WE ARE VIENNA, LOWER AUSTRIA AND BURGENLAND

ANNUAL FINANCIAL REPORT 2016

KEY FIGURES OF VOLKSBANK WIEN AG

Euro million	31 Dec 2016	restated 31 Dec 2015	31 Dec 2014
Statement of financial position			
Total assets	10,008	10,004	3,412
Loans and advances to customers	4,351	3,722	2,454
Amounts owed to customers	4,691	3,992	3,064
Debts evidenced by certificates	725	798	0
Subordinated liabilities	29	18	18
Own funds according to Basel III for the Volksbank Wien AG group			
Common equity tier 1 capital (CET1)	449	364	
Additional tier 1 capital (AT1)	0	0	
Tier 1 capital (T1)	**449**	**364**	
Tier 2 capital (T2)	7	10	
Own funds	**456**	**374**	
Risk weighted exposure amount - credit risk	2,433	2,084	
Total risk exposure amount market risk	153	188	
Total risk exposure amount operational risk	586	577	
Total risk for credit valuation adjustment	60	90	
Total risk exposure amount	**3,233**	**2,939**	
Common equity tier 1 capital ratio[1]	**13.9%**	**12.4%**	
Tier 1 capital ratio[1]	**13.9%**	**12.4%**	
Equity ratio[1]	**14.1%**	**12.7%**	

Income statement	2016	restated 2015	2014
Net interest income	99.7	70.1	58.7
Risk provisions	-13.6	13.8	11.3
Net fee and commission income	41.1	30.1	27.5
Net trading income	4.9	7.1	0.0
General administrative expenses	-174.4	-121.5	-69.6
Restructuring cost	3.1	-0.3	0.0
Other operating result	39.0	1.3	5.3
Income from financial investments	1.7	8.5	5.1
Income from companies measured at equity	10.3	-6.5	0.0
Income from discontinued operation	0.0	0.0	0.0
Result before taxes	**11.7**	**2.4**	**38.3**
Income taxes	13.3	12.6	-8.8
Result after taxes	**25.0**	**15.0**	**29.5**
Non-controlling interest	-1.4	0.0	0.0
Consolidated net income	**23.6**	**15.0**	**29.5**
Key ratios[2]			
Operating cost-income-ratio	82.7%	110.9%	74.8%
ROE before taxes	2.7%	0.9%	20.6%
ROE after taxes	5.9%	5.5%	15.9%
ROE consolidated net income	5.6%	5.5%	15.9%
Resources			
Staff average	1,139	815	583
of which domestic	1,139	815	583
	31 Dec 2016	**31 Dec 2015**	**31 Dec 2014**
Staff at end of period	1,242	1,130	671
of which domestic	1,242	1,130	671
Number of sales outlets	78	64	57
of which domestic	78	64	57

As the legal obligation to set up own funds for the Group of credit institutions of VBW starts with the contribution of the CO business unit as at 4 Juli 2015 no comparative figures for the reporting period 2014 were displayed.

1) In relation to total risk

2) The operating cost-income-ratio is the ratio between operating income and operating expenses.
Operating income includes net interest income, net fee and commission income, net trading income and if positive other operating result and income from discontinued operation.
Operating expenses include general administrative expenses and if negative other operating result and income from discontinued operation.
Other operating result and income from discontinued operation is displayed net of other taxes, deconsolidation result and valuation result according to IFRS 5.

VOLKSBANK WIEN AG

GROUP MANAGEMENT REPORT

CONSOLIDATED FINANCIAL STATEMENTS

INDIVIDUAL ANNUAL FINANCIAL STATEMENTS

OFFICERS AND ADRESSES

FOREWORD BY THE CHIEF EXECUTIVE OFFICER

Gerald Fleischmann

CEO and Chairman
of the Managing Board

2016 was an extraordinary and defining year for VOLKSBANK WIEN AG. VOLKSBANK WIEN has made a lot of progress: as the largest regional bank among Austrian Volksbanks on the one hand, and in its function as the central organisation for the entire Association of Volksbanks in Austria on the other hand.

Within the reorganisation already resolved upon in 2014, VOLKSBANK WIEN implemented another three regional mergers in the previous year – with Volksbank Weinviertel, Volksbank NÖ Süd and Volksbank Südburgenland. Following these mergers, the catchment area of VOLKSBANK WIEN comprises all of Vienna, the whole of Burgenland, and the eastern half of Lower Austria.

In 2015, the responsibilities incumbent upon the central organisation of the Association of Volksbanks and the service functions of the latter were transferred to VOLKSBANK WIEN. Mid-2016 the resulting structure was approved by the regulator for an indefinite period of time and without any further requirements. The dual function of VOLKSBANK WIEN as an independent regional bank and as the central organisation for the Association of Volksbanks also provides for synergies in the cost sphere.

