consolidation within the Association of Volksbanks is reported without any effect on profit or loss in the line Changes to scope of consolidation. According to IAS 28.32, at initial recognition of participations at equity, any amount by which the pro rata fair value of the participation´s net assets exceeds the cost of acquisition is included as income in the determination of the company´s share of the associate or joint venture´s profit or loss, in the period the share is acquired. Due to the group of companies which are legally separate entities, but under unified control without a parent company, the disposal of the net assets of VB Verb is recorded in equity without any effect on profit or loss, first-time recognition at equity of VB Verb has equally no effect on profit or loss, netting the relevant amount with the disposal in the line Changes to scope of consolidation. Accordingly, upon termination of full consolidation, the pro rata net assets of VB Verb held within the Association are reclassified to the carrying amount in VB Verb, and the net assets not held within the Association are excluded from the financial statements of the Association with no effect on profit or loss.

Number of consolidated companies

	31 Dec 2016			31 Dec 2015		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Fully consolidated companies						
Credit institutions	15	2	17	37	2	39
Financial institutions	5	1	6	6	0	6
Other enterprises	43	0	43	30	0	30
Total	**63**	**3**	**66**	**73**	**2**	**75**
Companies measured at equity						
Credit institutions	0	0	0	0	0	0
Other enterprises	1	0	1	0	0	0
Total	**1**	**0**	**1**	**0**	**0**	**0**

Number of unconsolidated companies

	31 Dec 2016			31 Dec 2015		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Affiliates	48	1	49	56	1	57
Associated companies	20	1	21	19	1	20
Companies total	**68**	**2**	**70**	**75**	**2**	**77**

The unconsolidated companies in their entirety were deemed immaterial to the presentation of a true and fair view of the net assets, liabilities, financial position and profit or loss of the Association. Beside quantitative criteria like total assets and result after taxes also the effect of consolidation on specific positions as well as on the true and fair view of the consolidated financial statements for the Association is taking into account for the assessment of materiality. The calculation of the quantitative characteristics was based on the latest available financial statements of the companies and the Association's consolidated financial statements for 2016.

The complete list of companies included in the Association's consolidated financial statements, companies measured at equity, as well as the unconsolidated companies including detailed information, is shown at the end of the notes (see note 50), 51), 52)).

3) Accounting principles

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

The consolidated financial statements for the Association have been prepared on the basis of (amortised) costs excluding the following items:

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

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

a) Changes to accounting standards

Changes to accounting rules adopted by the EU

Amendments to IFRS 10, 12 and IAS 28 – Investment Entities: The adjustments serve to clarify issues relating to the application of the exemption from consolidation obligation under IFRS 10, if the parent company fulfils the definition of an investment entity. Companies are exempt from consolidation obligation, if the higher-level parent company measures its subsidiaries at fair value according to IFRS 10. If a subsidiary meets the definition of an investment entity and provides services related to the parent company´s investment activities, it is not to be consolidated. When applying the equity method to an associated company or joint venture, an investor that does not meet the definition of an investment company may retain the fair value measurement that the investment entity applies to its participations in subsidiaries. Additionally, the IASB has stipulated in the amendment standard that an investment entity that measures all its subsidiaries at fair value has to provide the information on investment entities according to IFRS 12. The amendments are applicable to reporting periods beginning on or after 1 January 2016. The amendments do not have any significant impact on the Association of Volksbanks.

Amendments to IAS 27 – Separate Financial Statements: Application of the equity method in separate financial statements: Due to the amendments, participations in subsidiaries, joint ventures and associates may also be measured using the equity method in the separate IFRS financial statements in the future. In this way, the companies have all formerly existing options for inclusion of such companies in the separate financial statements, such as: measurement at (amortised) cost, recognition as financial instruments available for sale under IAS 39 and/or IFRS 9, as well as measurement using the equity method. The amendments are applicable to reporting periods beginning on or after 1 January 2016. The amendments do not have any significant impact on the Association of Volksbanks.

Amendments to IAS 1 – Presentation of Financial Statements: The amendments are intended to enable companies to present their financial statements in a more company-specific way. They largely consist of clarification that information only has to be disclosed in the notes if its content is material. This explicitly applies even if an IFRS specifies a list of minimum disclosures. A model structure for the notes is no longer prescribed. This facilitates a more entity-specific presentation. The amendments clarify that entities are free to decide where the accounting and valuation methods are explained in the notes. Moreover, the amendments contain explanations of the aggregation and disaggregation of items in the statement of financial position and the statement of comprehensive income, as well as clarification that items of other comprehensive income of companies measured at equity are to be grouped and presented separately based on whether they will subsequently be reclassified to profit or loss. The amendments are applicable to business years beginning on or after 1 January 2016. The amendments do not have any significant impact on the Association of Volksbanks.

Amendments to IFRS 16 – Tangible fixed assets and IAS 38 – Intangible assets: Clarification of acceptable depreciation and amortisation methods. The amendment clarifies the choice of the methods used for depreciation/amortisation of tangible fixed assets and intangible assets. Basically, the depreciation and amortisation of tangible fixed assets and intangible assets must take place in such a way that it reflects consumption of the future economic benefit that the company expects to be generated by the asset. In this respect, the IASB has now explicitly stated that a depreciation of tangible fixed assets on the basis of the sales revenue of the goods produced by them does not reflect such consumption and is accordingly not appropriate. Revenues are determined not only by consumption of the assets, but also by other factors such as sales volume, price and inflation. This clarification is also adopted in principle by IAS 38 for the amortisation of intangible assets with a limited useful life. However, the IASB additionally introduces a refutable presumption in this respect. Accordingly, the sales revenue-based amortisation of intangible assets with a limited useful life shall be admissible in the following two exceptional cases. Firstly, if the value of the asset is directly expressed as a measure of revenue, or secondly, if it can be demonstrated that a strong correlation exists between that revenue and the consumption of economic benefits of the intangible asset. It is stated that the basis for determining an appropriate method of amortisation for intangible assets is always to identify the predominant factor limiting use. The IASB has also indicated that an alternative basis for amortisation should be used if this better illustrates the consumption of the intangible asset. The amendments are applicable to business years beginning on or after 1 January 2016. The amendments do not have any impact on the Association of Volksbanks.

Amendments to IFRS 11 – Joint Arrangements: Acquisition of an interest in a joint operation. The amendment clearly states that acquisitions and additional interests in joint operations that constitute a business as defined in IFRS 3 must be accounted for according to the principles for business combinations under IFRS 3 and other applicable IFRSs, unless they are in conflict with the regulations of IFRS 11. The new regulations are to be applied prospectively to the acquisitions in reporting periods beginning on or after 1 January 2016. The amendments do not have any significant impact on the Association of Volksbanks.

Annual improvements of IFRS (2012-2014 cycle)

Within the scope of the annual improvement project, four standards have been amended. The modification of the wording of individual IFRSs is intended to clarify the existing regulations. IFRS 5, IFRS 7, IAS 19 and IAS 34 are concerned. The new regulations must be applied to reporting periods beginning on or after 1 January 2016. The amendments do not have any significant impact on the Association of Volksbanks.

Changes to accounting rules not yet adopted by the EU

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

Amendments to IAS 7 – Statements of Cash Flows: The amendments are aimed at improving the information about changes in the indebtedness of the company. Information must be provided on changes to those financial liabilities whose incoming and outgoing payments are reported in the cash flow from financing activities. The required information may be presented in the form of a reconciliation of balance sheet items. The amendments are applicable to business years beginning on or after 1 January 2017. The amendments will not have any significant impact on the Association of Volksbanks.

Amendments to IAS 12 – Income taxes: The amendments clarify that losses on debt instruments measured at fair value that have not occurred yet, but are valued at amortised cost for tax purposes may lead to deferred tax assets. Moreover, the amendments clarify that it is not the carrying amount, but the fiscal value of an asset that is relevant for estimating future taxable profits, and that the carrying amount does not constitute the upper limit for calculation. During impairment tests of deferred tax assets the effect from changes of the deferred tax item from reversing these temporary differences must not be taken into account when estimating future taxable profits. The amendments are applicable to business years beginning on or after 1 January 2017. The amendments will not have any significant impact on the Association of Volksbanks.

Clarification regarding IFRS 15 – Revenue from Contracts with Customers: The amendments concern the following topics: identification of performance obligations, principal/agent considerations, licences and facilitations for modified and/or concluded contracts. It was stated with respect to the identification of performance obligations that it must be ascertained whether the transfer of the goods/services takes place separately, or if composite items are involved. The context of the contract must be considered in this respect. The second essential item clarifying IFRS 15 refers to the company's assessment of the extent to which the company acts as principal or agent vis-à-vis third parties. One aspect to be considered in this context is whether the company controls the goods/services. When licences are granted, it is to be ascertained whether they are granted at a certain point of time or over a period. For the purpose of clarification, the IASB has extended application guidelines. Regarding the transition to IFRS 15, two optionally applicable facilitations were additionally defined. IFRS 15 and the above mentioned amendments will probably not have any significant impact on the Association of Volksbanks.

Amendments to IFRS 2 – Classification and Measurement of Business Transactions with Share-based Payment: As regards the accounting of transactions under IFRS 2, various requests regarding clarifications were submitted to the IASB and the IFRS Interpretations Committee. These requests were collected and addressed in one project. So far, only guidelines on equity-settled payments had existed. The amendments also include additional rules on cash-settled payments. Thus the valuation regulations under IFRS 2 apply to both types of share-based payments. Moreover, the classification of equity-settled share-based payments changed. Also withholding tax payments must be classified as equity-settled, if the share-based payment is classified accordingly. Additionally, regulations now include approaches for transitions from share-based payments with cash settlement to share-based payments with equity settlement due to amendments to the agreement. So far, this issue had not been explicitly regulated. The amendments are applicable to business years beginning on or after 1 January 2018. The amendments will not have any significant impact on the Association of Volksbanks.

Amendments to IFRS 4 – Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts: Through this amendment, the potential issues of applying IFRS 9 to insurance companies until application of the future standard for insurance contracts (IFRS 17) are taken into account. Two optional approaches are applied. Either the volatilities occurring due to the application of IFRS 9 are recognised in other comprehensive income instead of the income statement or insurance companies continue to apply IAS 39 until the new insurance standard must be applied. Initial application takes place in the business year beginning on or after 1 January 2018. The amendments will not have any impact on the Association of Volksbanks.

Amendments to IAS 40 – Transfer of Investment Properties: The amendments propose guidelines as to when an asset is reclassified from inventories to investment property. Among others, it clarifies that any change of use proposed by the company's management is not sufficient to justify a change of use under IAS 40. Rather, there must be an actual change of use for reclassification to or from the category of investment property to be effected. The list of change events must not be considered exhaustive. The amendments are applicable to business years beginning on or after 1 January 2018. The amendments will not have any significant impact on the Association of Volksbanks.

Annual improvements of IFRS (2014-2016 cycle)

Within the scope of the annual improvement project, three standards have been amended. The amendments concern improvements of the wording and clarifications as well as modifications that do not require full revision of a standard. IFRS 1, IFRS 12 and IAS 28 are concerned. The new rules must be applied for reporting periods beginning on or after 1 January 2018, regarding IFRS 1 and IAS 28, and, regarding IFRS 12, for reporting periods beginning on or after 1 January 2017. The standards are not applied prematurely. The amendments will not have any significant impact on the Association of Volksbanks.

b) New accounting standards

New accounting standards already endorsed by the European Union

New standards and interpretations

IFRS 9 – Financial Instruments: In July 2014, the final version of IFRS 9 was published. The standard must initially be applied with effect from 1 January 2018. The project for implementation of IFRS 9 was started within the Association of Volksbanks at the beginning of 2016.

Classification and recognition of financial instruments

In future financial assets will only be classified and measured in two groups: at amortised cost and at fair value. The group of financial assets at amortised cost consists of such financial assets that only provide for the entitlement to interest and redemption payments at given points in time (SPPI criterion) and that are also held within the scope of a business model for the purpose of holding assets. All other financial assets belong to the group of financial assets measured at fair value.

Verification of the SPPI criterion was completed with respect to loans and securities portfolios at the end of 2016. Questionable fixed interest rates were checked on the basis of a benchmark test and accordingly recognised as SPPI-non-compliant and/or SPPI-compliant. The benchmark test assesses whether the deviation of the undiscounted contractual cash flows of potential non-compliant fixed interest rates as opposed to undiscounted cash flows of benchmark instruments should be assessed as SPPI-non-compliant. In the case of credit loans, some 5.5 % to 6 % must be classified as SPPI-non-compliant in the Association, corresponding to a volume of about euro 1.1 billion. In the case of current credits and overdraft facilities, there is a volume of about euro 161 million in SPPI-non-compliant contracts (16 % - 17 %). The SPPI criterion of those loans is not met primarily due to non-compliant fixed interest rates tied to secondary market yields. The potential positive fair value effect of SPPI-non-compliant loans within the Association lies within a range of euro 16 to 27 million. Possible options to change SPPI-non-compliant contractual conditions were analysed starting at year-end 2016.

Basically, all lending portfolios are defined as hold to collect. If the SPPI criterion is met, valuation is effected at amortised cost. Portfolios meant to be sold, and those held in companies for sale are designated as held for sale and must be measured at fair value through profit or loss. The analysis regarding business model allocation of securities was completed within the Association in the first quarter of 2017. The effect on the carrying amounts of securities portfolios to be expected in the course of reclassification can only be calculated from that date. Thus securities should be measured at amortized cost, at fair value through profit or loss and at fair value through other comprehensive income (OCI). According to the plan, all valuation methods under IFRS 9 will be applied to the securities portfolio within the Association. A decision on the application of the option of measuring equity instruments at fair value through OCI (OCI option), without recognition of the recycling of retained OCI reserves, will only be taken in the course of 2017.

Accounting for impairments of financial assets

Due to the new regulations, not only losses already occurred but also expected losses must be recognised. In this context, the extent of recognition of expected losses is distinguished as to whether the default risk of financial assets has deteriorated significantly or not since their addition. If deterioration has occurred, and if the default risk cannot be assessed as minor on the reporting date, all lifetime expected credit losses of the financial instrument concerned must be recognised. Otherwise, only those losses expected for the lifetime of the instrument must be taken into account that result from future potential loss events within the next 12 months. Exceptions apply to trade receivables and lease receivables. For these assets, entities must (in the case of receivables that do not contain a significant financing component) or may (in the case of receivables that contain a significant financing component and in the case of lease receivables) recognise all expected losses upon acquisition.

The lifetime probability of default (PD) is required to determine lifetime expected credit losses (ECL). Different models for calculation of the lifetime PD have been analysed and evaluated. The Fitting approach through Weibull distribution seems to be the most appropriate with respect to the following criteria: adequacy, interpretability, robustness and maintenance cost. Due to the application of the new calculation logic of the ECL under IFRS 9, an additional capital requirement for level 1 and level 2 (of the 3-level valuation model) in the range between euro 60 and 70 million is expected. Transactions without original rating are already included in this range. For this risk provision calculation of the off-balance sheet transactions the Association of Volksbanks currently uses regulatory credit conversion factors (CCFs). The CCF transforms the amount of an unused credit line and other off-balance sheet transactions into an EAD amount (exposure at default). It is being examined at present if the regulatory CCFs used are suitable for IFRS 9 purposes.

Accounting of hedging relationships

The new regulations intend the hedge accounting to be stronger focused on the economic risk management of the company. As previously, companies are obliged to document the respective risk management strategy including risk management goals at the beginning of a hedging relationship; but in the future, the relationship between the hedged underlying transaction and the hedging instrument will have to correspond to the requirements of the risk management strategy. Analyses are currently underway as to whether hedge accounting will be applied according to IFRS 9 as of 1 January 2018 or in line with the previous way of procedure.

IFRS 15 – Revenue from Contracts with Customers: IFRS 15 applies to revenues from customer contracts and is going to replace the previously applicable standards IAS 11 and IAS 18. In the Association of Volksbanks the project was started at the end of 2016. Contract analyses are currently being prepared. IFRS 15 features a principle-based five-step framework, which first identifies the contract with a customer and the separate performance obligations contained therein. The transaction price is then determined and allocated to the individual performance obligations. Revenues are to be recognised once the customer can dispose of the agreed services - either based on a period or a specific point in time. The transfer of opportunities and risks is no longer decisive. The revenues must be measured at the amount of the consideration the company expects to receive.

Interest income and dividends from ordinary operations previously under IAS 18 are only covered by IFRS 15 to a limited extent. Provisions under IFRS 9 and IAS 39 are applicable to payments for financial services if they constitute an integral part of the effective interest rate. In terms of content, this will not have any impact on the previous approach. Therefore, the distinction of revenue under IFRS 15 from income from financial instruments under IFRS 9, as well as from income from leases under IFRS 16 and/or IAS 17 is of particular importance to the Association of Volksbanks. In the course of the IFRS 15 and IFRS 9 project, institutes of the Association have to recognise commissions for granting loans using the effective interest rate method over the period, instead of previous immediate recognition in profit or loss. The information contained in the notes will be more comprehensive compared to IAS 18. Concerning income from financial services under IAS 39 and/or IFRS 9, the disclosure regulations under IFRS 7 Financial Instruments continue to apply. In the course of the initial analysis, it could be ascertained, that the application of the standard is not going to cause any significant changes with respect to the realisation of revenue compared to the former approach.

New accounting standards not yet adopted by the European Union

New standards and interpretations

IFRS 16 – Leases: The Association of Volksbanks is currently assessing the potential impact of IFRS 16 on the consolidated financial statements. Within the Association of Volksbanks, business transactions subject to application of IFRS 16 concern motor vehicles, real estate and IT components. The quantification and identification of details will take place in the first half of 2017. Significant change concerns the reporting of operating leases at the lessee, as assets and liabilities from operating leases will now have to be reported. There is an option to report leasing agreements with a term of less than 12 months and those with low value underlyings as expenses. It has not been decided yet whether practical simplifications possible under IFRS 16 will be used. The accounting of lease arrangements at the lessor will change only slightly compared to IAS 17. The information contained in the notes will be more comprehensive as compared to IAS 17. No significant effects are expected with respect to financial leases.

IFRS 14 – Regulatory Deferral Accounts: has been published as an interim standard to provide a temporary solution until the relevant IASB project has reached agreement on the accounting of rate-regulated activities. The provisions of this standard will allow an entity that is a first-time adopter of IFRSs within the meaning of IFRS 1 to retain regulatory deferral account balances recognised under its previous national GAAP in its IFRS financial statements and to continue to account for these balances in accordance with its previous accounting methods. The aim is to facilitate the transition to IFRSs for such companies. Application of this standard is explicitly intended for IFRS first-time adopters only; entities that already use IFRSs are excluded. The provisions have no impact on the Association´s financial statements, as the Association does not apply IFRS for the first time.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration: is an interpretation relating to IAS 21 – The Effects of Changes in Foreign Exchange Rates. The interpretation clarifies at which point in time the exchange rate for foreign currency transactions must be determined, if the company recognises a non-monetary asset or non-monetary liability resulting from a payment made in advance/consideration received in advance, before the company recognises the related asset, as income or expenditure. The point in time of the initial recognition of the non-monetary assets or non-monetary liabilities will be decisive. The amendments are not expected to have any significant impact on the Association of Volksbanks.

c) Application of estimates and assumptions

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

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 balance sheet date may lead to considerable adjustments of assets and liabilities in the next business year.

- Alternative investment measurement methods are used to assess the recoverability of financial instruments with no active market available. Some parameters taken as a basis when determining a fair value are based on assumptions concerning the future.
- The assessment of the recoverability of intangible assets, goodwill, investment properties and property, plant and equipment is based on assumptions concerning the future.

- The recoverability of financial instruments measured at amortised cost or assigned to the available for sale category is based on future assumptions.
- The recognition of deferred tax assets is based on the assumption that sufficient tax income will be generated in future in order to realise existing tax loss carryforwards; where required no deferred tax assets were recognized.
- Assumptions regarding the interest rate, retirement age, life expectancy and future salary increases are applied when measuring existing long-term employee provisions.
- Provisions are measured on the basis of cost estimates from contractual partners, past experience and actuarial 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 / Principles of aggregation

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

The financial statements of the fully consolidated companies and the companies consolidated using the equity method were prepared on the basis of the reporting date of 31 December 2016.

Owing to the lack of an ultimate controlling parent company, the equity components reported in the financial statements, converted in accordance with the relevant principles of the credit institutions, included, as stated in the list of companies in section 51), are aggregated. When aggregating the included companies' investments in Volksbanks and VBW, the aggregated carrying amounts of the investments are deducted from the aggregated equity components. Consolidation as a group of companies which are legally separate entities, but under unified control without a parent company means that the capital consolidation does not result in any minority interests. Cooperative shares of the member credit institutions are reported under total nominal value of members' shares.

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

Subsidiaries under the direct or indirect control of the Association are fully consolidated if these are material for a true and fair view of the net assets, liabilities, financial position and profit or loss of the Association. Companies in which the

Association holds an equity interest of between 20 % and 50 % and for which controlling agreements do not exist are consolidated using the equity method; they are not consolidated if they are not significant for the Association.

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

e) Currency translation

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

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

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

f) Net interest income

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

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

Net interest income consists of:

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

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

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

g) Risk provisions

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

An impairment occurs if, after initial recognition of the loan receivable, objective information suggests an event that impacts on the future cash flows from the receivable, the effects of which can be estimated reliably. For the purpose of determining provision requirements, loan receivables are reviewed individually for the above-mentioned indications within the scope of credit and default monitoring both regularly and on an ad hoc basis. The default criteria include, among others, forbearance measures as well as indicators suggesting a potential default of payment (for instance, unlikeliness to pay). In case of receivables that meet any default criteria and exceed the defined amount of exposure (“significant” receivables), the risk provision is determined using the discounted cash flow method (specific risk provision). In this context, the present value of expected future cash flows is calculated on the basis of the original effective interest rate of the receivable. It depends on the assessment of the current and future economic situation of the customer, the estimated amount of realisation proceeds of loan collateral, and the timing of cash flows resulting therefrom. The risk provision for non-significant credit exposures meeting any default criterion is determined on a flat-rate basis (flat-rate specific risk provision). For credit exposures that do not show any default criteria a portfolio risk provision is set up. The flat-rate specific risk provision and the portfolio risk provision are determined on single-transaction level using valuation models. These valuation models are based on statistically calculated parameters, such as historical default and loss ratios. The methods and parameters used are validated regularly in order to approximate the estimated and actual defaults and losses. The process for determining the impairment is EDP-aided, using an impairment tool specifically developed for this purpose.

h) Net fee and commission income

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

i) Net trading income

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

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

j) General administrative expenses

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

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

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

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

k) Other operating result

In addition to the result from measurement or repurchasing of financial liabilities, impairment of goodwill, measurement of IFRS 5 disposal groups, and the deconsolidation result from the disposal of subsidiaries, this item contains all results from the Association's other operating activities.

l) Income from financial investments

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

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

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

m) Financial assets and liabilities

Recognition

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

Derecognition

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

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

Offsetting

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

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

Amortised cost

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

Fair value measurement

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

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

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

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

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

The valuation techniques are calibrated periodically and tested for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Impairment

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

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

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

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

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

Portfolio-based allowances are calculated for homogeneous portfolios. The parameters listed below are used in assessing the amounts of these value adjustments:
- Historical loss experience with non-performing loans
- Estimated losses for the following period
- Estimated period between the occurrence of the loss and its identification (loss identification period: 30 – 360 days)
- Management's experience as to whether the expected losses in the current period are greater or lower than suggested by historical data.

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

Financial instruments designated at fair value through profit or loss

The Association does not make use of the option to irrevocably designate financial instruments at fair value through profit or loss. Allocation to this category is performed if one of the three following criteria is met:

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

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

In note 36) Financial assets and liabilities, the amounts allocated to the at fair value through profit or loss category are indicated for each class of financial asset and liability. The reasons for the designation are described in the notes on the individual financial assets and liabilities.

Derivatives

Derivatives are recognised in income at their fair value in principle.

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

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

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

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

Own equity and debt instruments

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

n) Loans and advances to credit institutions and customers

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

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

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

Finance lease

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

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

o) Risk provisions

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

p) Trading assets and liabilities

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

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

q) Financial investments

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

Available for sale

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

Loans & receivables

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

Held to maturity

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

These financial instruments are recognised at amortised cost in accordance with the effective interest method. Any sale or reallocation of a substantial part of these financial instruments which does not occur on a date that is close to the redemption date or is attributable to a non-recurring isolated event that is beyond the Group’s control and that could not have been reasonably anticipated, results in the reallocation of all held to maturity financial investments to the available for sale category for the two subsequent fiscal years. In 2016, as in the previous year, no such reallocations took place.

r) Investment property

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

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

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

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

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

s) Participations

Subsidiaries are established and participaruions are acquired for strategic reasons and as financial investments. Strategic participations relate to companies operating in the group’s lines of business or companies supporting the group’s business activities.

Companies on which significant influence is exercised are measured using the equity method. All other participations are recognised at their respective fair values. Fair values are determined by reference to quoted market prices on active markets, or by using a valuation method if there is no active market. Valuation methods include discounted cash flow techniques and valuations using multiples. If discounted cash flow procedures are used, the discount rates applied are based on the current recommendations of the Expert Committee of the Austrian Chamber of Public Accountants and Tax Advisers and international financial information service companies. In 2016 it was at 7.0 % - 8.3 % (2015: 9.0 %). Market risk premium used in these calculations in 2016 was at 6.75 % (2015: 6.75 %) beta values were at 0.9 - 1.1 (2015: 1.1). Additional sovereign risks were not observed. Procedures are also used where fair values are determined by adapting available market data for similar financial instruments. Participations whose fair value cannot be reliably determined are carried at cost. Impairment is recorded for losses in value. If the reason for impairment ceases to exist, the impairment loss is reversed and recognised directly in equity with due consideration of deferred taxes.

t) Intangible and tangible fixed assets

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

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

Tangible fixed assets are carried at cost and depreciated on a straight-line basis over their estimated useful life in the case of depreciable assets.

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

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

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

Assets used in operating lease transactions are allocated to the Association and reported in the tangible fixed assets. Leasing income from operating lease assets is recognized on a straight-line basis over the term of the contract through profit and loss and presented with depreciation in interest and similar income. In the 2015 business year, all operating lease assets were deconsolidated due to the demerger of the remainder of VBAG.

u) Tax assets and liabilities

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

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

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

v) Other assets

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

w) Assets held for sale

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

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

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

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

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

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

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

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

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

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

x) Liabilities

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

y) Employee benefits

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

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

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

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

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

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

Actuarial gains and losses are recognised directly 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.

Principal actuarial assumptions for calculation of employee benefit obligations

	2016	2015	2014	2013
Expected return on provisions for pensions	1.10 %	1.50 %	1.60 %	3.00 %
Expected return on provisions for severance payments	1.10 %	2.00 %	2.00 %	3.00 %
Expected return on anniversary pensions	1.10 %	2.00 %	1.80 %	3.00 %
Expected return on plan assets	1.10 %	1.50 %	1.60 %	3.00 %
Future salary increase	3.00 %	3.00 %	3.00 % - 3.50 %	3.50 %
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 2008-P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler&Pagler, Angestelltenbestand). As the defined benefit obligations for staff not employed in Austria are immaterial, the principal actuarial assumptions were not adjusted to reflect the circumstances in the countries where the respective subsidiaries are domiciled.

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

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

z) Other provisions

Other provisions are recognised if a past event has given rise to a present obligation and it is likely that meeting such an obligation will result in an outflow of resources. They are built to the amount of the most probable future claim, taking into account cost estimates of contractual partners, experienced data and actuarial 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 provisions for legal disputes and restructuring. Risk provisions allocated and released are recorded under risk provisions in the income statement. Amounts allocated to and released from the restructuring provision are included under restructuring expense, while income and expenses from all other provisions are mainly recognised under other operating result.

aa) Other liabilities

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

bb) Subordinated liabilities

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

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

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

cc) Equity

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

Capital management is done on the basis of the supervisory capital. For further details see chapter ee) Own funds and chapter 49) a) Internal capital adequacy process – ICAAP and stress testing.

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

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

dd) Reserves

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

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

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

ee) Own funds

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

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

Regulatory own funds can be broken down into three elements:

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

The first two components comprise the Tier I capital.

CET1 comprises the equity and participation capital that meets the CRR requirements. These are as follows: 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 participations in other credit institutions constitute significant deductions.

Furthermore, T2 includes non-current subordinated liabilities.

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

As of 2016, banks must also build up a capital conservation buffer step by step each year to reach 2.5 percentage points in 2019, consisting only of CET1 capital. In 2017 the required capital conservation buffer is 1.25 % (2016: 0.625 %).

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

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

The JRAD process – a periodic process used by the supervisory authorities to assess banks' capital adequacy – may give rise to higher regulatory ratios.

In 2015, the Association of Volksbanks was integrated back into the Supervisory Review and Evaluation Process (SREP) of the ECB. By ECB resolution of 25 November 2016, the result of the SREP was transmitted to VBW with effect on 31 December 2015. Further information is included in note 49) Risk report.

The Association's own funds are described in note 35) Own funds.

ff) Trustee transaction

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

gg) Repurchase transactions

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

hh) Contingent liabilities

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

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

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

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

ii) Cash flow statement

The cash flow statement is calculated in accordance with the indirect method. Calculation of the net cash flow from operating activities is based on the annual result after taxes and before non-controlling interest, whereby in the first instance non-cash expenses and income during the business year are included and deducted respectively. 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. Interest, dividend and tax payments, which are stated separately, relate solely to operating activities.

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

4) Net interest income

Euro thousand	2016	2015
Interest and similar income	507,820	614,124
Interest and similar income from	493,902	592,124
liquid funds	25	-1,936
credit and money market transactions with credit institutions	4,222	8,795
credit and money market transactions with customers	464,016	511,576
debt securities	9,599	50,882
derivatives in the investment book	16,040	22,808
Current income from	8,506	16,442
equities and other variable-yield securities	5,266	13,017
other affiliates	1,024	1,524
investments in other companies	2,215	1,901
Income from operating lease and investment property	5,411	5,557
rental income investment property	5,411	3,447
income from operating lease contracts	0	2,110
rental income	0	2,110
Interest and similar expenses of	-84,725	-125,487
deposits from credit institutions (including central banks)	-9,350	-6,636
deposits from customers	-56,413	-83,157
debts evidenced by certificates	-5,388	-15,452
subordinated liabilities	-12,490	-7,497
derivatives in the investment book	-1,084	-12,745
Net interest income	**423,095**	**488,637**

Net interest income according to IAS 39 categories

Euro thousand	2016	2015
Interest and similar income	507,820	614,124
Interest and similar income from	493,902	592,124
financial investments at fair value through profit or loss	0	0
derivatives in the investment book	16,040	22,808
financial investments not at fair value through profit or loss	477,863	569,316
financial investments available for sale	6,536	47,228
financial investments at amortised cost	468,266	518,443
of which financial lease	3,922	4,367
of which unwinding of risk provisions	3,479	5,909
financial investments held to maturity	3,061	3,646
Current income from	8,506	16,442
financial investments available for sale	8,506	16,442
Income from operating lease and investment property	5,411	5,557
Interest and similar expenses of	-84,725	-125,487
derivatives in the investment book	-1,084	-12,745
financial investments at amortised cost	-83,641	-112,742
Net interest income	**423,095**	**488,637**

Due to the trend of money market interest rates towards negative reference rates, interest income of euro 207 thousand (2015: euro 18,880 thousand) and interest expenses of euro -5,507 thousand (2015: euro -3,801 thousand) were realised in the 2016 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. In the 2015 business year, negative interest income was reported in the cash reserve in interest income, all other results from negative interest rates were reported gross rather than as reductions of the relevant interest item.

The main reasons for the negative interest rates are, firstly, the reduction in the ECB's deposit rate (penalty rate), the negative effect of which is euro -4,052 thousand (2015: euro -1,936 thousand) and secondly, primarily involve CHF/EUR swaps.

5) Risk provisions

Euro thousand	2016	2015
Allocation to risk provisions	-164,861	-155,650
Release of risk provisions	99,756	152,179
Allocation to provisions for risks	-10,322	-24,730
Release of provisions for risks	17,108	25,977
Direct write-offs of loans and advances	-42,496	-57,863
Income from loans and receivables previously written off	8,832	7,179
Risk provisions	**-91,983**	**-52,909**

6) Net fee and commission income

Euro thousand	2016	2015
Fee and commission income from	274,845	262,143
lending operations	41,031	33,494
securities businesses	88,082	86,238
payment transactions	103,528	104,778
from foreign exchange, foreign notes & coins and precious metals transactions	7,203	9,524
other banking services	35,001	28,108
Fee and commission expenses from	-35,011	-33,104
lending operations	-3,372	-3,272
securities businesses	-19,017	-16,758
payment transactions	-10,819	-10,196
from foreign exchange, foreign notes & coins and precious metals transactions	-532	-926
other banking services	-1,271	-1,951
Net fee and commission income	**239,833**	**229,040**

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

Management fees for trust agreements were recognised in fee and commission income in the amount of euro 53 thousand (2015: euro 3 thousand).

7) Net trading income

Euro thousand	2016	2015
Equity related transactions	-30	58
Exchange rate related transactions	8,075	2,710
Interest rate related transactions	822	10,737
from other transactions	0	1
Net trading income	**8,866**	**13,506**

8) General administrative expenses

Euro thousand	2016	2015
Staff expenses	-361,219	-370,549
Wages and salaries	-263,492	-268,662
Expenses for statutory social security	-69,289	-72,291
Fringe benefits	-4,647	-5,241
Expenses for retirement benefits	-6,733	-6,474
Allocation to provision for severance payments and pensions	-17,058	-17,881
Other administrative expenses	-208,452	-231,065
Depreciation of fixed tangible and intangible assets	-45,520	-40,983
Scheduled depreciation (-)	-36,106	-39,668
Impairment (-)	-9,415	-1,315
General administrative expenses	**-615,191**	**-642,597**

Staff expenses include payments for defined contribution plans totalling euro 8,314 thousand (2015: euro 8,262 thousand).

Other administrative expenses include expenses for managing contracts for investment properties to the amount of euro 805 thousand (2015: euro 676 thousand).

For the business year, expenses for the auditor KPMG Austria GmbH Wirtschaftsprüfung und Steuerberatungsgesellschaft amounted to euro 2,009 thousand (2015: euro 6,654 thousand). Thereof euro 1,804 thousand (2015: euro 5,842 thousand) fall upon the audit of the consolidated financial statements including financial statements of fully consolidated companies and joint enterprises, euro 83 thousand (2015: euro 27 thousand) upon advisory services, euro 0 thousand (2015: euro 37 thousand) upon tax advisory services and euro 121 thousand (2015: euro 748 thousand) upon other audit services. The previous year's figures also include the services of Österreichischer Genossenschaftsverband (Schulze Delitzsch).

Information on compensation to board members

Euro thousand	2016	2015
Total compensation		
Supervisory board VBW	1,419	958
Managing board VBW	1,949	1,342
Member of the managing board / Managing directors Volksbanks	7,045	15,626
Expenses for severance payments and pensions		
Supervisory board VBW	132	60
Managing board VBW	840	902
Member of the managing board / Managing directors Volksbanks	1,021	3,694

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

Number of staff employed, including disposal group

	Average number of staff		Number of staff at end of period	
	2016	2015	31 Dec 2016	31 Dec 2015
Domestic	4,518	n.a.	4,150	4,929
Foreign	28	n.a.	30	65
Total number of employees	**4,546**	**n.a.**	**4,180**	**4,994**

9) Other operating result

Euro thousand	2016	2015
Other operating income	79,911	60,055
Proceeds from deconsolidation of subsidiaries	0	-421
Other operating expenses	-67,455	-26,847
Other taxes	-40,609	-5,403
Impairment of goodwill	-58	-58
Other operating result	**-28,211**	**27,326**

In the 2016 business year, other operating income includes income from cost allocations in the amount of euro 32,601 thousand (2015: euro 21,491 thousand). Due to an amendment agreement, income in the amount of euro 12,550 thousand was received from the previous year's sale of the VB Invest group. Moreover, other operating income includes income from the sale of fixed assets in the amount of euro 14,912 thousand (2015: euro 8,317 thousand), leasing income in the amount of euro 6,042 thousand (2015: euro 6,523 thousand), as well as income from the use of guarantees regarding Volksbank Marchfeld e.Gen. and Volksbanken Holding eGen (VB Holding) in the amount of euro 3,650 thousand. In the previous year, income in the amount of euro 2,898 thousand was produced from the buyback of issues and recognised in other operating income.

In the previous year, the following items were reported in the deconsolidation result: from the disposal of subsidiaries, the income from the first-time recognition of the supplementary capital of VB Regio Invest AG in the amount of euro 7,346 thousand; an expenditure of euro -9,877 thousand from the disposal of the rest of VBAG, as well as an income from reclassification of the existing currency reserve from the liquidation of JML Holding AG and of JML AG in the amount of euro 2,110 thousand.

Other operating expenses include costs of external companies that are passed on, in the amount of euro -21,988 thousand (2015: euro -4,828 thousand). Due to start:group dropping out of the Association, a compensation was paid to the federal government in the amount of euro -19,006 thousand, which was recognised in other operating expenses. Furthermore, expenses from the disposal of fixed assets in the amount of euro -5,484 thousand (2015: euro -3,653 thousand), expenses for leased objects in the amount of euro -2,669 thousand, as well as the allocation to a reserve for a potential repayment of the guarantee regarding VB Holding and for pending litigation in the amount of euro -3,981 thousand are also included.

Other taxes include the bank levy in the amount of euro -38,439 thosand (2015: euro -1,794 thousand) and the non-recurring special payment of euro -28,362 thousand. In the previous year, this position included a company tax in the amount of euro -1,130 thousand from the capital increase effected within VBW.

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

10) Income from financial investments

Euro thousand	2016	2015
Result from fair value hedges	**-1,367**	**-2,337**
Result from revaluation of underlying instruments	16,168	-30,622
Loans and advances to credit institutions and customers	-2,737	-1,124
Debt securities	18,268	-47,530
Amounts owed to credit institutions and customers	66	-19
Debts evidenced by certificates	-375	19,753
Subordinated liabilities	947	-1,702
Result from revaluation of derivatives	-17,535	28,285
Result from valuation of other derivatives in the investment book	**7,410**	**3,196**
Exchange rate related transactions	4,397	5,803
Interest rate related transactions	4,471	2,366
Credit related transactions	-128	-4,472
Other transactions	-1,330	-501
Result from available for sale financial investments (including participations)	**-12,479**	**1,974**
Realised gains / losses	-4,017	35,053
Income from revaluation	1,540	187
Impairments	-10,002	-33,266
Result from loans & receivables financial investments	**1**	**6**
Realised gains / losses	1	6
Result from assets for operating lease and investment property assets as well as other financial investments	**-2,124**	**3,804**
Realised gains / losses	2,442	46
Change in value investment property	-4,566	3,758
Income from financial investments	**-8,558**	**6,643**

In 2016, an amount of euro -3,876 thousand (2015: euro 35,405 thousand) previously recognised in the available for sale reserve was reclassified and shown in the income statement. The result affects the position financial investments.

Euro thousand	2016	2015
Result from financial investments, which are measured at fair value through profit or loss	**1,478**	**4,617**
Fair value hedges	-1,367	-2,337
Other derivatives in the investment book	7,410	3,196
Investment property assets	-4,566	3,758
Result from financial investments, which are not measured at fair value and result from financial investments, which are not measured at fair value through profit and loss	**-10,036**	**2,026**
Realised gains / losses	-1,574	35,105
Available for sale financial investments	-4,017	35,053
Loans & reveivables financial investments	1	6
Held to maturity financial investments	0	0
Operating lease assets and other financial investments	2,442	46
Income from revaluation	1,540	187
Available for sale financial investments	1,540	187
Impairments	-10,002	-33,266
Available for sale financial investments	-10,002	-33,266
Income from financial investments	**-8,558**	**6,643**

11) Income taxes

Euro thousand	2016	2015
Current income taxes	-20,616	-7,818
Deferred income taxes	19,576	33,702
Income taxes from discontinued operation	2,145	13,705
Current income taxes	-4,807	-1,055
Deferred income taxes	6,952	14,760
Income taxes for the current fiscal year	**1,104**	**39,589**
Income taxes from previous periods continued operation	3,848	-994
Income taxes from previous periods	3,848	-994
Income taxes	**4,953**	**38,595**

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

Euro thousand	2016	2015
Annual result before taxes - continued operation	-68,813	69,325
Annual result before taxes - discontinued operation	-15,632	-175,102
Annual result before taxes - total	**-84,445**	**-105,777**
imputed income tax 25 %	-21,111	-26,444
Tax relief resulting from		
tax-exempt investment income	-996	-7,286
investment allowances	-86	-29
other tax-exempt earnings	-307	-657
release of untaxed reserve	4,975	4,433
measurement of participation	10,811	962
adjustment of deferred tax assets	1,135	-328
non-inclusion of deferred tax assets	1,636	169
re-inclusion of deferred tax assets	-445	-11,631
different foreign tax rates	-469	-711
other differences	3,753	1,933
Reported income taxes	**-1,104**	**-39,589**
Effective tax rate - continued operations	**1.60 %**	**-57.11 %**
Effective tax rate - including discontinued operations	1.31 %	37.43 %

Due to tax relief resulting from valuation of participations and, in the previous year, re-recognition of deferred tax assets, particularly on tax loss carryforwards, the effective tax rates in 2016 and 2015 differ significantly from the statutory tax rate applicable in Austria.

Euro thousand	2016 Result before tax	2016 Income taxes	2016 Result after tax	2015 Result before tax	2015 Income taxes	2015 Result after tax
Revaluation obligation of defined benefit plans (IAS 19)	-11,898	2,982	-8,916	-1,484	378	-1,106
Currency reserve	1,023	0	1,023	4,163	0	4,163
Available for sale reserve	9,458	-2,390	7,069	-17,812	4,527	-13,286
Hedging reserve	0	0	0	156	-34	122
Change in deferred taxes of untaxed reserve	0	4,587	4,587	0	4,408	4,408
Change from companies measured at equity	0	0	0	12,250	437	12,687
Other comprehensive income total	**-1,416**	**5,179**	**3,763**	**-2,728**	**9,716**	**6,988**

Notes to the consolidated statement of financial positions

12) Liquid funds

Euro thousand	31 Dec 2016	31 Dec 2015
Cash in hand	409,031	228,986
Balances with central banks	1,026,464	1,292,939
Liquid funds	**1,435,495**	**1,521,925**

Transition from liquid funds to cash and cash equivalents

Euro thousand	31 Dec 2016	31 Dec 2015
Liquid funds	1.435.495	1.521.925
Restricted cash and cash equivalents	-33.498	0
Cash and cash equivalents	**1.401.998**	**1.521.925**

Due to contractual obligations within the Association of Volksbanks, cash and cash equivalents are subject to restrictions. Mentioned cash and cash equivalents are allocated to a trust fund (Leistungsfonds) which serves the purpose of performing the services within the scope of joint liability scheme under the association agreement. This trust fund was set up in the 2016 business year.

13) Loans and advances to credit institutions

Loans and advances to credit institutions amounting to euro 642,866 thousand (2015: euro 619,223 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2016	31 Dec 2015
on demand	109,827	220,664
up to 3 months	442,204	217,401
up to 1 year	7,673	31,572
up to 5 years	8,817	109,532
more than 5 years	74,346	40,054
Loans and advances to credit institutions	**642,866**	**619,223**

Further information on maturities are included in note 49) b) Credit risk.

14) Loans and advances to customers

Loans and advances to customers amounting to euro 19,385,588 thousand (2015: euro 22,619,294 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2016	31 Dec 2015
on demand	903,061	992,558
up to 3 months	690,710	922,091
up to 1 year	1,642,001	2,165,152
up to 5 years	5,160,020	6,587,164
more than 5 years	10,989,796	11,952,329
Loans and advances to customers	**19,385,588**	**22,619,294**

Further information on maturities are included in note 49) b) Credit risk.

Finance lease disclosures

Euro thousand	up to 1 year	up to 5 years	more than 5 years	Total
2016				
Total gross investment	13,847	62,340	8,358	84,545
Less paid non-interest-bearing deposits	0	-1,466	0	-1,466
Less unearned financial income	-1,567	-2,371	-628	-4,566
Present value of minimum lease payments	**12,281**	**58,503**	**7,729**	**78,513**
Total unguaranteed residual value				**5,043**
2015				
Total gross investment	6,539	54,428	5,042	66,009
Less paid non-interest-bearing deposits	0	-1,540	0	-1,540
Less unearned financial income	0	0	0	0
Present value of minimum lease payments	**6,539**	**52,888**	**5,042**	**64,469**
Total unguaranteed residual value				**7,035**

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

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

15) Risk provisions

Euro thousand	Individual impairment credit institutions	Individual impairment customers	Portfolio based allowance	Total
As at 1 Jan 2015	**703**	**818,897**	**67,119**	**886,719**
Changes in the scope of consolidation	-703	-279,099	-7,088	-286,889
Currency translation	0	3,808	501	4,309
Reclassification	0	35,432	-393	35,039
Unwinding	0	-5,909	0	-5,909
Utilisation	0	-193,612	0	-193,612
Release	0	-171,926	-7,651	-179,577
Addition	0	162,926	16,508	179,434
As at 31 Dec 2015	**0**	**370,517**	**68,996**	**439,513**
Changes in the scope of consolidation	0	-10,766	-1,685	-12,452
Currency translation	0	359	38	397
Reclassification	0	18	5	23
Unwinding	0	-7,451	0	-7,451
Utilisation	0	-88,359	0	-88,359
Release	0	-94,497	-7,094	-101,590
Addition	0	148,505	19,164	167,669
As at 31 Dec 2016	**0**	**318,327**	**79,424**	**397,752**

Loans and advances to customers include non-interest-bearing receivables amounting to euro 292,472 thousand (2015: euro 386,390 thousand). The additions include an amount of euro 305 thousand (2015: euro 2,679 thousand), which is caused by allocation due to interest past-due. The line reclassification includes reclassifications from provisions. Portfolio based allowances related nearly entirely to loans and advances to customers.

16) Trading assets

Euro thousand	31 Dec 2016	31 Dec 2015
Debt securities	24,162	611
Positive fair value from derivatives	118,256	161,981
exchange rate related transactions	8,418	5,527
interest rate related transactions	107,022	154,422
other transactions	2,816	2,032
Trading assets	**142,417**	**162,592**

Breakdown by residual term

Euro thousand	31 Dec 2016	31 Dec 2015
up to 3 months	1,739	0
up to 1 year	1,410	0
up to 5 years	12,392	611
more than 5 years	8,620	0
Debt securities	**24,162**	**611**

VBW as the CO maintains a trading book. The volume of the trading book as at 31 December 2016 amounts to euro 4,511,332 thousand (2015: euro 5,682,617 thousand).

17) Financial investments

Euro thousand	31 Dec 2016	31 Dec 2015
Financial investments available for sale	2,139,082	2,330,406
Debt securities	1,957,912	2,031,659
Equity and other variable-yield securities	181,170	298,747
Financial investments loans & receivables	0	414
Financial investments held to maturity	254,263	70,716
Financial investments	**2,393,345**	**2,401,536**

Financial investments held to maturity also include deferred interest of euro 2,169 thousand (2015: euro 1,383 thousand).