Apart from the mergers, VOLKSBANK WIEN, just like the financial sector as a whole, was facing big challenges due to the low interest rate environment and high regulatory expenses. The simplification of the business model is aimed at achieving savings in the medium term. The bank focuses in particular on the core areas of deposits, loans and payment transactions. In the service business with insurances, securities, leasing, building society savings and other areas, VOLKSBANK WIEN sells products sourced from top-quality partners with the highest expertise in these areas. VOLKSBANK WIEN focuses on the wishes, interests and requirements of its customers and on providing high-quality advice.

In summer 2016, due to the considerably improved core capital ratio and the excellent liquidity position, VOLKSBANK WIEN and the Association of Volksbanks were able to initiate a forceful market campaign in the field of business financing, under the heading "KMU-Milliarde" (SME billion). The market responded very favourably. Service business with the product partners developed very positively. Record sales were achieved again in the previous year within the scope of our cooperation – of several years already – with TeamBank in the area of consumer financing. As regards investment funds, the first year of cooperation with Union Investment was very encouraging; the excellent products of this international investment company were highly appreciated by the Austrian market. Building society savings business was disposed of in autumn, within the scope of the sale of start:gruppe; a long-term marketing cooperation has been agreed with the group.

At VOLKSBANK WIEN, the branches continue to provide the key sales channel. The combination of individual branches is meant to ensure that a high level of competence is available at all locations, both in retail and in corporate banking. All measures taken within the branch and sales organisation are aimed at putting an even greater focus on the customer and the quality of the consultancy we provide. Obviously, this also includes continuous investments in the professional training and further development of our employees. Within our consultancy-based and relationship-oriented approach, our employees are – and always will be – our most important asset. One clear goal is to further increase the quality standard of our consultancy.

The digital world is becoming another important sales channel for all banks. By launching its new digital presence in the second half of the year, VOLKSBANK WIEN has adequately responded to this trend, with a highly competitive offer. By creating a separate unit within VOLKSBANK WIEN, the topic of digitalisation is meant to be driven forward for the entire Association of Volksbanks.

In 2016, we also undertook great efforts in order to achieve a stable equity base. At the end of the year, the core capital ratio was approx. 13.9% This enables us to properly fulfil our main function in economic terms, namely the financing of individuals and businesses. Our focus is on small- and medium-sized enterprises, in particular, which are an essential pillar of the Austrian economy. Retail customers appreciate the high quality of our consultancy and the services tailored to their individual needs.

The year 2016 was characterised by drastic changes that have created many opportunities for the years to come. I would like to thank all employees, officers and owners for their enormous commitment. And I want to thank our customers especially, for their great loyalty to VOLKSBANK WIEN in the past year.

Vienna, April 2017

Gerald Fleischmann
CEO and Chairman of the Managing Board

REPORT OF THE SUPERVISORY BOARD

pursuant to section 96 of the Austrian Stock Corporation Act (Aktiengesetz) for the 2016 business year

Heribert Donnerbauer

Chairman
of the Supervisory Board

In four ordinary, one constituent and six extraordinary meetings in the 2016 business year, as well as in numerous committee meetings, the Supervisory Board obtained information on the legality, expediency and efficiency of the management as well as on the situation, development and proposed business strategy of the company.

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

The committee chairpersons have reported regularly on the work of the committees of the Supervisory Board. Moreover, the records of all committees, except for the HR Committee, since the beginning of the past business year, were made available to all Supervisory Board members. Accordingly, the Supervisory Board was given ample opportunity to comply with its duty to obtain/provide information and with its supervisory duty.

The Supervisory Board has set up the following committees: Working and Risk Committee, Audit Committee, Remuneration Committee, Nomination Committee, HR Committee, as well as Transformation and Mergers Committee.
The Working and Risk Committee held four meetings in 2016, where the investments falling within its sphere of competence, as well as the risk topics, the risk strategy, and the current risk situation of the company and of the Association of Volksbanks were dealt with.
The Audit Committee held five meetings in 2016. In these meetings, apart from the year-end audit and the audit of the consolidated financial statements, the internal control system, the internal audit system, and the risk management system were discussed, in particular.
In 2016, in one meeting, the Remuneration Committee dealt with the principles of remuneration policy within VOLKSBANK WIEN and in the Association of Volksbanks.
The Nomination Committee held one meeting in 2016, where the annual evaluation of the Managing Board and Supervisory Board members and the evaluation of key personnel was effected, and the Fit & Proper Policy of the company dealt with.
The HR Committee had three meetings in 2016, dealing with the assumption by VOLKSBANK WIEN of the management contracts of Volksbank Marchfeld, Volksbank Weinviertel, Volksbank Niederösterreich Süd, and of Volksbank Südburgenland in the course of the merger process within the Association of Volksbanks, as well as with cancellation of the management contract of Managing Board member Mr. Schauer by mutual agreement.
The Transformation and Mergers Committee held three meetings in 2016, where the contributions of the banking operations of Volksbank Marchfeld (which was ultimately not finalised), of Volksbank Weinviertel, Volksbank Niederösterreich Süd, and of Volksbank Südburgenland to VOLKSBANK WIEN were dealt with, and reports submitted on the respective current status of the mergers within the Association of Volksbanks.