Breakdown by residual term

Euro thousand	31 Dec 2016	31 Dec 2015
up to 3 months	31,231	35,292
up to 1 year	135,332	80,493
up to 5 years	735,076	809,344
more than 5 years	1,310,536	1,177,660
Debt securities	**2,212,175**	**2,102,789**

Breakdown of debt securities in accordance with the Austrian Banking Act

Euro thousand	31 Dec 2016	31 Dec 2015
Listed securities	2,196,105	2,131,967
Debt securities	2,185,215	2,077,332
Equity and other variable-yield securities	10,889	54,635
Securities allocated to fixed assets	2,166,290	2,195,289
Securities eligible for rediscounting	2,067,992	1,937,942

18) Investment property

Euro thousand	Investment properties
Cost as at 1 Jan 2015	345,883
Changes in the scope of consolidation	-176,610
Currency translation	133
Additions, including transfers	14,269
Disposals, including transfers	-82,958
Cost as at 31 Dec 2015	100,717
Changes in the scope of consolidation	-1,435
Currency translation	0
Additions, including transfers	24,809
Disposals, including transfers	-37,111
Cost as at 31 Dec 2016	**86,980**

Euro thousand	Investment properties
2015	
Cost as at 31 Dec 2015	100,717
Cumulative write-downs and write-ups	-10,159
Carrying amount as at 31 Dec 2015	**90,557**
Impairments of fiscal year	-10,891
Revaluations of fiscal year	11,097
Carrying amount as at 01 Jan 2015	257,483
2016	
Cost as at 31 Dec 2016	86,980
Cumulative write-downs and write-ups	-14,225
Carrying amount as at 31 Dec 2016	**72,755**
Impairments of fiscal year	-7,116
Revaluations of fiscal year	2,653

The valuations shown in the table above are included in the item income from financial investments. These valuations include holdings of investment property assets to the amount of euro -498 thousand (2015: euro -1,146 thousand) at the reporting date.

In 2016, a carrying amount of investment property assets to the amount of euro 31,451 thousand (2015: euro 71,563 thousand) was disposed of.

Investment properties contain 83 completed properties (2015: 110) with a carrying amount of euro 55,974 thousand (2015: euro 75,129 thousand), as well as undeveloped land with a carrying amount of euro 16,781 thousand (2015: euro 15,428 thousand). These properties are located in Austria. In 2016, as in the previous year, there was no property under construction. At reporting date, the investement properties are measured at fair value.

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

The non-observable input factors are provided by independent 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 book value (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

	2016		
	Minimum	**Maximum**	**Average**
Carrying amount in euro thousand	0	5,975	674
Rentable space in sqm	8	5,100	1,660
Occupancy rate	0.00 %	100.00 %	86.94 %
Discount rate	2.00 %	8.00 %	4.98 %

Sensitivity analysis

Euro thousand 31 Dec 2016	Changes in the carrying amount if assumption is increased	if assumption is decreased
Discount rate (0.25 % change)	-2,678	2,961
Discount rate (0.50 % change)	-5,111	6,253

Undeveloped land

	2016 Minimum	Maximum	Average
Carrying amount in euro thousand	24	2,930	839
Plot size in sqm	540	1,009,860	117,624
Value per sqm	2	626	146

Sensitivity analysis

Euro thousand 31 Dec 2016	Changes in the carrying amount if assumption is increased	if assumption is decreased
Land value (10 % change)	1,678	-1,678
Land value (5 % change)	839	-839

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

19) Companies measured at equity

Euro thousand	Joint venture	Associates
Carrying amount as at 1 Jan 2015	21,181	24,363
Changes in the scope of consolidation	-46,532	-24,749
Additions	5,000	0
Disposals	-14,760	0
Comprehensive income proportional	1,628	996
Received dividend	-277	-611
Recognition of prior year losses	0	0
Impairment	0	0
Reversal of impairment	0	0
Transfer to IFRS 5 held for sale	33,760	0
Carrying amount as at 31 Dec 2015	0	0
Changes in the scope of consolidation	0	57,733
Additions	0	0
Disposals	0	0
Comprehensive income proportional	0	275
Received dividend	0	0
Recognition of prior year losses	0	0
Impairment	0	0
Reversal of impairment	0	0
Transfer to IFRS 5 held for sale	0	0
Carrying amount as at 31 Dec 2016	**0**	**58,009**

Joint ventures

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

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

Additional information regarding joint ventures

Euro thousand	VBI Bet + VBRO 2016	2015	Other companies 2016	2015
Assets				
Liquid funds	0	0	0	0
Loans and advances to credit institutions (gross)	0	0	0	0
Loans and advances to customers (gross)	0	0	0	0
Risk provisions	0	0	0	0
Financial investments	0	0	0	0
Other assets	0	0	0	0
Total assets	**0**	**0**	**0**	**0**
Liabilities and Equity				
Amounts owed to credit institutions	0	0	0	0
Amounts owed to customers	0	0	0	0
Debts evidenced by certificates	0	0	0	0
Subordinated liabilities	0	0	0	0
Other liabiliites	0	0	0	0
Equity	0	0	0	0
Total liabilities and equity	**0**	**0**	**0**	**0**
Statement of comprehensive income				
Interest and similar income	0	29,700	0	2,496
Interest and similar expense	0	-12,095	0	-581
Net interest income	0	17,605	0	1,914
Risk provisions	0	-4,558	0	0
Result before taxes	0	-32,149	0	1,222
Income taxes	0	-103	0	-278
Result after taxes	0	-32,252	0	944
Other comprehensive income	0	61,012	0	0
Comprehensive income	**0**	**28,761**	**0**	**944**

Not recognised proportional loss

Euro thousand	2016	2015	2016	2015
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	2016	2015	2016	2015
Equity	0	0	0	0
Equity interest	0,00 %	0.00 %	n.a.	n.a.
Equity proportional	0	0	0	0
Cumulative impairment and reversals	0	0	0	0
Not recognised proportional loss	0	0	0	0
Valuation previous years	0	0	0	0
Transfer carrying amount	0	0	0	0
Carrying amount as at 31 Dec	0	0	0	0
of which assets held for sale				

Associates

Upon start:group dropping out of the Association on 1 December 2016, VB Verbund-Beteiligung eG (VB Verb) will be included in the financial statements of the Association at equity. The Association holds 59.2 % of the shares. The company is domiciled in Vienna and holds participations in companies within the financial sector.

The company was not listed.

In the previous year, all shares in associated companies held by the Association were disposed of in the course of the rest of VBAG dropping out of the Association. The Association held 40 % in VBV delta Anlagen Vermietung Gesellschaft m.b.H. domiciled in Vienna and 30 % in TPK-24 Sp.z.o.o. domiciled in Warsaw.

In the following, the financial information is presented for all companies in aggregated form as none of the companies are deemed material in terms of the proportion of the financial information relevant to the Association's reporting. No balance sheet figures are given for companies demerged in the previous period. In the 2015 business year, the result up to the date of demerger is reported in the statement of comprehensive income.

Additional information regarding associates

Euro thousand	Other companies 2016	2015
Assets		
Liquid funds	0	0
Loans and advances to credit institutions (gross)	0	0
Loans and advances to customers (gross)	0	0
Risk provisions	0	0
Financial investments	1	0
Other assets	142,291	0
Total assets	**142,292**	0
of which current assets	142,291	0
Liabilities and Equity		
Amounts owed to credit institutions	37,662	0
Amounts owed to customers	0	0
Debts evidenced by certificates	0	0
Subordinated liabilities	0	0
Other liabiliites	6,709	0
Equity	97,921	0
Total liabilities and equity	**142,292**	0
of which current liabilities	6,709	0
Statement of comprehensive income		
Interest and similar income	0	2,216
Interest and similar expense	-28	-84
Net interest income	-28	2,132
Risk provisions	0	0
Result before taxes	469	2,038
Income taxes	-4	-314
Result after taxes	465	1,724
Other comprehensive income	0	1,291
Comprehensive income	**465**	3,016

Not recognised proportional loss

Euro thousand	2016	2015
Loss of the period proportional	0	0
Change in other comprehensive income of the period proportional	0	0
Cumulative loss	0	0
Cumulative other comprehensive income	0	0

Reconciliation

Euro thousand	2016	2015
Equity	97,921	0
Equity interest	59.24 %	n.a.
Equity proportional	58,009	0
Cumulative impairment and reversals	0	0
Not recognised proportional loss	0	0
Valuation previous years	0	0
Transfer carrying amount	0	0
Carrying amount as at 31 Dec	58,009	0

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

20) Participations

Euro thousand	31 Dec 2016	31 Dec 2015
Investments in unconsolidated affiliates	10,081	16,370
Participating interests	1,113	1,509
Investments in other companies	14,047	18,000
Participations	**25,241**	**35,880**

A list of non-consolidated affiliates can be found in note 52). Participations with a carrying amount of euro 6,229 thousand (2015: EUR 5,855 thousand) were disposed of during the business year. Profit from these sales amounted to euro 111 thousand (2015: EUR 66 thousand) and is shown under income from financial investments.

Participations in companies whose fair value cannot be reliably determined are carried at cost net of any impairment. Participations with a carrying amount of euro 4,514 thousand (2015: euro 5,528 thousand) were measured at market value.

21) Intangible assets

Euro thousand	Software	Goodwill	Other	Total
Cost as at 1 Jan 2015	62,895	2,271	4,342	69,508
Changes in the scope of consolidation	-14,657	0	402	-14,255
Currency translation	188	0	0	189
Additions including transfers	3,581	0	14	3,595
Disposals including transfers	-7,425	-1,406	-2,008	-10,838
Cost as at 31 Dec 2015	44,583	866	2,750	48,198
Changes in the scope of consolidation	-2,578	0	-1,320	-3,898
Currency translation	17	0	0	17
Additions including transfers	2,142	0	0	2,142
Disposals including transfers	-397	0	-755	-1,152
Cost as at 31 Dec 2016	**43,767**	**866**	**675**	**45,307**

Euro thousand	Software	Goodwill	Other	Total
2015				
Cost as at 31 Dec 2015	44,583	866	2,750	48,198
Cumulative write-downs and write-ups	-38,528	-693	-2,049	-41,269
Carrying amount as at 31 Dec 2015	**6,055**	**173**	**702**	**6,930**
of which unlimited useful life	0	173	0	173
of which limited useful life	6,055	0	702	6,757
Amortisation in fiscal year	-5,300	0	-164	-5,464
Impairment in fiscal year	-1,624	-58	0	-1,682
Carrying amount as at 1 Jan 2015	12,380	231	513	13,124
2016				
Cost as at 31 Dec 2016	43,767	866	675	45,307
Cumulative write-downs and write-ups	-42,180	-750	-320	-43,250
Carrying amount as at 31 Dec 2016	**1,587**	**115**	**354**	**2,057**
of which unlimited useful life	0	115	0	115
of which limited useful life	1,587	0	354	1,941
Amortisation in fiscal year	-5,237	0	-13	-5,251
Impairment in fiscal year	0	-58	0	-58

22) Tangible fixed assets

Euro thousand	Land and buildings	EDP-equipment	Office furniture and equipment	Other operating lease assets	Other	Total
Cost as at 1 Jan 2015	654,642	45,860	272,177	76,008	36,716	1,085,402
Changes in the scope of consolidation	1,331	-2,419	-10,504	-72,307	-4,192	-88,092
Currency translation	1,865	95	279	445	29	2,713
Additions, including transfers	31,212	2,499	10,187	7,487	1,712	53,097
Disposals, including transfers	-14,593	-6,408	-33,534	-11,633	-7,013	-73,181
Cost as at 31 Dec 2015	674,457	39,626	238,605	0	27,251	979,939
Changes in the scope of consolidation	-9,422	-1,487	-11,237	0	-789	-22,935
Currency translation	169	8	24	0	2	203
Additions, including transfers	57,637	1,902	6,255	0	240	66,035
Disposals, including transfers	-23,496	-4,004	-11,157	0	-13,235	-51,892
Cost as at 31 Dec 2016	**699,344**	**36,045**	**222,490**	**0**	**13,470**	**971,349**

Euro thousand	Land and buildings	EDP-equipment	Office furniture and equipment	Other operating lease assets	Other	Total
2015						
Cost as at 31 Dec 2015	674,457	39,626	238,605	0	27,251	979,939
Cumulative write-downs and write-ups	-271,227	-33,845	-185,110	0	-10,041	-500,224
Carrying amount as at 31 Dec 2015	**403,230**	**5,781**	**53,494**	**0**	**17,210**	**479,716**
Depreciation in fiscal year	-17,514	-3,879	-12,986	-5,740	-1,386	-41,505
Impairment in fiscal year	-475	0	0	0	-1	-476
Carrying amount as at 1 Jan 2015	400,550	7,919	71,245	46,693	22,654	549,061
2016						
Cost as at 31 Dec 2016	699,344	36,045	222,490	0	13,470	971,349
Cumulative write-downs and write-ups	-285,576	-32,446	-180,039	0	-5,934	-503,995
Carrying amount as at 31 Dec 2016	**413,768**	**3,599**	**42,451**	**0**	**7,536**	**467,354**
Depreciation in fiscal year	-15,993	-2,776	-11,388	0	-1,180	-31,337
Extraordinary revaluation in fiscal year	61	0	0	0	0	61
Impairment in fiscal year	-6,226	0	-3,152	0	-98	-9,476

The future minimum lease payments under non-cancellable operating leases

Euro thousand	31 Dec 2016	31 Dec 2015
up to 3 months	0	29
up to 1 year	0	87
up to 5 years	0	151
Future minimum lease payments	**0**	**266**

23) Tax assets and liabilities

	31 Dec 2016		31 Dec 2015	
Euro thousand	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Current tax	1,954	9,938	18,419	3,797
Deferred tax	63,612	9,773	54,792	33,742
Tax total	**65,566**	**19,712**	**73,211**	**37,539**

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.

	2016		2015		Net deviation 2016		
Euro thousand	Tax assets	Tax liabilities	Tax assets	Tax liabilities	Total	In income statement	In other comprehensive income
Loans and advances to credit institutions (gross)	0	0	1,421	0	-1,421	-1,421	0
Loans and advances to customers, including risk provisions	15,642	25,330	68	64,055	54,298	52,550	0
Trading assets	165	996	233	1,685	621	621	0
Financial investments	96	82,276	47	79,258	-2,969	-648	-2,643
Investment property	560	3,366	0	14,412	11,606	11,394	0
Participations	14,509	6,232	16,871	3,372	-5,222	-4,169	254
Intangible and tangible fixed assets	30,319	1,749	39,607	723	-10,314	-10,172	0
Amounts owed to credit institutions	80	0	96	207	190	190	0
Debts evidenced by certificates and subordinated liabilities	27,952	287	33,751	564	-5,522	-2,411	0
Trading liabilities	1,028	12	1,684	349	-319	-319	0
Provisions for pensions, severance payments and other provisions	36,817	16,325	36,781	12,662	-3,626	-5,595	2,982
Other assets and liabilities	100,989	36,758	102,618	50,083	11,696	5,839	0
Other balance sheet items	0	38,780	0	44,679	5,899	-9	4,587
Tax loss carryforwards	37,791	0	59,921	0	-22,130	-19,324	0
Deferred taxes before netting	265,949	212,111	293,100	272,050	32,788	26,527	5,179
Offset between deferred tax assets and deferred tax liabilities	-202,337	-202,337	-238,308	-238,308	0	0	0
Reported deferred taxes	**63,612**	**9,773**	**54,792**	**33,742**	**32,788**	**26,527**	**5,179**

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

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

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

For tax loss carryforwards in the amount of euro 498,512 thousand (2015: euro 523,371 thousand) no deferred taxes were recognised. Deferred tax assets for tax loss carryforwards and other deferred tax assets in the amount of euro 4,539 thousand (tax base) (2015: euro -1,312 thousand) were impaired. Deferred tax assets were recognised only if their realisation appeared to be probable within an adequate period of time (4 years). Of these taxable loss carryforwards euro 498,512 thousand (2015: euro 523,371 thousand) are without limitation, and are mainly attributable to VBW.

24) Other assets

Euro thousand	31 Dec 2016	31 Dec 2015
Deferred items	5,805	18,531
Other receivables and assets	78,037	109,229
Positive fair value from derivatives in the investment book	89,038	88,660
Other assets	**172,880**	**216,420**

Other receivables and assets essentially consist of receivables from property sales in the amount of euro 15,605 thousand, auxiliary accounts of the banking business and other allocations amounting to euro 12,280 thousand, security properties in the amount of euro 9,461 thousand and deferrals of euro 8,190 thousand.

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

Euro thousand	31 Dec 2016 Fair value hedge	31 Dec 2015 Fair value hedge
Interest rate related transactions	65,892	68,076
Positive fair value from derivatives	**65,892**	**68,076**

25) Assets held for sale

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

Euro thousand	31 Dec 2016	31 Dec 2015
Loans and advances to customers (gross)	0	26,773
Assets held for sale	**0**	**26,773**

26) Amounts owed to credit institutions

Euro thousand	31 Dec 2016	31 Dec 2015
Central banks	139,855	78,054
Other credit institutions	282,140	360,403
Amounts owed to credit institutions	**421,995**	**438,457**

Amounts owed to credit institutions are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2016	31 Dec 2015
on demand	155,699	338,141
up to 3 months	40,257	68,919
up to 1 year	43,072	9,097
up to 5 years	28,743	4,239
more than 5 years	154,224	18,060
Amounts owed to credit institutions	**421,995**	**438,457**

27) Amounts owed to customers

Euro thousand	31 Dec 2016	31 Dec 2015
Measured at amortised cost	20,017,714	22,323,653
Saving deposits	9,542,930	11,867,138
Other deposits	10,474,785	10,456,515
Amounts owed to customers	**20,017,714**	**22,323,653**

Amounts owed to customers are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2016	31 Dec 2015
on demand	12,325,090	12,183,774
up to 3 months	1,158,018	1,810,224
up to 1 year	3,353,731	3,938,030
up to 5 years	2,319,775	3,612,104
more than 5 years	861,099	779,521
Amounts owed to customers	**20,017,714**	**22,323,653**

28) Debts evidenced by certificates

Euro thousand	31 Dec 2016	31 Dec 2015
Bonds	782,648	1,485,908
Medium-term notes	183,697	262,208
Debts evidenced by certificates	**966,345**	**1,748,116**

Debts evidenced by certificates are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2016	31 Dec 2015
on demand	0	233
up to 3 months	18,326	91,876
up to 1 year	82,666	84,336
up to 5 years	351,705	609,020
more than 5 years	513,648	962,650
Debts evidenced by certificates	**966,345**	**1,748,116**

29) Trading liabilities

Euro thousand	31 Dec 2016	31 Dec 2015
Negative fair values from derivatives		
exchange rate related transactions	23,083	19,243
interest rate related transactions	391,975	371,644
other transactions	2,815	2,032
Trading liabilities	**417,873**	**392,919**

30) Provisions

Euro thousand	Provisions for risk	Other provisions	Total
As at 1 Jan 2015	53,508	114,880	168,388
Changes in the scope of consolidation	-8,128	-73,194	-81,322
Currency translation	77	19	96
Reclassification	500	453	953
Unwinding	0	0	0
Utilisation	-10,967	-15,038	-26,006
Release	-28,343	-6,061	-34,404
Addition	24,860	11,586	36,445
As at 31 Dec 2015	31,505	32,644	64,150
Change in the scope of consolidation	-263	-111	-375
Currency translation	-33	0	-33
Reclassification	-527	2,621	2,094
Unwinding	-22	0	-22
Utilisation	-2,156	-5,973	-8,129
Release	-17,206	-15,043	-32,249
Addition	10,387	16,175	26,562
As at 31 Dec 2016	**21,685**	**30,313**	**51,998**

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

The other provisions item provides for liabilities that are likely to lead to an outflow of funds in the future. The restructuring provision fulfils the criteria given under IAS 37.10 and totals euro 7,841 thousand (2015: euro 13,082 thousand) as at the reporting date. As most restructuring measures are to be implemented by the end of 2017 the provision is mainly classified as short-term provision. Other provisions were recognised for pending litigation amounting to euro 11,650 thousand (2015: euro 8,678 thousand) and for possible drawdowns of guarantees amounting to euro 2,850 thousand (2015: euro 0 thousand).

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

31) Long-term employee provisions

Euro thousand	Provisions for pensions	Provisions for severance payments	Provisions for anniversary bonuses	Total
Net present value as of 1 Jan 2015	171,609	168,476	24,007	364,091
Changes in the scope of consolidation	-101,136	-17,953	-2,571	-121,660
Current service costs	916	5,003	1,577	7,496
Interest costs	1,074	3,058	385	4,517
Payments	-3,913	-10,906	-1,034	-15,853
Actuarial gains or losses	4,194	-224	-674	3,295
Net present value as of 31 Dec 2015	72,743	147,455	21,690	241,888
Changes in the scope of consolidation	-2,030	-8,883	-1,307	-12,220
Current service costs	1,090	6,873	1,446	9,409
Interest costs	1,023	3,044	457	4,524
Payments	-4,741	-9,462	-959	-15,162
Actuarial gains or losses	794	11,209	-341	11,662
Net present value as of 31 Dec 2016	**68,880**	**150,236**	**20,985**	**240,101**

Net present value of plan assets

Euro thousand	Provisions for pensions
Net present value of plan assets as at 1 Jan 2015	44,940
Changes in the scope of consolidation	-39,432
Return on plan assets	1,621
Contributions to plan assets	916
Payments	609
Actuarial gains or losses	0
Net present value of plan assets as at 31 Dec 2015	8,655
Changes in the scope of consolidation	0
Return on plan assets	613
Contributions to plan assets	86
Payments	-338
Actuarial gains or losses	85
Net present value of plan assets as at 31 Dec 2016	**9,101**

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

Contribution payments to plan assets are expected in the amount of euro -4 thousand in 2017 (2016: euro 0 thousand).

Euro thousand	Provisions for pensions	Provisions for severance payments	Provisions for anniversary bonuses	Total
31 Dec 2015				
Long-term employee provisions	72,743	147,455	21,690	241,888
Net present value of plan assets	-8,655	0	0	-8,655
Net liability recognised in balance sheet	**64,088**	**147,455**	**21,690**	**233,233**
31 Dec 2016				
Long-term employee provisions	68,880	150,236	20,985	240,101
Net present value of plan assets	-9,101	0	0	-9,101
Net liability recognised in balance sheet	**59,779**	**150,236**	**20,985**	**231,000**

Historical information

Euro thousand	2016	2015	2014	2013	2012
Net present value of obligation	240,101	241,888	364,091	333,409	335,524
Net present value of plan assets	9,101	8,655	44,940	41,980	38,413

Composition of plan assets

Euro thousand	31 Dec 2016			31 Dec 2015		
	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	289	0	289	399	4	402
Bond issues credit institutions	81	0	81	76	4	80
Other bond issues	3,869	10	3,880	3,858	26	3,883
Shares European countries	105	0	105	1,351	126	1,476
Shares USA and Japan	96	0	96	65	0	65
Other shares	1,354	152	1,506	527	719	1,245
Derivatives	589	795	1,384	0	60	60
Real estate	398	926	1,324	291	769	1,060
Cash in hand	407	30	437	349	35	384
Total	**7,188**	**1,913**	**9,101**	**6,914**	**1,741**	**8,655**

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

Sensitivity analyses

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

Euro thousand	Change in the present value increase of assumption	decrease of assumption
31 Dec 2015		
Discount rate (0.75 % modification)	-17,924	21,397
Future wage and salary increases (0.50 % modification)	11,137	-9,499
Future pension increases (0.25 % modification)	2,702	-694
Future mortality (1 year modification)	3,621	-2,612
31 Dec 2016		
Discount rate (0.75 % modification)	-18,047	20,671
Future wage and salary increases (0.50 % modification)	10,674	-9,868
Future pension increases (0.25 % modification)	1,813	-1,655
Future mortality (1 year modification)	3,473	-3,361

As of 31 December 2016, the weighted average term of defined-benefit obligations for pensions was 13.9 years (2015: 13.4 years) and for severance payments 12.3 years (2015: 12.1 years).