The meetings of the Supervisory Board and its committees were characterised by a high number of members attending.

The merger process initiated in 2014 was continued within the Association of Volksbanks in 2016. The consultations in the Transformation and Mergers Committees mentioned above were followed by the relevant consultations and investigations in the Supervisory Board, as well as by the adoption of resolutions in the ordinary general meeting on 18 May 2016 and the extraordinary general meeting on 7 September 2016.
By way of agreement dated 18 May 2016 on the contribution in kind, the banking operations of Volksbank Weinviertel e.Gen. were contributed according to section 92 BWG (Banking Act) with retroactive effect at 31 December 2015, in accordance with the principles of the Reorganisation Tax Act.
Equally, by way of agreement dated 7 September 2016 on the contribution in kind, the banking operations of Volksbank Niederösterreich Süd eG, and by way of agreement dated 7 September 2016 on the contribution in kind the banking operations of Volksbank Südburgenland eG were contributed with retroactive effect at 31 December 2015, under section 92 BWG, according to the principles of the Reorganisation Tax Act.
Ultimately, it was not possible to complete the contribution of the banking operations of Volksbank Marchfeld e.Gen., as approved in the ordinary general meeting on 18 May 2016, for lack of approval by Volksbank Marchfeld. Volksbank Marchfeld has left the Association of Volksbanks.
Governance changes within the Association were adopted in the extraordinary general meeting on 17 March 2016, in order to obtain continuing approval of the association of Volksbanks credit institutions under section 30a BWG. This objective was achieved upon the Association of Volksbanks being granted unlimited approval by the ECB on 30 June 2016.
Again in 2016, the HR Committee of the Supervisory Board dealt with personnel changes in the Managing Board of VOLKSBANK WIEN. In December 2016, Wolfgang Schauer, the Managing Board member responsible for sales, announced his intention to withdraw from his management contract by mutual agreement. This request was complied with and the management contract cancelled by mutual agreement, with Mr. Schauer resigning from the Managing Board with effect from 31 January 2017. The Supervisory Board has consented to an interim distribution of responsibilities to the remaining three Managing Board members, Gerald Fleischmann, Josef Preißl and Rainer Borns, with effect from 1 February 2017 and is going to deal with filling the currently vacant fourth Managing Board position as soon as possible.
The annual financial statements, including the Notes, as at 31 December 2016, and the management report were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (KPMG) and were given an unqualified audit certificate. The consolidated financial statements as at 31 December 2016 including the group management report were audited by KPMG and also provided with an unqualified audit certificate.
The Supervisory Board has acknowledged the report submitted by the Managing Board and has examined the annual financial statements including the management report as well as the consolidated financial statements including the group management report and the annex acc. to section 63 (5) and (7) BWG to the audit report upon previous involvement of the Audit Committee under section 96 (1) Stock Companies Act. Said examination by the Supervisory Board has not resulted in any objections; in particular, the Supervisory Board found that the annual financial statements and the consolidated financial statements had been prepared correctly. Accordingly, the Supervisory Board approves the annual financial statements including the management report, meaning that the same are approved under section 96 (4) Stock Companies Act, as well as the consolidated financial statements including the group management report and the annex under section 63 (5) and (7) to the audit report. The Supervisory Board also concurs with the results of the year-end audit, which were thoroughly discussed with KPMG in the Audit Committee, and consents to the proposal for the appropriation of profits as submitted by the Managing Board.

In the past business year, VOLKSBANK WIEN has again fulfilled the support function issued by the shareholders and stipulated in section 3 of the articles of association.

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

Vienna, March 2017

For the Supervisory Board of VOLKSBANK WIEN AG:

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

THE MANAGING BOARD

Chairman:

Gerald Fleischmann

born 27 February 1969

CEO

Division of responsibilities in the Managing Board:

- Corporates
- Digitalisation
- General Secretariat
- Front Office Service Center / Customer Service Center
- Organisation & IT
- HR Management
- PR & Communication
- Private Banking / Treasury
- Real Estate
- Retail
- Banking Association Strategy
- Sales Management / Marketing

Deputy Chairman:

Josef Preissl

born 2 March 1959

Deputy-CEO

Division of responsibilities in the Managing Board:

- Operation / Wind-down
- Property Subsidiaries
- Audit
- Risk Retail / SME
- Risk Management Real Estate and Corporates
- Association Risk Management
- Reorganisation Management
- VB Services for Banks

Member of the Managing Board:

Rainer Borns

born 7 August 1970

Division of responsibilities in the Managing Board:

- Control
- Finance
- Legal and Compliance
- Risk Control

Member of the Managing Board:

Wolfgang Schauer

born 18 May 1968

Member up to 31 January 2017

THE SUPERVISORY BOARD

Heribert Donnerbauer

Donnerbauer & Hübner Rechtsanwälte GmbH

Chairman

Martin Holzer

Director, Volksbank Tirol AG

First Deputy Chairman

Rainer Kuhnle

Director, Volksbank Niederösterreich AG

Second Deputy Chairman

Susanne Althaler

DONAU Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH
from 24 December 2016 IBD Steuerberatung GmbH & Co KG
Member

Franz Gartner

Muncipiality of Traiskirchen
Member

Markus Hörmann

Director, Volksbank Tirol AG
Member

Johannes Linhart

Independent consultant on capital markets and finance
Member

Harald Nograsek

Österreichisches Verkehrsbüro AG
Member

Monika Wildner

Independent lawyer
Member

Otto Zeller

Director, Volksbank Salzburg eG
Member

Works council delegates:

Chairman of the Works council Manfred Worschischek

Hans Lang

Hermann Ehinger

Rainer Obermayer

Michaela Pokorny

State Commissioners:

Dietmar Mitteregger
State Commissioner

Helga Ruhdorfer
Deputy State Commissioner

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT

Report on the business development and economic situation

Business development

For VOLKSBANK WIEN AG (VBW), 2016 was characterised by an expansion of its market territory and its retail and corporate customer base due to the merger with the Weinviertel, NÖ Süd and Südburgenland Volksbanks 2016 was also the first year after reorganisation of the Association of Volksbanks in which VBW, apart from its own retail business, acted as central organisation (CO) of the Association of Volksbanks . 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 to the members has contractually been agreed.

Whereas Volksbank Weinviertel e.Gen. was contributed to VBW in July 2016, the banking operations of Volksbank Niederösterreich Süd eG and of Volksbank Südburgenland eG were contributed in November 2016. Accordingly, VBW continues to take the position as a strong regional bank focusing on Retail and Corporates in eastern Austria – from Laa an der Thaya to Jennersdorf. In order to intensify securities business, the cooperation with Union Investment Austria GmbH was intensified through a new marketing agreement in 2016. Additionally, to bundle consultancy business, the realignment of the branches was started.

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 economical 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 milestones 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. The sale of start:gruppe, resulting from a change of strategy, not only made the structure of the Association more efficient, but also sustainably strengthened the core capital of the Association of Volksbanks, thus allowing 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 approx. 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. VBW decided to pay the non-recurring special payment in the amount of euro 16.6 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. Nevertheless, the low two-digit result in the euro million range was achieved as planned.

Economic environment

According to an estimate by the Austrian Institute of Economic Research (WIFO) in December, Austria's gross domestic product had grown in 2016 by 1.5% year on year. This constitutes a noticeable increase of the growth dynamics compared to 2015. The growth gap compared to the euro zone, which had amounted to one percentage point in 2015, should have decreased to 0.1 – 0.2 basis points accordingly.

On the one hand, the main drivers of this development were marked increases in private consumption, which is expected to have grown by 1.5% compared to the previous year. Another strong development was seen in the sphere of investments in the past year. According to estimations they have increased by 3.7%, 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 3.7%, the growth in imports was markedly higher than in exports (2.8%). Nevertheless, a current account surplus was achieved in 2016 as well.

In spite of accelerated growth, the unemployment rate in Austria has slightly increased over the past year. According to a Eurostat calculation (adjusted for seasonal fluctuations), it varied between 5.8% and 6.2% in the first eleven months of the year. Overall, the rate of unemployment in the euro zone improved moderately but continuously – starting out from much higher figures – decreasing from 10.4% at the beginning of the year to 9.8% in November.

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 ranked among the countries with the highest inflation rates within the euro zone. Within the common currency zone, the rate of price increases was still partly 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 from 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 a 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 declined 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 half of 2016, the economic development within Austria reflected the West-East divide that had pre-vailed in the previous year already, which only Burgenland deviated from with its increase of gross value added of 1.8% year on year. Vienna (0.8%) and Lower Austria (1.0%) lagged behind the general growth rate of 1.3% in Austria. 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 still suffered from a decline in material goods production (-2.6% in the second quarter). In the retail sector, too, sales were declining. On the other hand, the service sector – especially tourism – has shown a very positive development, and the construction sector recovered. The employment rate increased, concurring with the trend throughout Austria. However, due to the increasing number of available labour Vienna recorded the highest seasonally adjusted unemployment rate in the third quarter as well (13.6%).

In Lower Austria, material goods production, being of high importance for this federal state, developed feebly, as in the previous year, recording the poorest development among all federal states. However, growth in the construction sector ranked second behind Tyrol. In the first half of the year, Lower Austria also ranked second in terms of increase of overnight stays, but the summer season was relatively disappointing overall. As in Vienna, the service sector was strong overall, recording strong employment growth. Nevertheless, the rate of unemployment increased on an above-average level, essentially due to demographic factors, in the second and third quarters of 2016 (to 10.2%).

In Burgenland, material goods production and tourism contributed significantly to the above-average development, while the construction activity curve flattened. While the labour market performed better than the region of eastern Austria in general, it declined considerably in the second and third quarter. The unemployment rate remained almost the same and amounted to 9.6% in the third quarter.