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

32) Other liabilities

Euro thousand	31 Dec 2016	31 Dec 2015
Deferred items	1,724	2,688
Other liabilities	150,170	197,333
Negative fair values from derivatives in the investment book	169,837	173,476
Other liabilities	**321,731**	**373,497**

Other liabilities essentially consist of taxes and fiscal liabilities in the amount of euro 47,710 thousand, deferrals and trade payables in the amount of euro 24,536 thousand, liabilities to employees in the amount of euro 23,399 thousand, as well as auxiliary accounts of the banking business in the amount of euro 16,573 thousand.

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

Euro thousand	31 Dec 2016 Fair value hedge	31 Dec 2015 Fair value hedge
Exchange rate related transactions	29,478	31,355
Interest rate related transactions	26,930	29,127
Negative fair value from derivatives	**56,409**	**60,482**

33) Subordinated liabilities

Euro thousand	31 Dec 2016	31 Dec 2015
Subordinated liabilities	136,838	147,381
Supplementary capital	188,068	237,549
Subordinated liabilities	**324,906**	**384,930**

Subordinated liabilities are measured at amortised cost. The participation capital subscribed by VB Regio Invest AG (VB Regio) in the Volksbanks was recognised for the first time due to VB Regio's demerger from the Association in the 2015 business year. This item was recognised at fair value in the amount of euro 71,984 thousand.

Breakdown by residual term

Euro thousand	31 Dec 2016	31 Dec 2015
up to 3 months	6,695	2,262
up to 1 year	52,351	21,151
up to 5 years	103,619	248,887
more than 5 years	162,241	112,630
Subordinated liabilities	**324,906**	**384,930**

The issued open amount of every subordinated emission is less than 10 % of the total volume of the subordinated liabilities. In the subordinated liabilities with a residual term of more than five years a volume of euro 31,455 thousand (2015: euro 44,777 thousand) is included without a determined residual term. The participation capital subscribed by VB Regio likewise has no specific term. Since the intention is to repay this capital in 2018, it is reported in the term category of up to 5 years. Every subordinated emission has the possibility of termination or repayment soonest after five years with the prior consent of the FMA in accordance with article 77 CRR.

34) Equity

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

Return on total assets

The return on total assets for the business year 2016 was -0.26 % (2015: 0.39 %) 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	**2016**	**2015**	**Assignment**
VB Services für Banken Ges.m.b.H.; Wien	1.11 %	1.11 %	Other companies
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	1.00 %	1.00 %	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 all companies in aggregated form as they are immaterial.

Additional information non-controlling interest

	Other companies	
Euro thousand	**2016**	**2015**
Assets		
Loans and advances to credit institutions (gross)	20,601	17,549
Loans and advances to customers (gross)	4	15
Financial investments	682	680
Other assets	7,760	11,500
Total assets	**29,046**	**29,744**
Liabilities and Equity		
Amounts owed to credit institutions	0	4
Other liabilities	13,054	14,374
Equity	15,992	15,366
Total liabilities and equity	**29,046**	**29,744**
Statement of comprehensive income		
Interest and similar income	67	531
Income from investment property and operating leases	457	0
Net interest income	525	531
Risk provisions	-7	-1
Result before taxes	2,641	1,903
Income taxes	-37	-54
Result after taxes	2,604	1,849
Other comprehensive income	-307	3
Comprehensive income	**2,297**	**1,852**

35) Own funds

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

Euro thousand	31 Dec 2016	31 Dec 2015
Common tier I capital: instruments and reserves		
Capital instruments including share premium accounts	351,240	228,811
Retained earnings	919,137	986,975
Accumulated other comprehensive income (and other reserves)	335,004	516,494
Amount of capital instruments subject to phase out from CET1	34,501	88,518
Non-controlling interest	61	86
Common tier I capital before regulatory adjustments	1,639,942	1,820,883
Common tier I capital: regulatory adjustments		
Goodwill (net of related tax liability)	-115	-173
Intangible assets (net of related tax liability)	-1,941	-6,757
Value adjustments due to the requirement for prudent valuation	-3,056	-3,274
Regulatory adjustments - transitional provisions	25,898	35,591
Unrealised gains (40 %; 2015: 60 %)	-6,258	0
Loss of the current financial year (40 %; 2015: 60 %)	31,333	31,433
Intangible assets (40 %; 2015: 60 %)	823	4,158
Regulatory adjustments of CET1 capital due to insufficient AT1 capital	-15,153	-18,588
Additional CET1 deductions pursuant to Article 3 CRR	-3,884	-4,019
Total regulatory adjustments	1,747	2,780
Common equity tier I capital - CET1	**1,641,690**	**1,823,663**
Additional tier 1 capital: instruments		
Capital instruments including share premium accounts, allowable as additional tier I capital	17,003	17,003
Additional tier I capital before regulatory adjustments	17,003	17,003
Additional tier I capital: regulatory adjustments		
Regulatory adjustments - transitional provisions	-32,156	-35,591
Loss of the current financial year (40 %; 2015: 60 %)	-31,333	-31,433
Intangible assets (40 %; 2015: 60 %)	-823	-4,158
Regulatory adjustments of CET1 capital due to insufficient AT1 capital	15,153	18,588
Total regulatory adjustments	-17,003	-17,003
Additional tier I capital - AT1	**0**	**0**
Tier I capital (CET1 + AT1)	**1,641,690**	**1,823,663**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts, allowable as additional tier II capital	128,350	190,727
Capital instruments subject to phase out from tier II	233,364	298,495
Tier II capital before regulatory adjustments	361,714	489,222
Tier II capital – regulatory adjustments		
T2 instruments of financial sector entities where the institution has a significant investment	0	0
Total regulatory adjustments	0	0
Tier II capital - T2	**361,714**	**489,222**
Total own funds - TC (T1 + T2)	**2,003,404**	**2,312,884**

Common equity Tier I capital ratio (Tier I)	12.38 %	12.12 %
Tier I capital ratio	12.38 %	12.12 %
Equity ratio	15.10 %	15.37 %

in relation to total risk exposure amount

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

Euro thousand	31 Dec 2016	31 Dec 2015
Risk weighted exposure amount - credit risk	11,608,970	13,195,004
Total risk exposure amount for position, foreign exchange and commodities risks	153,424	180,345
Total risk exposure amount for operational risk (OpR)	1,442,301	1,582,622
Total risk exposure amount for credit valuation adjustment (CVA)	61,112	93,343
Total risk exposure amount	**13,265,807**	**15,051,313**

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

According to CRR, companies in the financial sector that are under the control of the parent or where the Group holds a majority of shares either direct or indirect, are fully consolidated. The carrying amount of institutions, financial institutions and subsidiaries providing bankingrelated auxiliary services that are controlled by the parent but 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 2016, 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.

36) Financial assets and liabilities

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

Euro thousand	Held for trading	At fair value through profit or loss	Held to maturity	Available for sale	Amortised cost	Carrying amount - total	Fair value
31 Dec 2016							
Liquid funds	0	0	0	0	1,435,495	1,435,495	1,435,495
Loans and advances to credit institutions	0	0	0	0	642,866	642,866	0
Loans to credit institutions less individual impairments	0	0	0	0	642,866	642,866	635,860
Loans and advances to customers	0	0	0	0	19,385,588	19,385,588	0
Individual impairments to customers	0	0	0	0	-318,327	-318,327	0
Loans to customers less individual impairments	0	0	0	0	19,067,260	19,067,260	17,931,714
Trading assets	142,417	0	0	0	0	142,417	142,417
Financial investments	0	0	254,263	2,139,082	0	2,393,345	2,399,242
Participations	0	0	0	25,241	0	25,241	25,241
Derivatives - investment book	89,038	0	0	0	0	89,038	89,038
Financial assets held for sale	0	0	0	0	0	0	0
Total financial assets	**231,455**	**0**	**254,263**	**2,164,323**	**21,145,622**	**23,795,664**	**22,659,008**
Amounts owed to credit institutions	0	0	0	0	421,995	421,995	404,731
Amounts owed to customers	0	0	0	0	20,017,714	20,017,714	20,004,717
Debts evidenced by certificates	0	0	0	0	966,345	966,345	964,834
Trading liabilities	417,873	0	0	0	0	417,873	417,873
Derivatives - investment book	169,837	0	0	0	0	169,837	169,837
Subordinated liabilities	0	0	0	0	324,906	324,906	334,575
Total financial liabilities	**587,710**	**0**	**0**	**0**	**21,730,960**	**22,318,670**	**22,296,568**

Euro thousand	Held for trading	At fair value through profit or loss	Held to maturity	Available for sale	Amortised cost	Carrying amount - total	Fair value
31 Dec 2015							
Liquid funds	0	0	0	0	1,521,925	1,521,925	1,521,925
Loans and advances to credit institu-tions	0	0	0	0	619,223	619,223	0
Loans to credit institutions less individual impairments	0	0	0	0	619,223	619,223	617,302
Loans and advances to customers	0	0	0	0	22,619,294	22,619,294	0
Individual impairments to customers	0	0	0	0	-370,517	-370,517	0
Loans to customers less individual im-pairments	0	0	0	0	22,248,776	22,248,776	20,871,645
Trading assets	162,592	0	0	0	0	162,592	162,592
Financial investments	0	0	70,716	2,330,406	414	2,401,536	2,410,935
Participations	0	0	0	35,880	0	35,880	35,880
Derivatives - investment book	88,660	0	0	0	0	88,660	88,660
Financial assets held for sale	0	0	0	0	26,773	26,773	26,773
Total financial assets	**251,252**	**0**	**70,716**	**2,366,286**	**24,417,112**	**27,105,366**	**25,735,712**
Amounts owed to credit institutions	0	0	0	0	438,457	438,457	429,016
Amounts owed to customers	0	0	0	0	22,323,653	22,323,653	22,331,033
Debts evidenced by certificates	0	0	0	0	1,748,116	1,748,116	1,755,923
Trading liabilities	392,919	0	0	0	0	392,919	392,919
Derivatives - investment book	173,476	0	0	0	0	173,476	173,476
Subordinated liabilities	0	0	0	0	384,930	384,930	391,524
Total financial liabilities	**566,395**	**0**	**0**	**0**	**24,895,156**	**25,461,551**	**25,473,891**

Financial investments contain securities classified as held to maturity and loans & receivables with a carrying amount of euro 183,663 thousand (2015: euro 0 thousand), a total of euro 4,792 thousand (2015: euro 0 thousand) above their fair value, as there is no objective evidence of impairment.

Financial investments available for sale in the amount of euro 0 thousand (2015: euro 4,632 thousand) and participations in the amount of euro 20,727 thousand (2015: euro 30,352 thousand) are measured at cost as their fair value cannot be reliably determined. Instruments measured at cost with a carrying amount of euro 22,215 thousand (2015: euro 3,720 thousand) were sold in the business year. A result of euro 111 thousand (2015: euro 66 thousand) was realised. The fair value cannot reliably be determined as there is no active market for these securities and it is not possible to make a reasonable assessment of the probabilities of different fair value estimates. The shares and participations are primarily strategic participations. The market for these is limited to co-shareholders.

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

Carrying amounts of underlyings of fair value hedges

	Interest rate risk		Foreign currency risk	
Euro thousand	Available for sale	Amortised cost	Available for sale	Amortised cost
31 Dec 2016				
Loans and advances to customers	0	0	0	78,217
Financial investments	1,171,773	0	44,456	0
Financial assets	**1,171,773**	**0**	**44,456**	**78,217**
Amounts owed to credit institutions	0	17,320	0	0
Debts evidenced by certificates	0	655,723	0	0
Subordinated liabilities	0	0	0	0
Financial liabilities	**0**	**673,043**	**0**	**0**
31 Dec 2015				
Loans and advances to customers	0	27,112	0	80,199
Financial investments	1,177,846	0	45,360	0
Financial assets	**1,177,846**	**27,112**	**45,360**	**80,199**
Amounts owed to credit institutions	0	17,386	0	0
Debts evidenced by certificates	0	717,496	0	0
Subordinated liabilities	0	64,286	0	0
Financial liabilities	**0**	**799,168**	**0**	**0**

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 2016				
Trading assets	11,766	130,651	0	142,417
Financial investments	1,937,330	134,579	67,173	2,135,908
available for sale	1,937,330	134,579	67,173	2,135,908
Participations	0	0	4,514	4,514
Derivatives - investment book	0	89,038	0	89,038
Total	**1,949,096**	**354,268**	**71,687**	**2,371,877**
Trading liabilities	0	417,873	0	417,873
Derivatives - investment book	0	169,837	0	169,837
Total	**0**	**587,710**	**0**	**587,710**
31 Dec 2015				
Trading assets	0	162,592	0	162,592
Financial investments	2,003,517	322,257	0	2,325,774
available for sale	2,003,517	322,257	0	2,325,774
Participations	0	0	5,528	5,528
Derivatives - investment book	0	88,660	0	88,660
Total	**2,003,517**	**573,509**	**5,528**	**2,582,554**
Trading liabilities	0	392,919	0	392,919
Derivatives - investment book	0	173,476	0	173,476
Total	**0**	**566,395**	**0**	**566,395**

Available for sale financial investments totalling euro 0 thousand (2015: euro 4,632 thousand) and participations totalling euro 20,727 thousand (2015: euro 30,352 thousand) are measured at amortised cost because their fair value cannot be reliably determined.

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

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

In 2016, financial instruments with a carrying amount of euro 2,278 thousand (2015: euro 17 thousand), which were still measured at Level 2 market value as at 31 December 2015, were reclassified as Level 1 financial instruments due to an increase in trading activity of these instruments. On the other hand, Level 1 financial instruments in the amount of euro 0 thousand (2015: euro 15,477 thousand) were reclassified into Level 2 due to a decrease in trading activity.

Development of Level 3 fair values of financial assets

Euro thousand	Financial Investments at fair value through profit or loss	Participations	Available for sale	Total
As at 1 Jan 2015	7,071	208,171	4,500	219,741
Changes in the scope of consolidation	-7,071	-205,081	-4,500	-216,652
Additions	0	974	0	974
Disposals	0	-1,849	0	-1,849
Valuation				
through profit and loss	0	-873	0	-873
through other comprehensive income	0	4,186	0	4,186
As at 31 Dec 2015	0	5,528	0	5,528
Changes in the scope of consolidation	0	0	0	0
Additions	0	0	70,562	70,562
Disposals	0	0	-26	-26
Valuation				
through profit and loss	0	0	-3,154	-3,154
through other comprehensive income	0	-1,014	-208	-1,222
As at 31 Dec 2016	**0**	**4,514**	**67,173**	**71,687**

The valuations shown in the table above are included in the item income from financial investments (income statement) or available for sale reserve (other comprehensive income). The valuations recorded in the income statement include holdings of financial assets to the amount of euro 3,154 thousand (2015: euro 0 thousand) at the reporting date.

In terms of sensitivity analyses for level 3 market values in the item participations, factors that increase or decrease value are determined in alternative valuation scenarios by varying income estimates and income-based parameters within a range to 20 %. In the event of an increase of estimation, market value changes by euro 1,006 thousand (2015: euro 979 thousand), while a decrease of estimation leads to a change of euro -1,006 thousand (2015: euro -979 thousand).

The portfolio of assets available for sale that are allocated to Level 3 of the fair value hierarchy as at 31 December 2016 comprises participation certificates with a carrying amount of euro 67,173 thousand. They are not traded on any active market and only allow for alternative measurement by means of unobservable input parameters.

Measurement is effected using the Hull-White one factor interest model within the scope of a Monte Carlo simulation, with the model being calibrated to the current environment of market data (interest rate and volatility) on a daily basis. The interest to be paid on these shares in the future is calculated by means of a variable coupon, consisting of the 3-month EURIBOR as base rate and a markup that constitutes an unobservable input. Other unobservable input factors included in the valuation are the duration and the expected redemption rate of the participation certificates.

End of October 2018 is assumed as the estimated final maturity, with redemption still being subject to uncertainties and accordingly being considered as unknown input factor. 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.

Valuation of these financial instruments was performed by the Treasury of VBW. Determination of fair value according to the procedure described is effected daily. Within the scope of the sensitivity analysis, the input factors used during evaluation of the participation certificates are adjusted in order to reflect reasonable possible alternatives in the opinion of the management.

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

31 Dec 2016 **Euro thousand**	**Positive change in fair value**	**Negative change in fair value**
Change in maturity +/- 1 year	4,006	-3,814
Change in markup +/- 100 bp	1,064	-1,049
Change in redemption value 5 %	0	-3,326

The uncertainty regarding the time of redemption is calculated with parameter changes of +/- one year, resulting in a negative effect of euro 3,814 thousand in case of a maturity extension and a positive effect of euro 4,006 thousand in case of a maturity reduction. This adjustment is considered a reasonable possible alternative by the management, as maturity changes may arise due to the approval process of the collection of securities by the banking supervision authority on the one hand and actual settlement on the other hand. A collection of participation certificates after the end of 2019 is currently not considered to be a realistic scenario by the management.

A range of +/- 100 bp is considered a reasonable possible alternative to the amount of the markup on the base rate. In case of an increase of the markup, the fair value would reduce by euro 1,049 thousand, and a reduction of the markup on the base rate would result in an increase of the fair value by euro 1,064 thousand.

Based on the available corporate planning of the issuer, a redemption value of 100 per cent was assumed during measurement of the participation certificates, considering a reasonable possible alternative for the same to deviate by not more than 5 %. In case of a reduction of the redemption amount by 5 %, the fair value would reduce by euro 3,326 thousand. Repayment above the nominal value is not intended, meaning that any excess liquidity of the issuer cannot result in any price increase of the participation certificates.

The underlying measurement procedures for determining the fair value are based on several input factors or parameters that may also show mutual interdependencies between unobservable parameters. Such mutual interdependencies were not taken into account in quantitative terms in the above-mentioned sensitivity analysis. The development of the markup on the risk-free interest rate curve for discounting the cash flows associated with the change of the estimated liquidation of the company constitutes one such essential interdependant relationship.

For financial instruments not measured at fair value, the fair value is only calculated for disclosure purposes in the notes and has no influence on the consolidated statement of financial position or the consolidated statement of comprehensive income.

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

Euro thousand	Level 1	Level 2	Level 3	Total fair value	Carrying amount
31 Dec 2016					
Liquid Funds	0	1,435,495	0	1,435,495	1,435,495
Loans and advances to credit institutions (gross)	0	0	0	0	642,866
Loans to credit institutions less individual impairment	0	0	635,860	635,860	642,866
Loans and advances to customers (gross)	0	0	0	0	19,385,588
Individual impairment to customers	0	0	0	0	-318,327
Loans to customers less individual impairment	0	0	17,931,714	17,931,714	19,067,260
Financial investments loans & receivables	0	0	0	0	0
Financial investments held to maturity	260,160	0	0	260,160	254,263
Financial investments	260,160	0	0	260,160	254,263
Financial assets held for sale	0	0	0	0	0
Total financial assets	**260,160**	**1,435,495**	**18,567,575**	**20,263,230**	**21,399,885**
Amounts owed to credit institutions	0	0	404,731	404,731	421,895
Amounts owed to customers	0	0	20,004,717	20,004,717	20,017,714
Debts evidenced by certificates	0	0	964,834	964,834	966,345
Subordinated liabilities	0	0	334,575	334,575	324,906
Total financial liabilities	**0**	**0**	**21,708,858**	**21,708,858**	**21,730,960**

Euro thousand	Level 1	Level 2	Level 3	Total fair value	Carrying amount
31 Dec 2015					
Liquid Funds	0	1,521,925	0	1,521,925	1,521,925
Loans and advances to credit institutions (gross)	0	0	0	0	619,223
Loans to credit institutions less individual impairment	0	0	617,302	617,302	619,223
Loans and advances to customers (gross)	0	0	0	0	22,619,294
Individual impairment to customers	0	0	0	0	-370,517
Loans to customers less individual impairment	0	0	20,871,645	20,871,645	22,248,776
Financial investments loans & receivables	0	414	0	414	414
Financial investments held to maturity	80,115	0	0	80,115	70,716
Financial investments	80,115	414	0	80,529	71,130
Financial assets held for sale	0	0	26,773	26,773	26,773
Total financial assets	**80,115**	**1,522,339**	**21,515,720**	**23,118,174**	**24,487,827**
Amounts owed to credit institutions	0	0	429,016	429,016	438,457
Amounts owed to customers	0	0	22,331,033	22,331,033	22,323,653
Debts evidenced by certificates	0	0	1,755,923	1,755,923	1,748,116
Subordinated liabilities	0	0	391,524	391,524	384,930
Total financial liabilities	**0**	**0**	**24,907,496**	**24,907,496**	**24,895,156**

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

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

37) Derivatives

Derivative financial instruments

2016	Face value				Fair value
Euro thousand	up to 1 year	1 to 5 years	more than 5 years	Total	31 Dec 2016
Interest related transactions	965,740	2,500,506	3,104,468	6,570,714	-244,656
Caps & Floors	80,213	515,970	337,181	933,364	-874
Futures - interest related	524,000	427,000	0	951,000	0
Interest rate swaps	361,527	1,557,536	2,767,288	4,686,350	-243,782
Swaptions	0	0	0	0	0
Currency related transactions	1,329,991	1,016,749	266,704	2,613,444	-125,265
Cross currency swaps	484,683	1,009,577	266,704	1,760,964	-123,119
FX Swaps	226,354	5,754	0	232,108	-1,194
Forward exchange transactions	618,954	1,418	0	620,372	-951
Credit related transactions	0	0	0	0	0
Other transactions	186,486	16,143	222,036	424,665	-10,496
Options	186,486	16,143	222,036	424,665	-10,496
Total	**2,482,217**	**3,533,398**	**3,593,208**	**9,608,823**	**-380,417**

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

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

38) Assets and liabilities denominated in foreign currencies

On the balance sheet date, assets denominated in foreign currencies totalled euro 2,222,738 thousand (2015: euro 3,020,384 thousand), whereas liabilities denominated in foreign currencies stood at euro 617,975 thousand (2015: euro 965,822 thousand).

39) Trust transactions

Euro thousand	31 Dec 2016	31 Dec 2015
Assets from trust transactions		
Loans and advances to customers	117,575	115,262
Financial investments	0	8,149
Other assets	65	65
Liabilities arising from trust transactions		
Amounts owed to credit institutions	4,235	4,228
Amounts owed to customers	113,340	119,182
Other liabilities	65	65

40) Subordinated assets

Euro thousand	31 Dec 2016	31 Dec 2015
Loans and advances to credit institutions	0	76
Loans and advances to customers	8,968	4,226
Financial investments	1,832	1,888

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

Euro thousand	31 Dec 2016	31 Dec 2015
Assets pledged as collateral		
Loans and advances to customers	282,652	78,479
Financial investments	17,500	2,500
Liabilities for which assets have been pledged as collateral		
Amounts owed to credit institutions	285,152	80,979
Amounts owed to customers	15,000	0

In the context of corporate funding via Oesterreichische Kontrollbank (OeKB), loans and advances to customers in the amount of euro 70 million (2015: euro 78 million) have been provided as collateral. These loans and advances are guaranteed by means of Austrian government default guarantees, private insurance policies and draft guarantees. OeKB may not repledge or sell these loans and advances to customers if the Group performs in accordance with the contract.

Loans and advances to customers of euro 212 million were provided as collateral for OeNB in the 2016 business year (2015: euro 0 million).

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

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

42) Contingent liabilities and credit risks

Euro thousand	31 Dec 2016	31 Dec 2015
Contingent liabilities		
Liabilities arising from guarantees	1,169,741	1,459,274
Liabilities arising from assets pledged as collateral	7,110	27,420
Others (amount guaranteed)	12,736	51,953
Credit risks		
Obligations from pension business	120	110
Credit risks from unutilised loan commitments	2,708,174	9,521,655
Others	1	1,170

If the management estimates a cash outflow for financial guarantees, a provision is built for off-balance risks to the amount of the probable cash outflow under consideration of possible available collaterals. Therefore the provision amounts to euro 21,685 thousand (2015: euro 31,505 thousand).