Styria recorded above-average growth in the construction sector and the highest increase in overnight stays of all federal during the summer season 2016. The retail sector recorded a real-term sales increase, while material goods production slightly declined. While the labour market developed within the Austrian average in the first half of the year, the unemployment rate increased disproportionately to 9.7% in the third quarter.

In the second 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 over-night stays was achieved overall during the summer season. Due to the below-average development of available labour, the unemployment rate declined in the second quarter. However, at 11.3%, seasonally adjusted unemployment was the second highest within Austria also in the third 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 half of 2016. On the other hand, the retail sector counted the highest growth in sales within Austria. The service sector, too, registered above-average growth. Material goods production and tourism registered moderate growth rates. The unemployment rate increased in the second and third quarter, but was still the third lowest among the nine federal states at 6.3% in the third quarter.

Salzburg ranked second among the federal states in the first half of 2016, both in terms of growth in material goods production (especially in car and beverage production) and in terms of the tourist summer season. Construction and retail also performed slightly above average. The rate of unemployment declined in the third quarter, remaining far below the Austrian average at 5.7%. For three consecutive years already Salzburg has been recording the lowest unemployment rate of all Austrian federal states.

Once more, a favourable development in material goods production helped Tyrol to achieve an above-average increase in gross value added. 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 registered above-average growth. During summer season, Tyrolean tourism recorded a growth in overnight stays within the federal average. Until the third quarter, the unemployment rate decreased to 6.5%. Fortunately, youth unemployment registered a particularly distinct decrease.

While the construction growth curve was flattening, 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 sector recorded real-term sales growth and the tourist summer season brought above-average increases in overnight stays. The situation on the labour market brightened. In the third quarter, Vorarlberg registered an unemployment rate of 6.0%, 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 property types was more balanced, with proprietary flats again recording the highest price increases at +13.9%.

Tourism performed very well in 2016. In the first eleven months, both overnight stays and arrivals reached new peaks. In the 2015 / 2016 winter season, overnight stays increased by 4% compared to 2014 / 2015, reaching a record level both among domestic and foreign guests. The highest increase was registered for apartments. 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 (26.7 million), followed by Salzburg (15.1 million), Vienna (6.3 million), Styria (5.4 million), Vorarlberg (5.1 million), Carinthia (3.6 million), and Upper Austria (2.7 million). With an increase of 5.1% in overnight stays, the summer season was very encouraging as well. All federal states recorded positive growth rates. During summer season growth dynamics were strongest in Burgenland (+9%), even though it ranked last according to absolute figures. Other than that, the ranking was equal to the preceding winter season.

Group result for the 2016 business year

Due to the contributions in the 2015 and 2016 business years, the figures of the reporting period are comparable to those of the previous year to a limited extent only.

The consolidated income of VBW before taxes amounts to euro 12 million (2015: euro 2 million). The consolidated income after taxes and minority shares amounts to euro 24 million (2015: euro 15 million).

The net interest income for the 2016 business year amounts to euro 100 million, thus exceeding the income for the comparative period (2015: euro 70 million) by euro 30 million. The increase is essentially attributable to the CO segment.

For the 2016 business year, the risk provision amounts to euro -14 million, whereas a positive result of euro 14 million is reported for the comparative period. The higher risk expenditure is essentially caused by the evaluation and adjustment of the risk parameters during the current business year. This caused an increase, especially of individual impairments and, to a lower extent, of portfolio impairments.

The net fee and commission income in the reporting period amounts to euro 41 million, an increase by euro 11 million compared to the previous period (2015: euro 30 million). The increase is essentially attributable to the spheres of payment transactions and securities business.

Net trading income amounted to euro 5 million (2015: euro 7 million) in the 2016 business year. The decrease of euro 2 million is essentially attributable to decreases in the measurement results of derivatives in the trading book.

Compared to the previous year, general administrative expenses of euro 174 million (2015: euro 122 million) have increased, particularly due to the contribution of the Weinviertel, Südbürgenland and NÖ Süd Volksbanks. Compared to the end of 2015, the headcount increased from 1,130 to 1,242 employees by 112 employees.

The 2016 business year shows a positive result in the amount of euro 3 million in the restructuring result, due to the release of the restructuring provision in the CO area in spite of additions to the Retail area.

The other operating result for the 2016 business year amounts to euro 39 million (2015: euro 1 million). The increase is mostly due to allocations of the CO function. In the comparative period these were included to a lesser extent since the contribution of the CO business unit took place mid 2015. Due to early redemption of an issue, a non-recurring positive result of euro 12 million was realised. The stability levy in the amount of euro -26 million (2015: euro -1 million) is reported in this item as well. The amount includes the non-recurring special payment of euro -17 million. Due to the impairment test carried out in the Retail segment, the goodwill in this segment was written down by euro 6 million. In the comparative period, the profit from contribution of the CO business unit and of VB OWD was reported with euro 9 million. Additionally, in the comparative period, the pro rata losses from the financial guarantee concluded with Deutsche Bank and from the disposal of immigon bonds in the amount of euro -17 million were reported in other operating expenses.

The income from financial investments for the reporting period amounts to euro 2 million, thus undercutting the comparative period (2015: euro 9 million) by euro 7 million. Lower income from the valuation of derivatives (2016: euro 1 million; 2015: euro 6 million) and investment property (2016: euro 1 million; 2015: euro 5 million) are the main reason for the decrease of the result. Moreover, write-downs of participations in the amount of euro -3 million had to be effected in the reporting year. However, a lower write-down requirement for securities and income from the realisation of money market transactions partly offsets the decrease.

In the reporting period, the result of companies measured at equity amounted to euro 10 million (2015: euro -7 million). By contribution of the Südbürgenland and NÖ Süd Volksbanks in November 2016, VBW gained decisive influence on the administrative cooperative of start:gruppe e.Gen., now VB Verbund-Beteiligung eG (VB Verb). At this point the valuation of the participation was changed from 'available for sale' to 'at equity'. From the initial valuation, a result of euro 6 million was posted as income through profit or loss. Net income of euro 1 million was recognised from the sale of IMMO-BANK AG. The assumption of the proportional results of all companies measured at equity amounts to euro 3 million for 2016 (2015: euro -2 million); in the comparative period, the participations were written down by euro -5 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 and the previous year. For tax loss carried forward in the amount of euro 304 million, no deferred tax assets are recognised. Deferred tax is recognised for the remaining valuation differences, especially in connection with the valuation of derivatives and securities.

For details regarding adjustment of the previous year's figures under IAS 8, please refer to the information contained in the Notes, Chapter 1 Adjustment of comparative figures.

Financial position and own funds

Due to the contributions in the 2016 business year, the figures of the reporting period are comparable to those of the previous year to a limited extent only. Increases in specific balance sheet items essentially result from the contribution of the banking operations of the Weinviertel, NÖ Süd and Südburgenland Volksbanks.

As at 31 December 2016, total assets amount to euro 10 billion and have remained stable compared to the end of 2015 (euro 10 billion).

Compared to the end of the previous period (euro 2.8 billion), loans and advances to credit institutions have decreased by euro 0.6 billion to euro 2.2 billion. This is mainly due to the sale of start:gruppe.

As at 31 December 2016, loans and advances to customers amount to euro 4.4 billion, thus increasing by euro 0.6 billion compared to the end of the previous year (euro 3.7 billion).This essentially resulted from the contribution of the banking operations.

Financial investments increased by euro 0.1 billion to euro 1.9 billion compared to the end of 2015 (euro 1.7 billion).

Amounts owed to credit institutions have decreased by euro 0.7 billion to euro 3.3 billion compared to the end of 2015 (euro 4.1 billion), which is equally attributable to the sale of start:gruppe.

Amounts owed to customers in the amount of euro 4.7 billion have increased by euro 0.7 billion compared to the end of 2015 (euro 4.0 billion). This is mainlydue to the contributions.

As at 31 December 2016, debts evidenced by certificates amount to euro 0.7 billion and have decreased by euro 0.1 billion compared to 31 December 2015 (euro 0.8 billion) due to an early redemption.

Due to the capital increases carried out because of the contributions in the 2016 business year, equity increased by euro 0.1 billion compared to the end of the previous year and amounts to euro 0.5 billion as at 31 December 2016.

Report on branch establishments

The VBW Group 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 0.5 billion (2015: euro 0.4 billion). The aggregate risk amount was euro 3.2 billion (2015: euro 2.9 billion) as at 31 December 2016. The Tier I capital ratio in relation to total risk amounts to 13.9% (2015: 12.6%), the equity ratio in relation to total risk is 14.1% (2015: 13.0%). Regulatory own funds, aggregate risk amount and the key indicators calculated there from 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	2014
Return on Equity before taxes	2.7%	0.9%	20.6%
Return on Equity after taxes	5.9%	5.5%	15.9%
Cost-income ratio	82.7%	110.9%	74.8%

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 VBW, the cost-income ratio was defined as early warning indicator for the Bankensanierungs- und Abwicklungsgesetz (BaSAG, Act on the Reorganisation and Liquidation of Banks).

Non-financial performance indicators

Human Resources

In 2016, the Human Resources department was concentrating on the implementation of the mergers. In this context, apart from technical and legal preparations, the focus was on integration of new employees and the assumption of payroll accounting responsibilities. Moreover, important milestones with a view to harmonising the various service provisions were negotiated with the works council. Regarding human resources and organisational development, several measures (e.g. new development of the performance review, employee survey etc.) were implemented successfully. In cooperation with Volksbank Akademie as well as the banks of the Association, the training of account representatives was revised completely and adjusted to the changed setting. Cooperation among the banks of the Association on HR management matters was equally intensified.