According to the Spin-off and Transfer Agreement dated 1 June 2015, VBW has resumed the central organisation and central institution function from VBAG (now immigon portfolioabbau ag, immigon). Following this spin-off, claims for damages were filed against immigon. VBW is a co-defendant in these proceedings on the basis of section 15 (1) SpaltG (Spin-off Act); the liability of VBW is limited in terms of net assets assumed through the spin-off (within the meaning of section 15 (1) SpaltG) in the amount of euro 7 million. The total obligation in dispute from complaints under section 15 (1) SpaltG currently amounts to euro 6.9 million. The relevant obligations underlying the claims for damages are attributed to immigon as stipulated in the Spin-off Agreement. Should VBW ever become subject to such claims, the Spin-off Agreement entitles VBW to an indemnification claim against immigon. Based on the quarterly result of immigon published as at 30 September 2015, VBW expects immigon to be in a position to service its liabilities. In case that an economic burden for VBW arises nevertheless, as mutually agreed in the Association of Volksbanks, all members of the Association will take up their pro rata share of the costs.

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

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

43) Repurchase transactions and other transferred assets

As at 31 December 2016, the Association as pledgor had buy-back commitments under genuine repurchase agreements in the amount of euro 103,210 thousand (2015: euro 0 thousand).

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

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

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

44) Related party disclosures

Euro thousand	Unconsolidated affiliates	Companies in which the Group has a participating interest	Associated companies	Companies which exercise a significant influence on the parent as shareholders
31 Dec 2016				
Loans and advances to customers	40,894	54,325	18,425	0
Risk provisions (-)	-421	-75	-24	0
Debt securities	0	0	0	1,023,520
Amounts owed to credit institutions	0	0	0	0
Amounts owed to customers	7,846	6,260	85,448	0
Liabilities arising from guarantees	1,660	0	4,826	0
Provisions	0	10	53	0
Transactions	61,656	43,213	20,775	0
31 Dec 2015				
Loans and advances to customers	60,653	13,744	0	0
Risk provisions (-)	-1,596	0	0	0
Debt securities	0	0	0	975,944
Amounts owed to credit institutions	214	0	0	0
Amounts owed to customers	9,061	14,440	0	0
Liabilities arising from guarantees	5,779	684	0	0
Provisions	0	0	0	0
Transactions	141,114	53,516	93,277	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 Association and its associated companies are geared to usual market conditions. As in the previous year, the Association does not have any other liabilities for unconsolidated affiliates or associated companies on balance sheet date.

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

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

Euro thousand	31 Dec 2016	31 Dec 2015
Outstanding loans and advances	2,866	7,864
Redemptions	503	2,229
Interest payments	37	8

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

45) 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 2016			
Covered bonds	2,165,745	1,407,600	758,145
Total	**2,165,745**	**1,407,600**	**758,145**
31 Dec 2015			
Covered bonds	1,708,421	1,466,250	242,171
Total	**1,708,421**	**1,466,250**	**242,171**

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

46) Branches

	31 Dec 2016	31 Dec 2015
Domestic	399	462
Foreign	3	2
Total number of branches	**402**	**464**

47) Events after the balance sheet date

On 17 February 2017, the Management Board meeting of SPARDA-BANK AUSTRIA eGen (SPARDA) and the Supervisory Board meeting of VBW resolved that the two institutions shall immediately commence preliminary talks and evaluations regarding a merger. Already in its general meeting on 27 January 2017, SPARDA had decided to remain a member of the Association of Volksbanks, after failed negotiations with Sparda-Bank Hessen eG. The SPARDA trademark is meant to be continued in the market after the merger.

Moreover, agreements were made between VBW and Volksbank Niederösterreich AG (VB NÖ) with a view to starting negotiations as to whether and in what manner the cooperation between the two institutions might be intensified. Based on the geographical proximity and the closely related areas of business, cooperation models and the associated synergies are being evaluated.

On 21 March 2017 in the general meeting of Waldviertler Volksbank Horn registrierte Genossenschaft mit beschränkter Haftung (VB Horn) the decision against a merger with VB NÖ was made. VB Horn remains a member of the Association.

In the third quarter of 2016, VBW concluded a rating agreement with Moody's rating agency. After completion of the rating process by Moody's on 16 February 2017, the rating was determined to be Baa2 for long-term and short-term deposits of VBW. Moreover, a rating agreement for covered bonds was concluded with Moody's. On 3 March 2017, Moody's awarded the highest rating (Aaa) to covered bonds of VBW. On 3 March 2017, the rating agency FitchRatings published an update of the long-term issuer rating for the Association of Volksbanks, upgrading the latter by one rating level to BBB-. Equally on 3 March 2017, FitchRatings upgraded the rating for covered bonds of VBW by one level to A-. VBW cancelled the covered bond rating contract with FitchRatings agency in February 2017. As a resut, Fitch withdrew the rating for covered bonds of VBW on 20 April 2017. Both, the rating of VBW issued by Moody's and the rating of the Association of Volksbanks awarded by FitchRatings are within the investment grade range. This enables the Association of Volksbanks to place issues on the capital market again.

48) Segment reporting

In line with the Association's future structure – consisting of eight merger groups and two specialist institutions – the Association now has twelve segments corresponding to the strategic business fields. The merger groups are to be formed by 2017 through amalgamation of institutions into provincial Volksbanks (regional banks). In addition to the eight regional banks and two specialist institutions, the CO function of VBW and start:group, which was sold in the 2016 business year, are reported separately. These divisions reflect the different regions and services of the Association and are controlled in varying ways in accordance with the internal management and reporting structure. Control is based on the individual merger groups/regional banks and their higher-level holding companies and subordinate entities. In the case of VBW, reporting is based on allocation to the CO or Retail profit centres, which means that all results of VBW, its subordinate entities and higher-level holding companies are allocated to these two profit centres.

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

CO

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

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

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

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

Regional banks

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

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

start:group

The start:bausparkasse AG and its subsidiary IMMO-Bank Aktiengesellschaft are reported in this segment. Both companies were sold with effect on 1 December 2016. In the division, the results up to the sale, the measurement result under IFRS 5, and the deconsolidation result were reported. The reclassification of the current result to the result of a discontinued operation is shown in the column consolidation.

Specialist institutions

The two segments Sparda and Doctors / Pharmacies comprise the specialist institutions SPARDA-BANK AUSTRIA Süd eGen and SPARDA-BANK AUSTRIA Nord eGen, which merged in the 2016 business year to SPARDA-BANK AUSTRIA eGen, and Bank für Ärzte und Freie Berufe Aktiengesellschaft and Österreichische Apothekerbank eG, which provide Association of Volksbanks services to their specific customer groups.

Consolidation

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

1-12/2016

Euro thousand	CO	Vienna	Lower Austria	Styria	Carinthia	Upper Austria
Net interest income	34,999	85,197	54,688	52,599	24,231	36,276
Risk provisions	9,886	-24,095	-12,627	-10,662	-15,175	-6,854
Net fee and comission income	-2,203	50,377	31,940	23,653	13,722	24,160
Net trading income	4,131	467	-69	-29	-15	2
General administrative expenses	-131,108	-119,864	-82,194	-65,021	-34,655	-59,365
Restructuring cost	7,054	-3,994	0	0	0	0
Other operating result	65,394	4,021	401	202	1,565	5,639
Income from financial investments	6,629	-2,198	-963	-3,719	-1,437	-5,046
Income from companies measured at equity	275	0	0	0	0	0
Income from discontinued operation	0	0	0	0	0	0
Annual result before taxes	**-4,942**	**-10,089**	**-8,824**	**-2,977**	**-11,763**	**-5,188**
Income taxes	5,122	1,279	2,483	-4,375	4,790	-2,002
Annual result after taxes	**180**	**-8,811**	**-6,341**	**-7,352**	**-6,974**	**-7,190**
31 Dec 2016						
Total assets	**6,269,316**	**4,835,462**	**3,322,583**	**2,668,681**	**1,279,816**	**2,180,222**
Loans and advances to customers	591,575	3,911,206	2,632,199	2,350,486	1,018,648	1,543,030
Companies measured at equity	27,247	11,484	311	2,746	2,452	5,333
Amounts owed to customers	703,866	4,044,469	2,839,919	1,780,750	1,121,993	1,922,272
Debts evidenced by certificates, including subordinated liabilities	736,552	25,142	40,893	46,204	51,565	53,133

1-12/2015

Euro thousand	CO	Vienna	Lower Austria	Styria	Carinthia	Upper Austria
Net interest income	51,153	92,798	61,073	57,313	27,082	39,232
Risk provisions	4,593	1,772	-470	-12,640	-23,191	-12,435
Net fee and comission income	1,656	48,124	30,155	22,864	13,572	22,233
Net trading income	16,103	1,015	-218	-1,082	-27	-30
General administrative expenses	-118,168	-126,417	-81,839	-62,875	-35,621	-60,564
Restructuring cost	-321	0	0	0	0	0
Other operating result	82,676	-23,618	-12,624	-12,077	25,711	-8,121
Income from financial investments	-5,375	7,187	2,635	-2,480	-10,956	-4,099
Income from companies measured at equity	0	0	0	0	0	0
Income from discontinued operation	-57,309	0	0	0	0	0
Annual result before taxes	**-24,992**	**862**	**-1,288**	**-10,977**	**-3,429**	**-23,785**
Income taxes	8,866	15,076	97	2,312	-1,078	5,108
Annual result after taxes	**-16,126**	**15,938**	**-1,191**	**-8,666**	**-4,507**	**-18,677**
31 Dec 2015						
Total assets	**7,194,476**	**5,159,093**	**3,268,585**	**2,799,778**	**1,300,191**	**2,256,065**
Loans and advances to customers	795,034	4,062,268	2,563,681	2,491,609	1,006,944	1,516,916
Companies measured at equity	0	0	0	0	0	0
Amounts owed to customers	757,443	4,372,509	2,719,785	1,741,868	1,105,363	1,926,218
Debts evidenced by certificates, including subordinated liabilities	860,529	30,761	34,578	42,717	52,578	55,322

Salzburg	Tyrol	Vorarlberg	start:group	Sparda	Physicians/ Pharmacists	Consolidation	Total
46,044	44,073	31,648	48,945	9,289	12,662	-57,557	423,095
-13,849	-9,091	-7,148	-690	17	-2,383	690	-91,983
23,751	27,323	26,000	-1,130	10,015	6,419	5,805	239,833
-4	-8	4,396	-5	-4	-9	13	8,866
-60,626	-65,297	-52,293	-35,161	-25,338	-19,973	135,704	-615,191
0	0	0	0	0	0	0	3,060
1,702	1,353	769	-16,641	-635	1,591	-93,573	-28,211
-1,554	974	69	-8,887	-1,128	-184	8,887	-8,558
0	0	0	0	0	0	0	275
0	0	0	-11,089	0	0	-4,543	-15,632
-4,537	**-674**	**3,441**	**-24,658**	**-7,783**	**-1,877**	**-4,574**	**-84,445**
1,927	291	-7,434	2,145	1,486	-723	-36	4,953
-2,610	**-384**	**-3,994**	**-22,512**	**-6,297**	**-2,600**	**-4,610**	**-79,493**
2,669,223	**2,994,168**	**2,415,898**	**0**	**893,441**	**946,164**	**-6,009,153**	**24,465,822**
2,136,490	2,505,921	1,748,517	0	318,024	699,620	-70,129	19,385,588
5,970	26	20	0	359	2,061	0	58,009
2,019,676	2,300,539	1,697,311	0	852,833	797,326	-63,239	20,017,714
69,836	115,215	119,060	0	6,500	42,103	-14,951	1,291,251

Salzburg	Tyrol	Vorarlberg	start:group	Sparda	Physicians/ Pharmacists	Consolidation	Total
51,826	50,537	33,690	51,787	13,753	13,848	-4,273	539,819
-14,599	-2,559	-13,010	2,701	-2,228	-6,750	28,607	-50,208
22,630	30,893	27,584	-2,403	9,639	5,590	19	232,559
-29	-146	1,054	-45	-2	-34	-3,099	13,460
-60,001	-59,390	-50,486	-34,335	-24,458	-20,943	63,628	-671,472
0	0	0	0	0	0	0	-321
-10,668	-14,292	-5,795	57,153	4,959	5,501	-61,683	27,122
479	-2,388	-752	-86,450	-7,217	-1,386	105,965	-4,837
0	0	0	0	0	0	0	0
0	0	0	0	0	0	-134,591	-191,900
-10,363	**2,656**	**-7,714**	**-11,592**	**-5,554**	**-4,173**	**-5,428**	**-105,777**
1,094	535	1,871	2,480	1,311	890	34	38,595
-9,269	**3,190**	**-5,843**	**-9,112**	**-4,242**	**-3,283**	**-5,394**	**-67,182**
2,688,002	**3,040,134**	**2,437,923**	**3,378,869**	**872,819**	**883,820**	**-7,465,211**	**27,814,543**
2,152,746	2,505,375	1,801,197	2,740,628	329,416	715,139	-61,660	22,619,294
0	0	0	0	0	0	0	0
1,946,530	2,375,453	1,672,140	2,221,129	830,958	681,940	-27,682	22,323,653
61,893	126,201	165,247	653,956	6,000	63,529	-20,264	2,133,046

49) Risk report

General

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

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

- Credit risk
- Market risk
- Operational risk
- Structural liquidity risk
- Other risks (investment risk, strategic risk, reputational risk, equity risk and business risk)

In its role as CO of the Association of Volksbanks, VBW must ensure that the banking association has administration, accounting and control procedures in place to record, assess, manage and monitor business and operational banking risks as well as compensation policies and practices (section 39 (2) of the Austrian Banking Act). The necessary instruction rights are implemented according to the General Instructions.

Current developments

VBW has been acting as CO of the Association of Volksbanks since 4 July 2015 and is responsible for ensuring the Association of Volksbanks complies with regulatory requirements. In risk management and control this particularly includes the implementation and support of processes and methods, which are established consistently within the Association of Volksbanks for identifying, managing, measuring and monitoring all risks related to banking operations.

In 2015, the Association of Volksbanks was integrated again into the Supervisory Review and Evaluation Process (SREP) of the ECB. By ECB resolution of 25 November 2016, the result of the SREP was transmitted to VBW with effect on 31 December 2015. According to the so-called “SREP resolution” VBW as CO of the Association of Volksbanks disposes of solid, effective and comprehensive strategies and procedures to determine, maintain and distribute internal capital. Moreover, the amount, type and distribution of internal capital are largely sufficient to cover the type and level of risk that the Association of Volksbanks is exposed to.

By ECB resolution of 29 June 2016, VBW as CO was granted approval, with effect from 1 July 2016, of non-application of the requirements under Article 113 (1) CRR with respect to risk positions (assets and off-balance sheet items to be cov-ered by own funds) vis-à-vis the members of the Association of Volksbanks as counterparties and allocation of a risk weight of 0 % (zero weighting) vis-à-vis these members of the Association of Volksbanks as counterparties under Article 113 (6) CRR, unless they are items of CET 1 capital, additional core capital or supplementary capital. In order to create the intended target structure, the approval limited in time until 31 December 2017 was granted with respect to those counterparties (i.e. members of the Association of Volksbanks) with mergers to be carried out in 2017.

Principles of risk policy

The risk policy principles comprise the standards as applicable within the Association of Volksbanks for dealing with risks and are determined by the CO´s Managing Board together with risk appetite. A broadly shared understanding of risk management throughout the Association is the foundation for developing risk awareness and a risk culture within the company. The Association of Volksbanks carries on its activities under the principle that risks will only be accepted to the extent which is required to achieve strategic business goals. The associated risks will be managed overall following the risk management principles by creating an appropriate organisational structure and corresponding business processes.

Risk management structure

The banking association pursuant to section 30a of the Austrian Banking Act and the primary institutions of the Volksbank sector took all organisational precautionary measures necessary to meet the requirements of a modern risk management system as drafted, for example, in the minimum standards for lending business and in the credit institutions-risk management regulation. There is a clear separation between trading and back office. Risk assessment, measurement and control follow the dual control principle. In order to prevent conflicts of interest, these tasks are performed by different organisational units.

The diversity of the business model requires risks to be identified, assessed, measured, aggregated and managed effectively, and to provide equity for different divisions. 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 of solid risk management, the Risk Appetite Framework (RAF) was implemented by the Association of Volksbanks, in order to define risk appetite and / or the level of risk tolerance that the Association of Volksbanks is prepared to accept to achieve its defined goals.

Regulatory requirements

At present, the European and national regulatory authorities are and will continue stipulating increasingly comprehensive requirements. This constitutes a burden on the Association due to the high input of staff as well as project and IT costs required, on the one hand, and increased capital requirements that exceed the statutory minimum requirement under Basel III by far, on the other hand.

In accordance with Basel II / III, regulatory requirements are divided into three pillars within the Association.

Pillar 1 Minimum capital requirements

The implementation of pillar 1 within the Association of Volksbanks is aimed at meeting minimum regulatory requirements, following the CO´s Management Board decision. With respect to credit risk, market risk and operational risk, the respective regulatory standard approaches for determining the minimum capital requirements apply.

Pillar 2 Internal capital adequacy assessment

The regulatory control and minimum requirements of pillar 2 are implemented within the scope of the ICAAP (internal capital adequacy assessment process). In this context, the Associaton of Volksbanks implements all measures required to ensure sufficient capitalisation for current and future business activities, as well as the associated risks, at all times.

Pillar 3 Disclosure

The requirements of pillar 3 are met through publication of the qualitative and quantitative disclosure requirements defined under the Austrian Financial Market Supervisory Authority (FMA) regulation on implementation of the Austrian Banking Act as it relates to the disclosure obligations of credit institutions (EU regulation no. 575 / 2013 Part VIII disclosure), on the Association’s website under Volksbanken-Verbund / Verbund-Offenlegung.

Risk and capital management throughout the Association of Volksbanks

Risk controlling of VBW is responsible for the identification, measurement, assessment, control, monitoring and reporting of all significant risks at Association level and supports the management at the level of the individual bank (from VBW point of view) and of the Association of Volksbanks. Moreover, risk controlling prepares the governance rules, methods and models for strategic risk management issues across the Association of Volksbanks, as well as the standard for control at portfolio level.

The operational credit risk management agendas and standards for the Association of Volksbanks are performed with by the risk management for the association and the reorganisation management.

For the purpose of performing its steering function, the CO has issued General Instructions for all credit institutions included in the Association of Volksbanks. The General Instruction on Risk Management and the downstream manuals govern the risk management function in a binding and uniform manner across the entire Association.

The objective of the General Instruction is to clearly and transparently document the general framework and principles for measuring and managing risks to be applied consistently across the Association of Volksbanks as well as the design of processes and organisational structures. The General Instruction forms the basis of operationalising the risk strategy, defining the fundamental risk targets and limits that business decisions have to be aligned with, based on the respective business focus. The General Instruction applies to all members of the banking association pursuant to section 30a Austrian Banking Act.

As part of their general duty of care, the Managing Boards and Managing Directors of all Association members must ensure, without exception or limitation, that the General Instruction is applied in their respective companies on both a formal and a de facto basis. Any deviations and special regulations concerning the General Instruction are only permissible in exceptional cases and have to be coordinated with VBW as the CO in advance.

a) Internal capital adequacy process – ICAAP and stress testing

Business activities resulting from the business model require the ability to appropriately identify, quantify, aggregate and control risks, and to provide an adequate capital base.

To ensure a sustainable, risk-adequate capital base, VBW, in its role as CO and in line with international best practice, has set up an internal capital adequacy assessment process (ICAAP) as a revolving control cycle at consolidated association level.

The ICAAP starts by identifying the key risks of the Association, undergoes a risk quantification and aggregation process, determination of risk capacity, capital allocation and limitation and concludes with ongoing risk monitoring and the measures derived thereof.

The individual elements of the cycle are performed at varying intervals (e.g. daily for market risk trading book risk measurement, quarterly for preparing the risk capacity account, annually for risk inventory and determination of the risk strategy). All activities described within the cycle are reviewed for accuracy and adequacy at least annually, adjusted to the respective current framework if necessary and approved by the Managing Board of the CO.

Apart from the consolidated Association of Volksbanks, the individual credit institutions equally perform the ICAAP elements as described above. The CO provides the required methods, systems, analyses and reports.

Risk strategy

The risk strategy of the Association of Volksbanks is based on the business strategy of the Association and provides for consistent general conditions and principles for uniform risk management. It provides the framework for consistent and mandatory risk handling across the Association of Volksbanks and for ensuring risk capacity within the Association at all times. Detailed regulations for the management of individual risks are contained in the General Instruction as well as in the risk manuals.

Based on the Association of Volksbanks' risk strategy, the associated credit institutions define their own risk strategies adjusted to the specific business model. The risk strategy is reviewed for accuracy and adequacy at least annually and adjusted to the respective current framework if necessary.

The local or individual risk strategies of the associated credit institutions of the Association of Volksbanks are initiated and monitored by the CO. Furthermore, the locally prepared risk strategies are audited for quality and conformity with the Association´s risk strategy.

Risk Appetite Statement and limit system

The core elements of the risk strategy are an integrated limit system aligned with the business strategy and the Risk Appetite Statement (RAS). The RAS set of indicators, consisting of strategic and operational indicators, supports the Managing Board of the CO in implementing key strategic goals of the Association of Volksbanks, such as maintaining independence, achieving growth targets in line with strategic planning, ensuring capital market viability, as well as achieving a target rating within the investment grade range.

The risk appetite and/or the indicators of the RAS are derived from the Federal Act on the Recovery and Resolution of Banks (Bankensanierungs- und Abwicklungsgesetz, BaSAG) on the one hand and from the risk profile, risk capacity and revenue expectations and/or the strategic planning process on the other hand; thereby special attention is paid to consistency with the business plan, the business strategy as well as the risk strategy and the subrisk strategies.

The limit system broken down by risk subtypes and the RAS provide the framework for the maximum risk that the Association of Volksbanks is prepared to accept to achieve strategic targets. The RAS indicators are provided with a target, a trigger and a limit value and are monitored at all times, as well as the aggregate bank and partial risk limits. Therefore deviations from the risk strategy are identified quickly and counter-measures will be initiated in a timely manner.

Risk inventory

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

Stress testing

The Association of Volksbanks performs internal stress tests and additional regulatory stress tests at six-month intervals. Internal stress testing consists of scenario analyses, sensitivity analyses and the reverse stress test. By integration of all significant risks, internal stress testing allows for identification of dangers specific to the respective credit institution. Furthermore, a regulatory stress test is performed upon corresponding request by the authority (ECB / EBA).

Credit, market and liquidity risks undergo regular risk-type specific stress tests. The crisis scenarios in such tests are designed in such a way that the occurrence of very unlikely but not impossible events is simulated. Based on this approach, extreme losses, among other things, can be identified and analysed.

Apart from these risk type-specific stress tests and sensitivity analyses, stress tests are also performed across risk types on a regular basis. Economic crisis scenarios are defined and the changed risk parameters for the individual risk categories and areas of business derived therefrom. Apart from the risk side, the effects of crisis scenarios on risk covering potentials are also determined. Finally, in a stressed risk capacity account, the various effects of the crisis scenarios on risk-capacity are summarised and analysed.