As at 31 December 2016, VBW employed 1,242 employees (FTEs, incl. subsidiaries).

Essential organisational and IT projects

In July 2016 the merger with Volksbank Weinviertel e.Gen. and in November 2016 the dual merger with Volksbank Niederösterreich Süd eG and Volksbank Südburgenland eG were carried out successfully. The lead time of the project extended over 11 months. The mergers managed by the Sales Support and Organisation / IT units comprised the amalgamation of technical clients in the Association's computing centre "Allgemeines Rechenzentrum GmbH" (ARZ) and harmonisation of business processes. The mergers were carried out successfully, and all systems, such as Internet Banking, self-service equipment, cash desks in the branches, were put into operation according to schedule and without any difficulties.

In the MSC (Market Service Center) project, uniform processes (throughout the Association) for handling customer, account and portfolio processes have been developed. These processes 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.

Implementation of the branch concept has started in 2016, by consolidating a total of 11 branches as well as dual management (one team takes care of two sites). By consolidating nearby branches into larger units, the skills and competencies available at one branch can be increased and staff costs and administrative expenses reduced. Investments are made to enhance the look and infrastructure of the absorbing branches.

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.

In order to strategically advance the harmonisation commenced in the context of the service client throughout the Association, also within sales, the "50 Products" project was initiated in 2016. A decision was made by the Managing Board of Volksbank Vertriebs- und Marketing eG, in cooperation with the regional Volksbanks, as to which business areas would continue to be offered for the Association. The harmonisation of product handling was also discussed in the course of "make or buy" decisions. After these strategic decisions, some product versions have specifically been restricted already across the Association: requirement of uniform fixed interest rates in lending, restriction of third-party funds, abolition of foreign currency savings books, transition to uniform securities accounts etc. By means of technical monitoring and specification provided by the service client, we have come full circle in our striving for continuous harmonisation. Further standardisation in the product catalogue is planned for the coming year.

In order to increase productivity in Sales and to make the accomplishment of targets transparent, a consistent system of key performance 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 the future, this will allow for sales activities to be managed according to key divisions (branch sales, corporates etc.) and defined productivity indicators.

The core objective of the cost project, which started in June 2016, was to ensure realisation of the savings contained in the 2015 strategic planning and identification of new structural measures beyond the 2015 strategic planning document. Within the scope of the project, benchmarking, based on a detailed analysis of administrative expenses and HR capacities for the Retail and Central Organisation segments, was effected. Benchmarking was based on external reference values regarding process lead times and productivity indicators. Reference models served the purpose of validation and the development of additional structural measures. In both segments, considerable savings potential were identified, in order to be able to compensate the major part of shortfalls (below target) resulting from the lower interest rates level on the expense side. The cost savings identified and resolved upon within the scope of the cost project were integrated into the 2016 strategic planning.

Within a project to optimise the credit management of VBW, a systematic survey and analysis of credit management processes was carried out and potential optimisations were derived there from. The processes were compared to the processes of VB Niederösterreich and the findings were delivered to the project at Association level to define and optimise the credit process within the Association.

The Early Warning System (EWS) & NPL 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.

VBW is permanently striving to improve cost efficiency. Therefore, in project portfolio planning, special attention was given to the aspect of increasing synergies in the ARZ joint data processing centre in terms of system implementation.

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 initiated early in 2016.. 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.

The joint Austrian reporting platform (GMP) provides for reporting-relevant information to be transmitted to OeNB across Austria on the basis of a joint data model, via jointly used software (Abacus), through Austrian Reporting Services GmbH (AuRep). So far, the voucher-based reports MonStat, Vera A1c, Finrep Solo have been resolved and prepared for the first time exclusively based on the joint data model via GMP. 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 put into production. In 2017 the implementation of new reporting requirements concerning Ana Credit, Vera A1a, BAM, Vera A1d, Vera A3g, P6, SHS is planned.

The requirement regarding Pillar 3 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 template. The project was started in 2016 and is expected to be completed in 2017.

Regardless of the above-mentioned projects, further implementation projects were implemented within the Association of Volksbanks in 2016 with a view to meet regulatory requirements, for instance (among others) the requirements under the Austrian Bankenpaket, under MiFiD II, SA-CCR, the Payment Account Directive, FATCA etc.

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 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.

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 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.

The multi-year project AMITZ+ aims to automatise processes in accounting and regulatory 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 regulatory reporting that comprise a significant acceleration of processing routines. This will be achieved by 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 of the sequencing of these processes.

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

Events of particular importance after the balance sheet date

On 17 February 2017, the managing board meeting of SPARDA-BANK AUSTRIA eGen. and the supervisory board meeting of VBW resolved that the two institutions shall commence preliminary talks and evaluations regarding a merger with immediate effect. 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 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.

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) for 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-. Accordingly, 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.