Risk capacity account

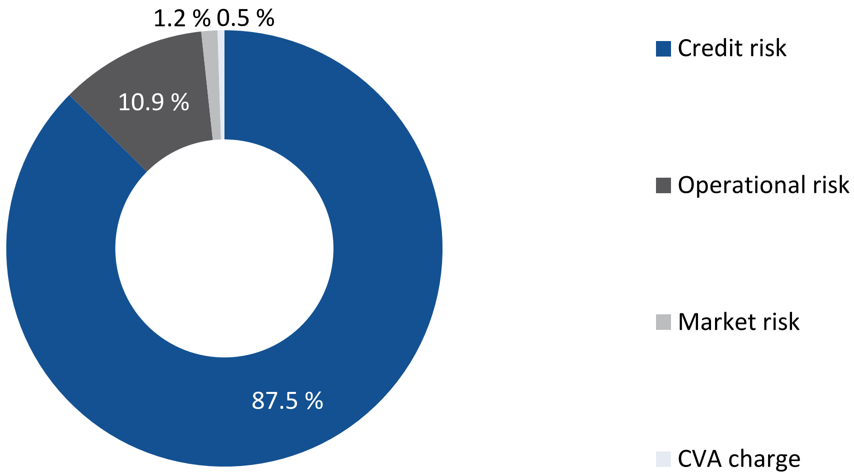
The basis for the quantitative implementation of the ICAAP is the risk capacity account. It demonstrates that ade-quate risk-covering capital is in place at all times to provide sufficient cover for risks taken and also ensures such cover is available for the future. For this purpose, all relevant individual risks are aggre-gated. The existing, previously defined risk-covering capital is then compared with this total risk. Compliance with the total bank risk limit, determined by the Managing Board for the whole Association, is monitored and reported on a quarterly basis.

When determining the risk-capacity, different objectives are pursued, which are reflected in three different views:

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

The regulatory view compares the sum of all risks required by the regulator to be covered by capital according to specified risk measurement methods and the defined risk-covering capital (based on regulatory definitions). Assurance of regulatory risk-capacity is a minimum requirement, since it is stipulated by law.

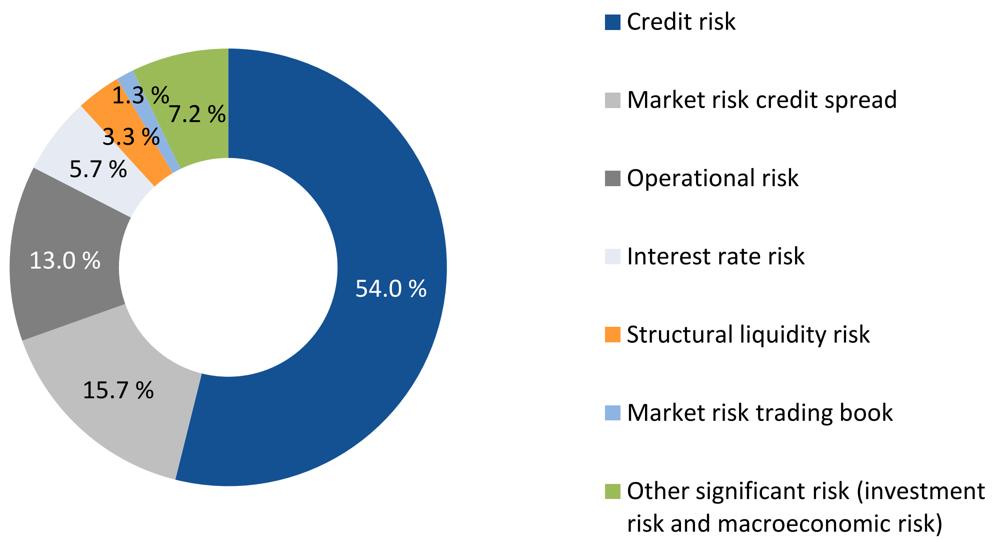
As at 31 December 2016, the regulatory total risk position for the Association is composed as follows:



The composition of the regulatory total risk position of the Association of Volksbanks corresponds to that of any typical retail bank. As compared to the previous year, the composition of the regulatory aggregate risk position has slightly changed due to the sale of start:group. As a result, the proportion of the credit risk and CVA charge has slightly decreased, while the proportion of operational and market risk has increased or remained constant.

The economic liquidation view focuses on meeting creditors' claims in the event of liquidation. In this view, the risk-covering capital is defined based on internal capital. This is based on the regulatory definition, but also includes further components such as hidden liabilities / reserves. Moreover, internal – usually VaR methods – are employed to determine the total risk position. This concerns not only the risks which the regulator requires to be covered by equity but also all quantifiable risks considered significant in the risk inventory. A confidence level of 99.9 % and a holding period of one year are used to quantify risk in the liquidation view.

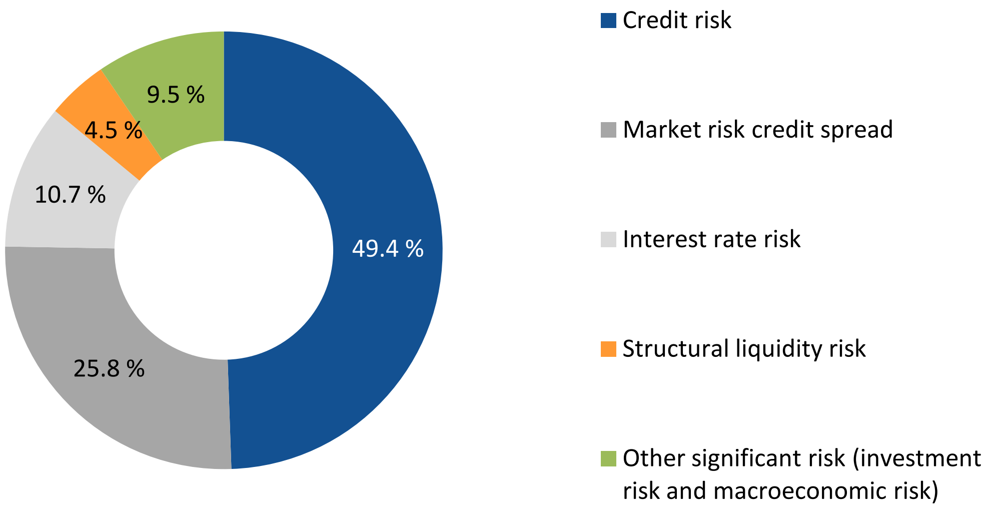
As at 31 December 2016, the total risk position for the Association in the economic liquidation view was composed as follows:



As compared to the regulatory perspective, the distribution of the total risk positions under the economic liquidation perspective of the Association of Volksbanks displays a more diversified composition of risk and a shift from credit risk towards risk types measured using internal procedures. In particular, this leads to a shift of proportions towards market risk credit spread, operational risk and interest rate risk exposures. As compared to the previous year, due to the sale of start:group and portfolio changes implemented, a change has occurred with respect to the composition of the total risk position under the economic liquidation perspective. The largest increases are seen in the credit risk and operational risk positions, while the most significant reductions are recorded in interest rate risk and other risks. Other significant risks consist of investment risk and macroeconomic risk.

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

As at 31 December 2016, the total risk position for the Association in the going concern view was composed as follows:



As compared to the economic liquidation perspective, the distribution of the total risk position of the Association of Volksbanks under the going-concern perspective shows a different composition of risk and a shift of risk positions towards risk types measured with internal procedures that can be absorbed within current operations. There is a clear shift of the aggregate risk distribution towards the market risk credit spread and other significant risks. As compared to the previous year, the composition of the total risk position has changed, with the highest increases occurring in the credit risk position. The interest rate risk and market risk credit spread positions recorded the largest relative reductions.

Reorganisation and liquidation planning

Since the Association of Volksbanks was classified as a system-relevant credit institution, VBW as CO of the Association of Volksbanks has worked out a reorganisation plan and submitted the same to the relevant regulatory authorities (ECB). This reorganisation plan will be updated at least once a year and takes both, changes of the bank's business activities and changes with respect to regulatory requirements, into account.

b) Credit risk

Credit risk refers to potential losses which occur in case a contracting party fails to meet its payment obligations.

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

In order to measure and control the credit risk the development of sophisticated models, systems and processes tailored to the bank's own portfolio is necessary. The aim is firstly to structure and improve credit decision making and secondly, to use such instruments and their findings as a basis for portfolio management. When implementing these systems, the Association of Volksbanks made a strong effort to ensure that all rating systems used in the Association show a comparable probability of default (PD) and are connected with the VB master scale, which comprises a total of 25 rating categories. The PD band used enables both comparison of internal ratings with classifications of external rating agencies and, most importantly, comparison of credit ratings across customer segments.

Loan portfolio and credit value at risk

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

These CVaR results also serve as a means of obtaining additional information for portfolio analysis and management. A corresponding report is provided monthly. The most important aim of using credit risk methods and instruments is pre-venting loss through identifying risks at an early stage. The improvement of this method for the timely identification was applied.

Development of the credit portfolio in 2016 by customer segments

The areas of business of the Association of Volksbanks coincide with the division of the receivables portfolio applied internally for control purposes, while the division by customer segments corresponds to the regulatory customer groups defined.

Following tables respectively include assets held for sale.

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

Euro thousand	Public sector	Banks	Corporates	Retail SME	Retail private	Special finance	Total
31 Dec 2016							
Ärzte- & ApoBank	102	35	169,233	360,489	168,996	1,093	699,950
Spar- und Vorschußvereine	0	0	0	0	0	0	0
Sparda Banken	0	151	3,682	158	314,049	0	318,040
start:group	0	0	0	0	0	0	0
VB Kärnten	8,081	1	223,081	332,908	447,579	10,068	1,021,719
VB Niederösterreich	60,707	3,970	589,090	683,071	1,228,792	67,148	2,632,778
VB Oberösterreich	69,183	3,071	410,393	372,936	569,312	115,238	1,540,133
VB Salzburg	20,497	1,562	738,665	566,638	807,949	3,152	2,138,463
VB Steiermark	49,281	3	909,108	618,665	762,134	14,789	2,353,980
VB Tirol	12,907	208	1,016,234	510,140	984,404	8,075	2,531,969
VB Vorarlberg	11,105	77,388	468,192	212,772	1,060,020	0	1,829,477
VBW - Retail	38,349	2,119	1,407,961	694,374	1,692,254	55,498	3,890,554
VBW - ZO	70,150	554,359	402,210	6,557	1,257	36,857	1,071,391
Total	**340,363**	**642,866**	**6,337,850**	**4,358,708**	**8,036,747**	**311,919**	**20,028,454**
31 Dec 2015							
Ärzte- & ApoBank	137	40	168,327	374,425	168,875	3,281	715,086
Spar- und Vorschußvereine	0	0	0	0	26,351	0	26,351
Sparda Banken	0	151	4,432	349	324,565	0	329,497
start:group	324	9,045	875,289	153,201	1,604,865	91,153	2,733,876
VB Kärnten	8,316	0	212,378	377,210	406,051	6,411	1,010,368
VB Niederösterreich	58,922	3,569	585,464	784,431	1,114,746	14,698	2,561,830
VB Oberösterreich	67,130	425	434,840	431,944	520,845	60,958	1,516,143
VB Salzburg	18,922	1,692	802,828	636,575	694,147	468	2,154,631
VB Steiermark	44,603	4	994,969	690,141	746,942	19,302	2,495,960
VB Tirol	15,998	102	1,055,672	577,147	879,434	302	2,528,656
VB Vorarlberg	48,364	143,667	529,964	228,650	1,033,928	0	1,984,573
VBW - Retail	55,116	2,659	1,487,855	847,757	1,671,382	10,305	4,075,073
VBW - ZO	70,380	457,867	527,561	17,490	2,040	57,906	1,133,244
Total	**388,211**	**619,223**	**7,679,581**	**5,119,321**	**9,194,169**	**264,784**	**23,265,290**

Geographic distribution of the credit portfolio

The distribution of the receivables portfolio across the main regions used within the Association of Volksbanks for controlling purposes shows no shift in regional distribution. In 2015 the major part of the volume was already situated in Austria. In 2016 the volume decreased but the regional distribution was maintained. It should be noted that the major part of VBW´s own portfolio is managed for the Association of Volksbanks and is also invested in securities with very high credit ratings outside of Austria, focusing on LCR-eligible securities.

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

Euro thousand	Austria	EEA incl. Switzerland	EU Central- and Eastern Europe	Non EU Europe	Others	Total
31 Dec 2016						
Ärzte- & ApoBank	696,828	2,605	348	0	169	699,950
Spar- und Vorschußvereine	0	0	0	0	0	0
Sparda Banken	316,343	1,632	65	0	0	318,040
start:group	0	0	0	0	0	0
VB Kärnten	927,891	18,508	71,844	2,654	822	1,021,719
VB Niederösterreich	2,618,375	10,287	1,771	867	1,478	2,632,778
VB Oberösterreich	1,260,857	277,007	1,956	13	300	1,540,133
VB Salzburg	1,989,166	143,168	1,896	749	3,484	2,138,463
VB Steiermark	2,287,117	9,021	56,762	1,050	30	2,353,980
VB Tirol	2,285,105	243,944	1,062	0	1,858	2,531,969
VB Vorarlberg	1,471,059	436,480	1,138	2,806	33,965	1,945,449
VBW - Retail	3,835,484	36,216	14,594	614	3,646	3,890,554
VBW - CO	316,795	569,719	12,083	0	56,823	955,419
Total	**18,005,020**	**1,748,588**	**163,518**	**8,753**	**102,575**	**20,028,454**
31 Dec 2015						
Ärzte- & ApoBank	711,932	2,657	310	0	188	715,086
Spar- und Vorschußvereine	26,351	0	0	0	0	26,351
Sparda Banken	327,551	1,747	84	0	116	329,497
start:group	2,668,450	57,662	7,478	6	281	2,733,876
VB Kärnten	903,937	20,133	80,459	4,970	870	1,010,368
VB Niederösterreich	2,548,082	9,861	1,556	769	1,563	2,561,830
VB Oberösterreich	1,250,662	262,276	2,601	12	592	1,516,143
VB Salzburg	1,998,370	150,314	1,399	849	3,699	2,154,631
VB Steiermark	2,411,588	12,314	70,827	1,083	148	2,495,960
VB Tirol	2,269,971	255,647	1,353	0	1,684	2,528,656
VB Vorarlberg	1,506,442	453,426	5,725	2,680	16,299	1,984,573
VBW - Retail	4,014,485	42,601	12,998	1,113	3,876	4,075,073
VBW - CO	564,889	448,147	24,019	6	96,184	1,133,244
Total	**21,202,710**	**1,716,783**	**208,810**	**11,487**	**125,500**	**23,265,290**

Credit portfolio by currencies

In line with the risk strategy and the General Instructions, the biggest part of the credit portfolio is denominated in euro; the FX holdings – especially FX loans – are reduced gradually.

The table below shows the portfolio sub-divided by currencies.

Euro thousand	Loans and receivables to credit institutions and customers			
	31 Dec 2016		31 Dec 2015	
Currency	Gross	in %	Gross	in %
EUR	17,902,924	89.39 %	20,648,421	88.75 %
CHF	1,960,090	9.79 %	2,405,358	10.34 %
USD	43,740	0.22 %	66,577	0.29 %
GBP	10,412	0.05 %	9,788	0.04 %
Other	111,288	0.56 %	135,146	0.58 %
Summe	**20,028,454**	**100.00 %**	**23,265,290**	**100.00 %**

Credit portfolio quality

Classification to the individual risk categories is carried out according to internal rating categories at the Association of Volksbanks. Receivables in risk category 1 have the highest rating (lowest expected default rate), while receivables in risk category 4 have the lowest rating and receivables in risk category 5 constitute defaulted receivables (= non-performing loans, NPLs). Risk category 6 comprises mainly small exposures that fall below the rating obligation. The distribution of risk provisions is also clarified accordingly. It must be noted that the gross carrying amount of the individual impaired loans and receivables does not correspond to the total of the NPLs. If the rating of a defaulting customer improves, the customer is assigned to a better (performing) rating category. The impairment is reduced accordingly and the customer is no longer designated as NPL.

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

	Loans and receivables to credit institutions and customers	
Euro thousand	**31 Dec 2016**	**31 Dec 2015**
Gross carrying amount	20,028,454	23,265,290
Risk provision	397,752	439,513
Net carrying amount	**19,630,703**	**22,825,776**
Receivables impaired		
Risk category 1 (1A - 1E)	0	0
Risk category 2 (2A - 2E)	0	0
Risk category 3 (3A - 3E)	308	342
Risk category 4 (4A - 4E)	714	3,379
Risk category 5 (5A - 5E)	728,924	856,379
Risk category 6 (NR)	0	630
Gross carrying amount	729,946	860,730
Risk provision	318,327	370,517
Net carrying amount	**411,619**	**490,212**
Receivables not impaired but past due 90 - 180 days		
Risk category 1 (1A - 1E)	0	0
Risk category 2 (2A - 2E)	0	0
Risk category 3 (3A - 3E)	0	0
Risk category 4 (4A - 4E)	0	0
Risk category 5 (5A - 5E)	11,705	24,997
Risk category 6 (NR)	0	0
Gross carrying amount	**11,705**	**24,997**
Receivables not impaired but past due 180 - 365 days		
Risk category 1 (1A - 1E)	0	0
Risk category 2 (2A - 2E)	0	0
Risk category 3 (3A - 3E)	0	0
Risk category 4 (4A - 4E)	0	0
Risk category 5 (5A - 5E)	24,705	26,327
Risk category 6 (NR)	0	0
Gross carrying amount	**24,705**	**26,327**
Receivables not impaired but more than 365 days past due		
Risk category 1 (1A - 1E)	0	0
Risk category 2 (2A - 2E)	0	0
Risk category 3 (3A - 3E)	0	0
Risk category 4 (4A - 4E)	0	0
Risk category 5 (5A - 5E)	71,276	77,634
Risk category 6 (NR)	0	0
Gross carrying amount	**71,276**	**77,634**
Receivables neither impaired nor past due		
Risk category 1 (1A - 1E)	655,838	493,844
Risk category 2 (2A - 2E)	5,042,987	2,312,578
Risk category 3 (3A - 3E)	10,635,769	15,245,148
Risk category 4 (4A - 4E)	2,670,895	3,967,960
Risk category 5 (5A - 5E)	167,466	196,459
Risk category 6 (NR)	17,865	59,613
Gross carrying amount	**19,190,821**	**22,275,602**
Portfolio based allowance	79,424	68,996
Total net carrying amount	**19,630,703**	**22,825,776**

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

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

	Loans and receivables to credit institutions and customers			
	31 Dec 2016		31 Dec 2015	
Euro thousand	**Gross**	**Net**	**Gross**	**Net**
Receivables impaired				
Rating 5A	1,980	1,411	9,782	7,431
Rating 5B	98,395	64,301	131,297	78,513
Rating 5C	442,107	255,214	480,493	282,135
Rating 5D	116,501	49,474	172,269	82,374
Rating 5E	69,941	40,449	62,539	36,330
Total	728,924	410,850	856,379	486,784
Receivables not impaired but more than 90 days past due				
Rating 5A	2,787	2,787	11,614	11,614
Rating 5B	5,890	5,890	10,808	10,808
Rating 5C	59,164	59,164	65,720	65,720
Rating 5D	33,240	33,240	33,295	33,295
Rating 5E	6,605	6,605	7,521	7,521
Total	107,686	107,686	128,958	128,958
Receivables neither impaired nor past due				
Rating 5A	3,614	3,614	10,208	10,208
Rating 5B	42,676	42,676	55,403	55,403
Rating 5C	102,827	102,827	103,322	103,322
Rating 5D	11,791	11,791	20,617	20,617
Rating 5E	6,558	6,558	6,909	6,909
Total	167,466	167,466	196,459	196,459
Total sum	**1,004,077**	**686,003**	**1,181,796**	**812,201**

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

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

	Loans and receivables to credit institutions and customers[1)]	
Euro thousand	**Gross**	**Net**
31 Dec 2016		
Risk category 1 (1A - 1E)	655,838	655,838
Risk category 2 (2A - 2E)	5,042,987	5,042,987
Risk category 3 (3A - 3E)	10,636,078	10,635,975
Risk category 4 (4A - 4E)	2,671,609	2,671,459
Risk category 5 (5A - 5E)	1,004,077	686,003
Risk category 6 (NR)	17,865	17,865
Total	**20,028,454**	**19,710,127**
31 Dec 2015		
Risk category 1 (1A - 1E)	493,844	493,844
Risk category 2 (2A - 2E)	2,312,578	2,312,578
Risk category 3 (3A - 3E)	15,245,489	15,245,428
Risk category 4 (4A - 4E)	3,971,339	3,970,588
Risk category 5 (5A - 5E)	1,181,796	812,201
Risk category 6 (NR)	60,243	60,133
Total	**23,265,290**	**22,894,772**

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

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

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

	Receivables total		Receivables in loss		Receivables alive	
Euro thousand	Exposure	Unsecured	Unsecured	Risk provision	Unsecured	Expected Loss
31 Dec 2016						
Ärzte- & ApoBank	699,950	205,655	7,065	3,836	198,590	2,888
Spar- und Vorschußvereine	0	0	0	0	0	0
Sparda Banken	318,040	74,187	5,671	3,142	68,516	633
start:group	0	0	0	0	0	0
VB Kärnten	1,021,719	249,403	24,727	21,130	224,676	9,256
VB Niederösterreich	2,632,778	732,714	33,445	27,622	699,269	13,319
VB Oberösterreich	1,540,133	522,173	27,531	22,571	494,642	7,706
VB Salzburg	2,138,463	594,479	36,236	30,550	558,242	11,598
VB Steiermark	2,353,980	621,860	116,591	97,103	505,268	8,681
VB Tirol	2,531,969	681,715	17,840	17,557	663,875	11,092
VB Vorarlberg	1,945,449	571,777	47,798	39,374	523,979	7,279
VBW - Retail	3,890,554	607,647	40,752	37,055	566,895	14,904
VBW - CO	955,419	147,736	16,871	18,133	130,865	1,636
Total	**20,028,454**	**5,009,347**	**374,528**	**318,074**	**4,634,819**	**88,993**
31 Dec 2015						
Ärzte- & ApoBank	715,086	220,001	5,130	3,169	214,871	3,245
Spar- und Vorschußvereine	26,351	26,351	71	0	26,280	220
Sparda Banken	329,497	91,889	5,489	3,586	86,400	727
start:group	2,733,876	123,653	7,801	8,389	115,852	2,154
VB Kärnten	1,010,368	257,801	21,561	16,830	236,240	3,811
VB Niederösterreich	2,561,830	792,815	33,066	22,640	759,749	11,436
VB Oberösterreich	1,516,143	560,116	40,438	32,226	519,678	7,569
VB Salzburg	2,154,631	633,583	47,906	34,093	585,677	9,271
VB Steiermark	2,495,960	715,500	148,748	132,968	566,752	12,754
VB Tirol	2,528,656	728,763	20,390	11,496	708,373	12,189
VB Vorarlberg	1,984,573	607,230	41,416	32,135	565,814	8,939
VBW - Retail	4,075,073	729,885	60,883	38,379	669,002	10,986
VBW - CO	1,133,244	418,110	40,679	34,605	377,431	3,852
Total	**23,265,290**	**5,905,697**	**473,578**	**370,517**	**5,432,119**	**87,154**

Loan collateral

Use of loan collateral

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

The types of collateral used in the Association of Volksbanks and their treatment are comprehensively set out in the Association manuals Collateral Management, the Loan Collateral Manual and the General Instructions. These categorise collateral according to both legal hedging transactions and by the type of goods on which they are based.

The most important form of collateralisation in credit business is the mortgage.

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

Euro thousand	Loans and receivables to credit institutions and customers 31 Dec 2016	31 Dec 2015
Collateral for individual impairment loans and receivables		
Liquid funds	7,102	6,628
Securities	1,606	2,203
Mortgages	336,291	377,217
Guarantees	4,715	6,412
Movable Goods	5,296	8,348
Others	19,065	22,625
Collateral for loans and receivables not impaired but more than 90 days past due		
Liquid funds	990	4,216
Securities	68	517
Mortgages	94,511	105,941
Guarantees	871	675
Movable Goods	428	513
Others	4,938	3,663
Collateral for loans and receivables neither impaired nor past due		
Liquid funds	448,390	533,010
Securities	254,558	286,783
Mortgages	12,197,568	14,390,499
Guarantees	313,643	361,383
Movable Goods	180,886	177,068
Others	1,148,182	1,071,893
Total value of collaterals	**15,019,107**	**17,359,593**

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

Valuation of loan collateral

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

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

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

The most important types of collateral

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

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

Collaterals Euro thousand	Allowable amount 31 Dec 2016	 31 Dec 2015
Financial collateral	1,119,728	1,015,578
Real estate collateral	12,628,370	14,873,658
Other tangible collateral	226,308	252,577
Accounts receivable	27,820	40,334
Life insurance	697,652	808,977
Guarantees	319,229	368,469
Total	**15,019,107**	**17,359,593**

Real estate collateral is by far the most important type of collateral in the Association. The values shown represent the recognised value of the collateral (after measurement and capping by the amount of the secured receivable).

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

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

- Abstract guarantee
- Guarantee and payer liability (persuant to section 1357 Austrian Civil Code)
- Deficiency guarantee (persuant to section 1356 Austrian Civil Code)
- Ordinary Guarantee (persuant to section 1346 Austrian Civil Code)
- Draft guarantee
- Strict letter of comfort

Distribution of personal collateral within the Association’s portfolio:

Personal Collaterals Euro thousand	Allowable amount 31 Dec 2016	 31 Dec 2015
Abstract guarantee	319,229	368,469
Total	**319,229**	**368,469**

Abstract guarantees are the most important type of personal collateral. Personal collateral in accordance with section 1356 and section 1346 of the Austrian Civil Code is only recognised if this is granted by government bodies or is provided with counter-liability on the part of government bodies. The values shown represent the recognised value of the collateral (after measurement and capping by the amount of the secured receivable).

Concentrations

The quantification and assessment of concentrations across the Association takes place by way of the risk parameters determined monthly, on the one hand, and in the course of preparing the risk report, on the other hand; including for example, concentrations on individual customer level for companies, banks and the public sector. In addition, the concentration risk shows the effects on the bank in total.

Portfolio development by industry

Euro thousand	Loans and receivables to credit institutions and customers 31 Dec 2016		31 Dec 2015	
Distribution by industry	**Gross**	**in %**	**Gross**	**in %**
Private households	8,892,463	44.40 %	9,394,466	40.38 %
Commercial finance	11,135,991	55.60 %	13,870,824	59.62 %
Real estate	3,087,055	15.41 %	3,961,849	17.03 %
Construction industry	1,364,537	6.81 %	1,940,322	8.34 %
Tourism	1,223,787	6.11 %	1,375,059	5.91 %
Financial services	1,125,389	5.62 %	955,489	4.11 %
Trade and repairs	933,777	4.66 %	1,145,793	4.92 %
Physicians/healthcare	547,968	2.74 %	749,677	3.22 %
Agriculture and forestry	546,275	2.73 %	823,629	3.54 %
Manufacturing sector	491,127	2.45 %	593,275	2.55 %
Economic services	463,190	2.31 %	676,582	2.91 %
Public authorities	376,985	1.88 %	409,773	1.76 %
Gastronomy	317,864	1.59 %	389,656	1.67 %
Providers	177,463	0.89 %	189,484	0.81 %
Transport and traffic	161,928	0.81 %	221,745	0.95 %
Technology and communication	78,889	0.39 %	94,127	0.4 %
Others	239,757	1.20 %	344,363	1.48 %
Total	**20,028,454**	**100.00 %**	**23,265,290**	**100.00 %**

Limits

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

- Credit limits for groups of affiliated customers
- Portfolio limits

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

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

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

At present, when setting limits for portfolios, the Association of Volksbanks primarily uses country risk limits with the aim of limiting the transfer risk. The target portfolio of the Association of Volksbanks is Austrian business. Foreign business therefore has a limit of 5 %. The materiality limits for regions are meant to ensure diversification within Austria.

Rating systems

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

The rating classes in rating category 5 cover the reasons for default on a loan applied across the Association and are also used for reporting of non-performing loans (NPL). An in-depth description of rating methods can be found in the regulatory disclosure on the institutions website.

Forbearance

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

Concessions have been agreed for economic reasons in connection with customer loans with a total carrying amount of euro 581,692 thousand (2015: euro 572,526 thousand). This amount relates to performing forborne credit exposures amounting to euro 256,560 thousand (2015: euro 245,078 thousand) and non-performing forborne credit exposures amounting to euro 325,132 thousand (2015: euro 327,448 thousand); impairments of euro 104,407 thousand (2015: euro 95,917 thousand) have been made for the non-performing forborne credit exposures.

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

Counterparty default risk

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

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

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

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

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

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

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

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

Collateral Management - Derivative trading

In order to reduce the counterparty default risk of derivative transactions credit risk mitigation methods such as netting and exchange of collaterals are used. Concluding standardised ISDA framework agreement for bilateral netting and a corresponding credit support annex (CSA) with all key market participants is striven for. The fair values of derivative transactions with counterparties are reconciled daily. If the fair values exceed certain contractually defined thresholds, these surpluses must be covered by collateral. These collaterals are recognised in regulatory terms and reduce the risk.

Repo transactions are also examined with regard to the amount of collateral. In line with agreed margin calls, collat-eral is mostly transferred in the form of cash or government bonds in euro.

The entire process of determining the fair value and calculating the amount of the collateral is system-based and part of risk controlling.

Credit risk reporting

Credit risk reporting is performed on a monthly basis and provides a detailed presentation of the existing credit risk within the banking Association in accordance with section 30a of the Austrian Banking Act as at the reporting date. Corresponding reports are produced for the Association, material Association units and key business areas. This information is also included in the credit risk sections of the Association´s risk report.

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

The following analyses are part of the monthly report:

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

These analyses are presented according to various parameters and indicators, such as: unsecured exposure, total exposure, expected loss, existing risk provisions, standard risk costs or non-performing loans.

c) Market risk

Market risk is the risk of changes to the price and/or value-determinant market risk factors (e.g. interest rates, exchange rates, interest and foreign exchange volatilities). The Association of Volksbanks draws a distinction between the following market risk types:

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

Interest rate risk in the investment book

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

Interest rate risk in the investment book comprises all interest-bearing on-balance and off-balance transactions, except for transactions in the trading book. The interest rate risk position associated with the client busi-ness of the Association of Volksbanks mainly arises from variable index-linked credit business and variable-interest deposits (such as sight and savings deposits), as well as from implicit floors, in client business both on the asset and liabilities side. Additional decisive factors are bond positions of the bank's own portfolio, own issues and interest-rate swaps used to control the interest rate position. At the end of 2016, the Association of Volksbanks reports a relatively low positive term transformation. As at 31 December 2016, the present-value interest rate risk (regulatory interest rate risk statistics according to the OeNB standard procedure) amounts to 0.8 % of own funds, which is clearly below the regulatory limit of 20 %. The interest rate sensitivity in the form of the present value of a basis point (PVBP) lies within the low six-digit range.

The Asset-Liability-Committee (ALCO) of the CO is responsible for controlling the interest rate position of the Association of Volksbanks within the scope of risk limits defined by Risk Controlling and approved by the Managing Board within ALCO. ALCO is the central body for managing interest rate risks. It is convened monthly or ad hoc if required. The Asset Liability Management (ALM) function of the CO, as part of the organisational unit Treasury, is responsible for the management of the ALCO. Suggested measures to control the interest rate position are worked out by the ALM in cooperation with Risk Controlling. The aim is to create a maturity structure contribution by way of positive term transformation. Effects on both income and present value are considered in managing the interest rate position. Interest rate risk reporting within ALCO is carried out by the CO´s Market and Liquidity Risk Department.

Monitoring interest rate risk in the investment book is carried out in the Market and Liquidity Risk Controlling Department of the CO´s Risk Controlling division, which is organisationally separeted from the Treasury division on Managing Board level. The main tasks of Risk Controlling include risk modelling and its permanent development, determination of the limit structure based on the economic capital attributed, review of limits, parametrisation of systems, and risk reporting. Within ALCO, the reports prepared serve as a decision-making basis for control measures.

At VBW, risk measurement takes place mainly based on interest rate gaps (net position of the volumes of assets and liabilities per maturity band, with each position being allocated to one maturity band according to its contractual or modelled fixed interest rate). Positions with indefinite interest rates (e.g. sight and savings deposits, current account facilities) are included in the risk measurement by assuming replication and/or rolling. The assumptions are determined based on statistical analyses, supplemented by expert opinions. They are regularly reviewed for validity and verified through a group that is independent from the modelling process.

Significant risk indicators for present-value risk measurement are the interest rate book VaR based on historical simulation and interest rate sensitivities in the form of a PVBP. Period-based risk measurement was implemented in 2016 in the form of an interest result simulation. In this process, effects on the interest result of the next years are calculated for four unfavourable scenarios. In the most unfavourable scenario, the interest result decreases by about 2.5 % as compared to the target scenario for 2017, and by about 12.4 % for 2018. The results of the interest result simulation are presented within ALCO and will also be included in the calculation of risk capacity in future, within the scope of further developing the ICAAP.

Determination of interest rate risk limits is effected through gap volume limits and interest rate sensitivity limits (PVBP limits). For the purpose of the risk capacity calculation, the interest rate book VaR is limited. As a regulatory limit, the regulatory interest rate risk coefficient according to OeNB interest rate risk statistics, which puts the present value interest rate risk under a 200bp parallel shift of the interest rate curve in relation to equity, is a component of the bank-wide risk appetite statement.

Credit spread risk

Credit spread is defined as a surcharge on the risk-free interest rate. Credit spread risk arises from fluctuations in the present values of assets due to the change in credit spreads over time.

The transactions relevant for credit spread risk are investments within the bank's own portfolio, not involving any loans or advances to customers. This essentially comprises bonds, funds, credit default swaps (CDS) and bonded loans. For these positions, a credit spread VaR and credit spread sensitivities are calculated. Within the scope of the ICAAP, credit spread risk is taken into consideration in the risk-capacity account and total bank risk stress testing.

In line with the investment strategy, the bank's own portfolio includes highly liquid bonds of the public sector and covered bonds with a high credit rating. It is primarily held as a liquidity buffer and eligible for the regulatory liquidity coverage ratio (LCR) for the major part. The largest exposure in the public sector exists towards the Republic of Austria. The European peripheral states (Portugal, Italy and Spain) account for about 10 % of the total exposure of the bank's own portfolio. There is no exposure to Greece.

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. At present, the largest concentration exists within the Republic of Austria risk cluster with 47 % of the carrying amount of the bank's own portfolio. There are 18 % in covered bonds and 6 % in the Republic of Italy. Concentrations with individual issuers are limited by the issuer lines within credit risk.

Portfolio structure by credit rating

Euro thousand	31 Dec 2016	31 Dec 2015
1A	1,551,264	1,540,331
1B-1C	256,616	236,593
1D-2A	101,008	85,675
2B-3A	426,567	459,170
3B-4E (NIG)	3,895	19,886
5A-5E (Default)	20	3,705
no rating	10	15
Total	**2,339,380**	**2,345,375**

Portfolio structure by sectors

Euro thousand	31 Dec 2016	31 Dec 2015
Financial sector	508,888	429,905
Public sector	1,692,324	1,643,167
Corporates	37,798	228,617
No classification	100,370	43,686
Total	**2,339,380**	**2,345,375**

Top 10 exposures in the public sector

Euro thousand 31 Dec 2016	Available for sale carrying amount	Held to maturity carrying amount	Loans and receivables carrying amount	Total carrying amount
Austria	984,090	10,343	0	994,433
Italy	119,867	20,000	0	139,867
Poland	103,492	4,310	0	107,802
Belgium	61,549	15,766	0	77,315
Switzerland	0	0	74,495	74,495
Czech Republic	58,114	0	0	58,114
Spain	43,860	0	0	43,860
Portugal	40,128	0	0	40,128
Hungary	31,183	0	0	31,183
Slovakia	6,670	21,935	0	28,605
Total	**1,448,954**	**72,353**	**74,495**	**1,595,802**
31 Dec 2015				
Austria	979,837	0	0	979,837
Italy	123,281	20,000	0	143,281
Poland	107,006	4,462	0	111,468
Switzerland	0	0	74,596	74,596
Belgium	59,060	4,983	0	64,044
Czech Republic	60,636	0	0	60,636
Portugal	44,717	0	0	44,717
Spain	40,728	0	0	40,728
Hungary	32,034	0	0	32,034
Lithuania	26,084	0	0	26,084
Total	**1,473,384**	**29,445**	**74,596**	**1,577,425**

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

Euro thousand	Collateral sold		Collateral bought		Total net	
31 Dec 2016	Face value	Fair value	Face value	Fair value	Face value	Fair value
Hungary	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**
31 Dec 2015						
Hungary	0	0	-29,185	12	-29,185	12
Total	**0**	**0**	**-29,185**	**12**	**-29,185**	**12**

The major part of the portfolio has been allocated to the category available for sale. In line with the investment strategy, new investments are allocated to the held to maturity category for the major part.

Portfolio structure according to IAS 39 categories

Euro thousand	Bond	Syndicated & bonded loans	Fund & Equity	Total
31 Dec 2016				
Available for sale	1,911,629	0	100,788	2,012,417
Held to maturity and loans & receivables	251,968	74,995	0	326,963
Total	**2,163,597**	**74,995**	**100,788**	**2,339,380**
31 Dec 2015				
Available for sale	1,971,899	0	228,633	2,200,532
Held to maturity and loans & receivables	69,747	75,096	0	144,843
Total	**2,041,646**	**75,096**	**228,633**	**2,345,375**

The calculation of the credit spread VaR is based on historical simulation. The portfolio is broken down into 30 risk clusters whereby securities which are allocated to the financial and Euro-zone corporate sector are further differentiated by seniority. In addition, specific covered risk indices are used for the Euro-zone and individual risk clusters are calculated for 15 European countries. Plausibility and reliability of the VaR indicators are reviewed by reverse comparisons (backtesting) and validated in a group independent from the modelling process.

The risk ratios for the Association are as follows:

Euro thousand 31 Dec 2016	Credit Spread Value at Risk	10 basis point-shift
Section 30a of the Austrian Banking Act – Association of Volksbanks	140,711	-16,478

Euro thousand 31 Dec 2015	Credit Spread Value at Risk	10 basis point-shift
Section 30a of the Austrian Banking Act – Association of Volksbanks	231,612	-16,279

Market risk in the trading book

Market risk in the trading book is of minor significance for the Association of Volksbanks. Monitoring market risks is carried out in the Market and Liquidity Risk Controlling Department of the Risk Controlling division, which is organisationally separated from the Treasury division on Managing Board level. The main responsibilities of Risk Controlling include determination of the limit structure based on the allocated economic capital and the daily review of the limits, the administration of the front-office systems, CSA management and further development of the systems and models. The regulatory capital adequacy requirements of the trading book are calculated using the standard approach. Currently, the Association of Volksbanks has no internal model for market risk in place. The limit structure reflects the risk and treasury strategy and has been approved by the Managing Board.

Within the scope of the ICAAP, market risk is taken into consideration in the risk-capacity account and total bank risk stress testing. The Market and Liquidity Risk Controlling Department reports to Treasury daily and to ALCO monthly.

For the purpose of risk monitoring, a VaR is calculated daily for the trading book, according to the method of historical simulation, where historical fair value changes are used for valuating the current portfolio. In this way, hypothetical value changes of the portfolio are derived that serve as a basis for determination of VaR. A 99 % VaR is calculated for a holding period of 10 days. The plausibility and reliability of the VaR indicators are reviewed daily by way of reverse comparisons (backtesting) and validated in a group independent from the modelling process on a recurring basis.

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

Euro thousand	Interest	Currency	Volatility	Total
31 Dec 2016				
Trading book	108	0	59	**120**
31 Dec 2015				
Trading book	103	0	75	**137**

Apart from VaR, a series of other risk indicators are calculated daily and used for limitation. They essentially comprise interest rate sensitivities and option risk indicators (delta, gamma, vega, rho). Additionally, there are management action triggers and stop-loss limits.

As VaR cannot cover the impact of extreme situations, extensive stress tests are performed on all trading book portfolios on a monthly basis or as required. Non-portfolio-specific and portfolio-specific scenarios are calculated. Non-portfolio-specific scenarios, such as parallel shifts, curve tilts or reconstructions of historical crises are applied to the current portfolio in the same way within each crisis test. Portfolio-specific scenarios attempt to find the least favourable possible impacts for the current portfolio.

The systems used ensure the daily unbiased valuation of the trading book items. All rules and organisational procedures in connection with the measurement and monitoring of market risks are summarised in the Market Risk guideline.

Foreign currency risk (open currency positions)

Foreign currency risk from the open currency position is of minor importance in the Association of Volksbanks. It arises if the values of outstanding receivables and liabilities in a foreign currency change unfavourably due to exchange-rate fluctuations.

Euro thousand	31 Dec 2016	31 Dec 2015
CZK	4,180	4,814
CHF	1,062	-13,914
USD	465	306
JPY	-749	-570
GBP	62	209
Others	1,081	1,073
Total	**6,102**	**-8,083**

d) Liquidity risk

As the CO of the Association of Volksbanks, VBW is responsible for liquidity management across the entire Association and acts as lender of last resort for the primary banks. The primary banks cover their refinancing requirements via VBW and invest their excess liquidity. Both operational, short-term liquidity management and medium- to long-term liquidity management are performed for the Association of Volksbanks centralized in the Treasury division through the Liquidity Management Department at VBW. Monitoring and limitation of liquidity risk, as well as the methodological requirements regarding risk measurement are performed or stipulated by the Market and Liquidity Risk Controlling Department at VBW.

ALCO is responsible for controlling the liquidity position of the Association within the scope of risk limits defined by Risk Controlling and approved by the Managing Board and is also the central body for the management of liquidity risks in the Association. Liquidity risk reporting within ALCO is carried out by the Market and Liquidity Risk Controlling Department.

In the Association of Volksbanks liquidity risk is distinguished between illiquidity risk and funding cost increase risk.

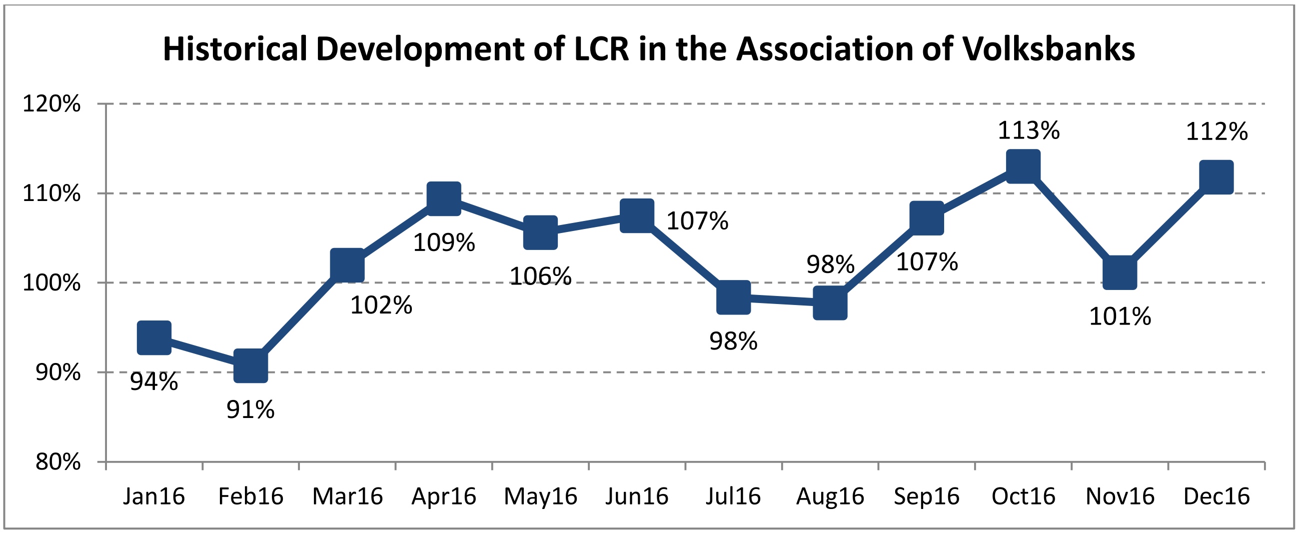
Illiquidity risk is the risk of being unable to settle payment obligations on their due date. In case of illiquidity risk, additional subcategories, e.g. refinancing risk (roll-over risk), call risk and market liquidity risk are distinguished, which are of rele-vance especially in the context of liquidity stress testing. For the Association, having the focus on retail business, illiquidity risk typically exists 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 whole Association of Volksbanks. The liquidity buffer mainly consists of highly liquid bonds that are LCR-eligible for the major part, deposits with the national bank, 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.

In the Association, the risk of funding cost increases is defined as a negative income statement effect that occurs due to potential future increases of refinancing costs on the money and capital markets as well as in the retail segment. This risk is taken into account in the risk capacity calculation within the scope of the ICAAP. This risk is of minor importance at the Association, as dependency on the capital market is minor and low price sensitivity of customer deposits is observed.

Risk measurement and the limitation of illiquidity risk are mainly effected through the regulatory indicators LCR and net stable funding ratio (NSFR), as well as through the survival period from internal liquidity stress testing.

LCR aims to ensure the short-term financial solvency of banks under stressed conditions over a short-term horizon of 30 calendar days. According to LCR requirements, the Association is obliged to maintain a liquidity buffer from holding highly liquid assets as liquidity reserve, that covers the cumulated net liquidity outflows resulting from regulatory stress assumptions over a period of 30 calendar days. The calculation of the LCR is made weekly and at the end of the month in the Market and Liquidity Risk Controlling Department. For the major part of 2016, the LCR amounted to more than 100 %, which is clearly above the statutory limit of 70 % for 2016.



Via the NSFR, the permissible extent of liquidity term transformation is restricted by determining a minimum of stable funds, depending on the liquidity characteristics of the assets and other (non-balance sheet) operations of a bank. Currently, calculation for the Association takes place in the Market and Liquidity Risk Controlling Department weekly and at the end of each quarter. In 2016, the NSFR was always above 120 %. (No regulatory limit has been established yet.)

Survival period and liquidity stress testing

At the Association, the survival period is the period during which, under a given stress scenario, the liquidity buffer held is sufficient to cover cumulated net liquidity outflows. Currently, five stress scenarios of varying degrees of severity are calculated: systemic stress, idiosyncratic stress, combined stress. The least favourable of the scenarios calculated is applied to the survival period.

Concentration risk

Due to diversified funding through customer deposits, concentration risk is not material. The only risk clusters exist at customer level. Accordingly, the largest deposits at customer level are monitored both in risk controlling and also within operational liquidity management. All of them amount to less than 1 % of total assets. There are no other risk clusters with similar characteristics.

Operational liquidity management

The Liquidity Management Department in the Treasury division is responsible for operational liquidity management throughout the Association. The department is the central unit within the Association of Volksbanks for matters regarding the pricing of liquidity (transfer pricing), the central management of collateral across the Association, the determination of the funding structure, the disposal of available liquid funds, and compliance with the refinancing strategy; it comprises 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 collateral of the Association (bonds and credit claims) and underlying stock management for covered bonds
- Issue planning
- 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 individual banks of the Association – among others liquidity reports, refinancing management, collateral utilisation, early warning system
- Compliance with minimum reserve regulations for the Association of Volksbanks
- Reporting to the CO Managing Board and to ALCO

e) Operational risk

The Association defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. Furthermore, legal risk is also taken into account in the operational risk. Legal risks are taken into account within the scope of risk assessment beyond applicable banking law regulations. The calculation of regulatory capital adequacy requirements is effected consistently according to the standard approach. This method is used for both the regulatory and the economic presentation.

Organisation and risk strategy

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

Both, quantitative and qualitative methods are used to analyse operational risks. Quantitative methods include, for example risk analyses, performance of stress tests, determination and monitoring of 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, operational contingency planning and risk analyses, the preparation of the incident database incl. analysis of causes, the implementation of uniform ICS checks, data and information security management, as well as the analysis of the risk reports.

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 the initiation of adequate measures.

Operative risk management and risk controlling function

The following principles derived from the risk strategy apply to OpRisk management within the Association:

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

The Association has implemented an internal control system (ICS) in accordance with the internationally recognised Committee of Sponsoring Organizations of the Treadway Commission (COSO) standard. There are detailed descriptions of ICS procedures and control measures. Responsibilities and roles with regard to the ICS are clearly defined, and ICS reporting is regularly carried out. Control activities are documented and reviewed, and ICS-relevant risks are regularly evaluated and updated. This ensures an ongoing process of optimisation. The Audit Department reviews the internal control system in its function as an independent monitoring entity. It reviews the effectiveness and adequacy of the ICS as well as compliance with internal rules and regulations. The OpRisk and ICS framework describe the inter-related components implemented within the Association of Volksbanks with a view to identifying, measuring, monitoring and controlling operational risk. The close interlocking of OpRisk Management with the ICS ensures appropriate consideration of operational risks within the Association.

One of the priorities for 2016 was to develop the risk analysis regarding quantitative elements, as well as the implementation of OpRisk indicators and consistent minimum controls across the Association.

f) Other risks

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

Investment risk is defined as the risk that any participation held is lost or impaired. This risk is quantified and taken into account within the scope of the risk capacity account.

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

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

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

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

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 by the compliance framework and the framework for operational risks, amongst others.

Although other risks, apart from investment risk, are not of key significance to the Association, they are intrinsic to its operations. Mainly organisational and procedural measures are implemented for the management of other risks.

50) Fully consolidated companies[1)]

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
3V-Immobilien Errichtungs-GmbH; Wien	HD	100.00 %	100.00 %	35
AREA Liegenschaftsverwertungs GmbH; Rankweil	HD	100.00 %	100.00 %	35
BBG Beratungs- und Beteiligungsgesellschaft m.b.H.; Salzburg	HD	100.00 %	100.00 %	40
Domus IC Leasinggesellschaft m.b.H.; Salzburg	HD	100.00 %	100.00 %	18
Gärtnerbank Immobilien GmbH; Wien	HD	100.00 %	100.00 %	35
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Wien	HD	100.00 %	100.00 %	35
VB Aktivmanagement GmbH; Klagenfurt	SO	100.00 %	100.00 %	35
VB Kärnten Süd Leasing GmbH; Ferlach	FI	100.00 %	100.00 %	634
VB Rückzahlungsgesellschaft mbH; Wien	SO	100.00 %	100.00 %	35
VB Services für Banken Ges.m.b.H.; Wien	HD	98.89 %	98.89 %	327
VB-Immobilienverwaltungs- und -vermittlungs GmbH; Klagenfurt	HD	100.00 %	100.00 %	73
VBKS Leasing d.o.o.; Kranj	FI	100.00 %	100.00 %	542
Verwaltungsgenossenschaft der IMMO-BANK eG; Wien	SO	100.00 %	100.00 %	3,869
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	HD	99.00 %	99.00 %	36
Volksbank AG, Schweiz; St. Margrethen	KI	100.00 %	100.00 %	9,312
Volksbank Aktiengesellschaft, Liechtenstein; Schaan	KI	100.00 %	100.00 %	48,887
Volksbank Salzburg Leasing Gesellschaft m.b.H.; Salzburg	FI	100.00 %	100.00 %	73
Volksbank Vorarlberg Anlagen-Leasing GmbH; Rankweil	FI	100.00 %	100.00 %	37
Volksbank Vorarlberg Marketing- und Beteiligungs GmbH; Rankweil	HD	100.00 %	100.00 %	36
Volksbank Vorarlberg Privat-Leasing GmbH; Rankweil	FI	100.00 %	100.00 %	37
Volksbank Vorarlberg Versicherungs-Makler GmbH; Dornbirn	HD	100.00 %	100.00 %	60
VVB Immo GmbH & Co KG; Rankweil	HD	100.00 %	100.00 %	10
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Wien	FI	100.00 %	100.00 %	872

[1)] All fully consolidated companies are under control

51) Companies included

Company names and headquarters	Type*	Nominal capital in euro thousand
Bank für Ärzte und Freie Berufe Aktiengesellschaft; Wien	KI	9,698
Österreichische Apothekerbank eG; Wien	KI	267
Schulze-Delitzsch Ärzte und Freie Berufe e.Gen.; Wien	SO	22,716
SPARDA-BANK AUSTRIA eGen; Linz	KI	6,674
VB Alpenvorland Beteiligung e.G.; Amstetten	SO	5,173
VB Beteiligungsgenossenschaft Obersdorf-Wolkersdorf-Deutsch-Wagram e.Gen.; Obersdorf	SO	517
VB Donau-Weinland Beteiligung e.G.; Stockerau	SO	1,637
VB Eferding-Grieskirchen Verwaltungsgenossenschaft eG; Eferding	SO	2,016
VB Enns-St. Valentin Beteiligung e.G.; Enns	SO	547
VB Fels am Wagram Beteiligung e.G.; Fels am Wagram	SO	82
VB Krems-Zwettl Beteiligung e.G.; Krems an der Donau	SO	626
VB Niederösterreich Süd eG; Wiener Neustadt	SO	1,253
VB Niederösterreich-Mitte Beteiligung e.G.; St. Pölten	SO	1,998
VB Oberes Waldviertel Beteiligungs e.G.; Heidenreichstein	SO	415
VB Ost Verwaltung eG; Schwechat	SO	979
VB Ötscherland Beteiligung eG; Wieselburg	SO	1,201
VB Ried im Innkreis Verwaltungsgenossenschaft eG; Ried im Innkreis	SO	6,244
VB Südburgenland Verwaltung eG; Pinkafeld	SO	1,501
VB Tullnerfeld Beteiligung e.G.; Tulln	SO	442
VB VÖCKLABRUCK-GMUNDEN Verwaltungsgenossenschaft eG; Vöcklabruck	SO	4,726
VB Weinviertel Verwaltung eG; Mistelbach	SO	522
VB Wien Beteiligung eG; Wien	SO	24,566
VB-Beteiligung GmbH in Liqu.; Klagenfurt	SO	100
VB-Beteiligungsgenossenschaft der Obersteiermark eG; Leoben	SO	7,477
VB-Beteiligungsgenossenschaft für den Bezirk Weiz eG; Gleisdorf	SO	3,766
VB-Beteiligungsgenossenschaft für die Süd- und Weststeiermark eG; Köflach	SO	812
VB-Beteiligungsgenossenschaft Graz-Bruck eG; Graz	SO	4,233
VB-Beteiligungsgenossenschaft Süd-Oststeiermark eG; Hartberg	SO	2,097
Volksbank Bad Goisern eingetragene Genossenschaft; Bad Goisern	KI	61
Volksbank Bad Hall e.Gen.; Bad Hall	KI	116
Volksbank Kärnten eG; Klagenfurt	KI	34,796
Volksbank Kufstein-Kitzbühel Holding eG; Kufstein	SO	1,128
VOLKSBANK LANDECK Holding eG; Landeck	SO	1,985
Volksbank Niederösterreich AG; St. Pölten	KI	27,203
Volksbank Oberösterreich AG; Wels	KI	19,380
Volksbank Salzburg eG; Salzburg	KI	11,798
Volksbank Schärding Wels Holding eG; Schärding	SO	11,691
Volksbank Steiermark AG; Graz	KI	69,504
Volksbank Steirisches Salzkammergut registrierte Genossenschaft mit beschränkter Haftung; Bad Aussee	KI	124
Volksbank Tirol AG; Innsbruck	KI	20,430
VOLKSBANK VORARLBERG e. Gen.; Rankweil	KI	888
VOLKSBANK WIEN AG; Wien	KI	126,938
Waldviertler Volksbank Horn registrierte Genossenschaft mit beschränkter Haftung; Horn	KI	743

52) Unconsolidated affiliated companies

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
"VB-Real" Projektentwicklungs Gesellschaft m.b.H.; Wels	HD	100.00 %	100.00 %	500
ADRIA NEKRETNINE d.o.o.; Rijeka	SO	100.00 %	100.00 %	3
ARBEITSGEMEINSCHAFT Für WIRTSCHAFTS-PR UND ÖFFENTLICHKEITSARBEIT IM STEIR. SALZKAMMERGUT GesnbR; Bad Aussee	SO	95.00 %	95.00 %	42
Ärzte Consulting GmbH; Salzburg	SO	100.00 %	100.00 %	35
ARZ-Volksbanken Holding GmbH; Wien	HO	98.73 %	98.73 %	256
Atlas Bauträger GmbH; Feldkirchen (Ktn.)	SO	65.00 %	65.00 %	36
Atlas Beteiligungsgesellschaft mbH.; Feldkirchen (Ktn.)	SO	65.00 %	65.00 %	87
Cetium Immobilien GmbH; St. Pölten	SO	100.00 %	100.00 %	135
EVP Energieversorgung GmbH; Heidenreichstein	SO	99.99 %	99.99 %	35
Ferienhäuser St. Lorenzen ob Murau Besitz- und Verwaltungs GmbH; Wien	SO	90.00 %	90.00 %	35
Forum IC Leasinggesellschaft m.b.H.; Salzburg	FI	100.00 %	100.00 %	36
Freizeitcenter Betriebsführungs GmbH; Salzburg	SO	100.00 %	100.00 %	35
Hotel Erzherzog Johann Betriebsges. m.b.H.; Bad Aussee	SO	100.00 %	100.00 %	745
Immobilien Besitz- und Verwertungsgesellschaft mbH; Judenburg	HD	100.00 %	100.00 %	35
Immo-Contract Baden Maklergesellschaft m.b.H.; Baden	SO	100.00 %	100.00 %	175
IMMO-CONTRACT St.Pölten Maklergesellschaft m.b.H.; St. Pölten	SO	76.51 %	76.51 %	73
Immo-Contract Weinviertel GmbH; Mistelbach an der Zaya	SO	57.95 %	57.95 %	35
IMMO-FINANZIERUNG-SERVICE GmbH; Wien	SO	59.24 %	59.24 %	36
Meinhardgarage Gesellschaft m.b.H. & Co. KG; Innsbruck	SO	100.00 %	100.00 %	210
Meinhardgarage Gesellschaft m.b.H.; Innsbruck	SO	100.00 %	100.00 %	50
Nordfinanz Vermögensberatung GmbH; Heidenreichstein	SO	99.99 %	99.99 %	150
Phönix Immobilien- und Bauträger GmbH; Graz	HD	100.00 %	100.00 %	35
REALCONSTANT Liegenschaftsverwertungs- Ges.m.b.H.; St. Pölten	SO	99.90 %	99.90 %	73
Realitäten Beteiligungs-GmbH; Schärding	SO	100.00 %	100.00 %	500
Resort Errichtungs- und Betriebsges.m.b.H.; Heidenreichstein	SO	99.76 %	99.76 %	42
Sparda Versicherungs-Service GmbH; Villach	SO	100.00 %	100.00 %	408
Sporthotel Betriebsführungs GmbH; Salzburg	SO	100.00 %	100.00 %	35
Süd- und Weststeirische Immobilientreuhand GmbH; Köflach	HD	100.00 %	100.00 %	35
TVB Bauträger Gesellschaft m.b.H.; Tulln	SO	100.00 %	100.00 %	36
UVB-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
V.I.P. Volksbank Immobilienprojekte VOBA Treuhand- und VerwaltungsgesellschaftmbH & Co KG; Salzburg	SO	100.00 %	100.00 %	7
VB - REAL Volksbank Krems-Zwettl Immobilien- und Vermögenstreuhandgesellschaft m.b.H.; Krems an der Donau	SO	100.00 %	100.00 %	727
VB Buchführung GmbH; Ferlach	SO	100.00 %	100.00 %	36
VB ManagementBeratung GmbH; Wien	SO	100.00 %	100.00 %	36
VB Real Estate Leasing Viribus GmbH; Wien	FI	100.00 %	100.00 %	36
VB Realitäten Gesellschaft m.b.H.; Ferlach	SO	100.00 %	100.00 %	36
VB SÜDOST Verwaltungs-GmbH; Hartberg	HD	100.00 %	100.00 %	800
VBKA-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
VBV Vermögensverwaltungs GmbH; Wieselburg	SO	99.00 %	99.00 %	36
VOBA Treuhand- und Verwaltungsgesellschaft mbH; Salzburg	SO	100.00 %	100.00 %	37
Volksbank Kufstein Immobilien GmbH; Kufstein	SO	100.00 %	100.00 %	35
Volksbank Kufstein Versicherungsvermittlung GmbH; Kufstein	SO	100.00 %	100.00 %	36
Volksbank Salzburg Immobilien GmbH; Salzburg	SO	100.00 %	100.00 %	35
Volksbank Tirol Innsbruck-Schwaz Versicherungsservice GmbH; Innsbruck	SO	100.00 %	100.00 %	50
Volksbank Versichert Maklergesellschaft m.b.H.; Landeck	SO	100.00 %	100.00 %	35
Volksbank Vorarlberg Immobilien GmbH & Co OG; Hohenems	SO	100.00 %	100.00 %	109
VOME Holding GmbH; Wien	HO	100.00 %	100.00 %	35
VVB Liegenschaftsvermietungsgesellschaft mbH & Co KG; Rankweil	HD	100.00 %	100.00 %	10
Wohn + Wert Realitäten GmbH; Ernstbrunn	HD	100.00 %	100.00 %	100

*Abbreviations Type

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

AUDITOR'S REPORT

Report on the Consolidated Financial Statements of the Banking Association

Audit Opinion

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

VOLKSBANK WIEN AG,
Vienna, Austria,

as the central organization and the assigned banks, which comprise the Banking Association's consolidated balance sheet as of 31 December 2016, and the consolidated income statement, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements of the Banking Association present fairly, in all material respects, the consolidated financial position of the Banking Association as of 31 December 2016, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the accounting and valuation principles described in the Framework of Rules for the preparation of consolidated financial statements of the Banking Association 2016.

Basis for our Opinion

We conducted our audit in accordance with the Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities pursuant to these rules and standards are described in the „Auditors' Responsibility" section of our report. We are independent of the audited Banking Association within the meaning of Austrian commercial and banking law as well as professional regulations, and have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of matter

We would emphasize in particular,

— that the consolidated financial statements of the Banking Association were prepared in accordance with the Framework of Rules for the preparation of the consolidated financial statements of the Banking Association 2016 and
— their only purpose is to assist VOLKSBANK WIEN AG to meet the regulatory requirements and they shall not be used for any other purpose.

Our opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the Banking Association. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements of the Banking Association as a whole. Our opinion on the consolidated financial statements of the Banking Association is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

Valuation of loans and advances to customers

Risk to the Consolidated Financial Statements

Loans and advances to customers represent a significant line item in the balance sheet. As at 31 December 2016, the carrying amount of loans and advances to customers (gross) amounts to Euro 19,386 million, i.e. 79.2 % of assets. The credit risk provisions for loans and advances to customers amount to Euro 398 million.

AUDITOR'S REPORT

The Managing Board of VOLKSBANK WIEN AG ("VBW" for short) describes the approach to determine credit risk provisions in Note 3 g).

Loans and advances that exceed a defined amount of exposure and for which defined impairment triggers were observed, are subject to an individual impairment process. The amount of such individual impairments that are based on discounted cash flows essentially depends on the assessment of the economic development of the borrowers and the amount and timing of proceeds from the realisation of collateral.

For loans and advances showing a defined event of default, that are not subject to an individual impairment process due to their exposure amount, a collective specific credit risk provision is recognized. A portfolio credit risk provision is recognized for loans and advances where no events of default were identified.

The collective specific credit risk provision and the portfolio credit risk provision are based on statistically calculated parameters, such as historical probabilities of default and loss rates.

The risk in determining credit risk provision is to identify events of default, to estimate future cash flows taking account of the financial situation of the counterparty, the valuation of loan collateral and the statistical parameter assumptions used. The determination is largely dependent on estimates and accordingly is associated with considerable uncertainties.

Our audit approach
We have analysed the process documentation and internal guidelines regarding the allocation, monitoring and recognition of credit risk provisions and critically assessed if they are suitable to identify impairment triggers and to adequately determine the valuation of those loans and advances. We have compiled the relevant key controls, assessed their design and implementation, and tested their effectiveness on a sample basis.

Within individual impairments for significant loans and advances, we have examined on a sample basis whether events of default exist, and whether individual impairments have been recognized in adequate amounts. In selecting the sample, criteria with higher default risk were particularly taken into account. In case of identified impairment triggers we assessed the estimates regarding the amount and timing of future cash flows and whether the assumptions were adequately made and examined them on the basis of external evidence – if any – such as appraisal reports or going-concern forecasts.

With respect to the collective specific credit risk provision and the portfolio credit risk provision, we have critically analysed the models and the parameters used therein – taking account of the results of the backtesting performed by the bank – as to whether they are suitable to determine provisions in adequate amounts. We have consulted our financial mathematicians to assess the adequacy of the calculation methods used to determine the probabilities of default and loss rates. They examined in particular, the adequacy of the statistical models used, the mathematical functionalities and the validation of the results. The computational accuracy of the provisions was retraced by us. Additionally, our IT specialists have examined the underlying systems and interfaces of the calculation model regarding completeness and correctness of data transfer.

Finally, we have evaluated the adequacy of the disclosures on the determination of impairments for loans and advances to customers in the notes to the financial statements.

Valuation of deferred tax assets on losses carried forward
Risk to the Consolidated Financial Statement
As at 31 December 2016, tax losses carried forward in the consolidated financial statement of the Banking Association amount to Euro 650 million. Taking into account the corporate income tax rate of 25 %, there are potential deferred tax assets on losses carried forward in the amount of Euro 162 million. Based on the fiscal results expected in future, deferred tax assets on losses carried forward were reported in the balance sheet as at 31 December 2016 in the amount of Euro 38 million.

The Managing Board of VBW describes the approach to determine deferred tax assets on losses carried forward in Note 23.

The valuation of deferred tax assets on losses carried forward largely depends on the estimates made by the Managing Board with respect to the achievement of sufficient fiscal results in future and the reversal of deferred tax liabilities.

AUDITOR'S REPORT

Due to the considerable volume of existing losses carried forward and the uncertainties associated with their realisation, this aspect was considered important.

The assessment of the potential realisation of tax losses carried forward is associated with uncertainties due to the estimates made and accordingly presents a risk to the consolidated financial statements.

Our audit approach
Our audit activities comprised an assessment of the process for the recognition and valuation of deferred tax assets. Moreover, we have verified the assumptions made during the forecast of future taxable results that are meant to lead to the realisation of deferred tax assets.

For this purpose, we have compared and evaluated the plausibility of the key input parameters for the forecasts of future fiscal results with internal budgeting and the company's past results.

We have also assessed whether the information contained in the Notes on deferred tax assets, in particular with respect to yet unused tax losses carried forward, is appropriate.

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

The management of VBW is responsible for the preparation and fair presentation of the consolidated financial statements of the Banking Association in accordance with the accounting and valuation principles described in the Framework of Rules for the preparation of the consolidated financial statements of the Banking Association 2016 and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements of the Banking Association that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Banking Association's ability to continue as a going concern, and, where appropriate, to disclose matters that are relevant to the Banking Association's ability to continue as a going concern and to apply the going concern assumption in its financial reporting, except in circumstances in which liquidation of the Banking Association or closure of operations is planned or cases in which such measures appear unavoidable.

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

Auditors' Responsibility

Our aim is to obtain reasonable assurance about whether the consolidated financial statements of the Banking Association as a whole are free of material misstatements, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance represents a high degree of assurance, but provides no guarantee that an audit conducted in accordance with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, will always detect a material misstatement when it exists. Misstatements may result from fraud or error and are considered material if they could, individually or in the aggregate, reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements of the Banking Association.

As part of an audit in accordance with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, we exercise professional judgment and retain professional skepticism throughout the audit.

AUDITOR'S REPORT

Moreover:
- We identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, we plan and perform procedures to address such risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk that material misstatements due to fraud remain undetected is higher than that of material misstatements due to error, since fraud may include collusion, forgery, intentional omissions, misleading representation 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 entity's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates as well as related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern assumption of the central organization and the assigned banks and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Banking Association's ability to continue as a going concern. In case we conclude that there is a material uncertainty about the entity's ability to continue as a going concern, we are required to draw attention to the respective note in the consolidated financial statements of the Banking Association in our audit report or, in case such disclosures are not appropriate, to modify our audit opinion. We conclude based on the audit evidence obtained until the date of our audit report. Future events or conditions however may result in the Banking Association departing from the going concern assumption.
- We evaluate the overall presentation, structure and content of the consolidated financial statements of the Banking Association, including the disclosures, and whether the consolidated financial statements of the Banking Association represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Banking Association to express an opinion on the consolidated financial statements of the Banking Association. We are responsible for the direction, supervision and performance of the audit of the Banking Association. We remain solely responsible for our audit opinion.
- We communicate with the audit committee regarding, among 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 in the course of our audit.
- We report to the audit committee that we have complied with the relevant professional requirements in respect of our independence and that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, related measures taken to ensure our independence.
- From the matters communicated with the audit committee we determine those matters that required significant auditor attention in performing the audit of the Banking Association and which are therefore key audit matters. We describe these key audit matters in our audit report except in the circumstances where laws or other legal regulations forbid publication of such matter or in very rare cases, we determine that a matter should not be included in our audit report because the negative effects of such communication are reasonably expected to outweigh its benefits for the public interest.

Report on Other Legal Requirements

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

In accordance with Austrian Generally Accepted Accounting Principles the Banking Association's management report is to be audited as to whether it is consistent with the consolidated financial statements of the Banking Association and as to whether it has been prepared in accordance with legal requirements.

The legal representatives of the Company are responsible for the preparation of the Banking Association's management report in accordance with Austrian Generally Accepted Accounting Principles.

AUDITOR'S REPORT

We have conducted our audit in accordance with generally accepted standards on the audit of Banking Association's management reports as applied in Austria.

Opinion
In our opinion, the management report of the Banking Association has been prepared in accordance with legal requirements and is consistent with the consolidated financial statements of the Banking Association. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Statement
Based on our knowledge gained in the course of the audit of the consolidated financial statements of the Banking Association and the understanding of the Banking Association and its environment, we did not note any material misstatements in the management report of the Banking Association.

Other Information
The legal representatives of the Company are responsible for other information. Other information comprises all information provided in the annual report (Banking Association's report), with the exception of the consolidated financial statements of the Banking Association, the management report of the Banking Association, and the auditor's report thereon. We expect the annual report (Banking Association's report) to be provided to us after the date of the opinion.

Our opinion on the consolidated financial statements of the Banking Association does not cover other information, and we will not provide any kind of assurance on it.

In conjunction with our audit, it is our responsibility to read this other information as soon as it becomes available, and to assess whether it contains any material inconsistencies with the consolidated financial statements of the Banking Association and our knowledge gained during our audit, or any apparent material misstatement of fact.

Auditor in Charge
The auditor in charge is Mr. Martin Wagner.

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

Vienna, 24 April 2017

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:
Martin Wagner
Wirtschaftsprüfer
(Austrian Chartered Accountant)

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

TERMINOLOGY AND IMPRINT

TERMINOLOGY

Association of Volksbanks
The Association of Volksbanks consists of Volksbank primary banks, Volksbank Einlagensicherung eG and 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
12 regional Volksbanks, 3 specialist banks (Bank für Ärzte und Freie Berufe AG, Österreichische Apothekerbank eG and SPARDA-BANK AUSTRIA eGen). Mergers will reduce the number of primary banks to 8 regional Volksbanks and 2 specialist banks.
status: 31 December 2016

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, audit and representation of interests shall be effected by Österreichischer Genossenschaftsverband (Schulze-Delitzsch) [Austrian Cooperative Association] – ÖGV in brief. Moreover, according to the BWG, ÖGV shall be responsible for early identification of risks regarding its members, together with Volksbank Einlagensicherung eG. The primary banks as well as Volksbank Einlagensicherung eG are regular members of ÖGV.

IMPRINT

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