According to the spin-off agreement dated 1 June 2015, VBW has assumed the "central organisation and central institution function" operations 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 amount to the net assets assumed through the spin-off (within the meaning of section 15 (1) SpaltG) in the amount of euro 7 million. The total amounts in dispute from complaints under section 15 (1) SpaltG currently are euro 6,883,587.80. The obligations underlying the claims for damages are attributed to immigon in the Spin-off Agreement. VBW has indemnification claims towards immigon, especially as agreed in the Spin-off Agreement, if VBW is itself subject to any such claims. 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. Nevertheless, should any economic stress of VBW occur, it would not have to cope with this on its own, but – according to agreements made within the Association of Volksbanks – pro rata together with the other members of the Association of Volksbanks.

Moreover, the issuer is involved in various judicial proceedings both as plaintiff and as defendant. Said 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 any significant impact on the financial situation and profitability of the bank.

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

Report on the company's future development and risks

Future development of the company

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. Accordingly, the growth rate in Austria is expected to essentially correspond to that in the euro zone, which WIFO assumes to be 1.6%, while the ECB forecasts 1.7%.

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 the future.

In 2017 price increases are expected to be higher in Austria than in the euro zone overall. The ECB ,s forecast for the average inflation rate in 2017 is 1.3% (mean value). Accordingly, the rate of price increases in 2017 is expected to not quite reach the target inflation rate of the ECB of a little below 2%.

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 will decrease from euro 80 billion to euro 60 billion. As of April, no targeted long-term refinancing transactions are likely to be offered anymore either. Nevertheless, the ECB's securities purchases limit the potential upward 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 (expected to start in the second quarter) 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.

Future development of the company

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, VBW intends to achieve a low annual result in the two-digit million euro range. Despite planned growth, the CET 1 capital ratio is intended to remain above 12% within the Group.

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.

Essential risks and uncertainties

With regard to 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 VBW Group is not active in research and development.

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

Control environment

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

At each company included in the consolidated financial statements, the responsibility to define and introduce an appropriate ICS for the respective company and to ensure compliance with group-wide policies and regulations lies with the respective managing board or with the management. In order to ensure that the data provided by the Group subsidiaries are imported correctly, all data supplied are first checked for plausibility. The data is then processed using the Tagetik consolidation software. Checks are done based on the dual control principle as well as an additional review by the department manager.

Control measures are applied within the current business process to ensure that potential errors are prevented and/or deviations in financial reporting are detected 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 using IT systems, as well as preventive controls whose purpose is the proactive avoidance of errors and risks through separation of functions, definition of responsibilities and access permissions.
- Management controls serve to ensure, on the basis of spot checks by managers, that operational controls are complied with. The intervals of the checks are defined by the respective manager (division manager, department manager) depending on the degree of risk involved. The spot checks are documented in the control schedule in a manner comprehensible to third parties, and the results are reported semi-annually within the scope of management reporting.

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

Risk assessment

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

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 consolidated 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

Policies and rules regarding financial reporting are regularly updated by the 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 completeness, comprehensibility, active implementation and effectiveness of the control system with respect to the accounting process.

Compliance checks

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

CONSOLIDATED FINANCIAL STATEMENTS

Statement of comprehensive income

Income statement	Note	1-12/2016 Euro thousand	restated 1-12/2015 Euro thousand	Changes Euro thousand	%
Interest and similar income		124,768	101,420	23,348	23.02 %
Interest and similar expense		-25,088	-31,358	6,270	-20.00 %
Net interest income	4	99,681	70,062	29,619	42.27 %
Risk provisions	5	-13,645	13,758	-27,404	-199.18 %
Fee and commission income		70,035	45,184	24,851	55.00 %
Fee and commission expenses		-28,915	-15,123	-13,792	91.19 %
Net fee and commission income	6	41,120	30,060	11,060	36.79 %
Net trading income	7	4,896	7,080	-2,184	-30.84 %
General administrative expenses	8	-174,394	-121,516	-52,879	43.52 %
Restructuring result		3,060	-321	3,381	< -200.00 %
Other operating result	9	38,997	1,317	37,680	> 200.00 %
Income from financial investments	10	1,740	8,510	-6,770	-79.56 %
Income from companies measured at equity		10,252	-6,531	16,782	< -200.00 %
Result before taxes		11,705	2,420	9,285	> 200.00 %
Income taxes	11	13,319	12,629	690	5.47 %
Result after taxes		25,024	15,049	9,975	66.28 %
Result attributable to shareholders of the parent company (Consolidated net result)		23,625	15,029	8,596	57.20 %
thereof from continued operations		23,625	15,029	8,596	57.20 %
thereof from discontinued operations		0	0	0	0.00 %
Result attributable to non-controlling interest		1,399	20	1,379	> 200.00 %
thereof from continued operations		1,399	20	1,379	> 200.00 %
thereof from discontinued operations		0	0	0	0.00 %

Other comprehensive income

	1-12/2016 Euro thousand	restated 1-12/2015 Euro thousand	Changes Euro thousand	%
Result after taxes	**25,024**	**15,049**	**9,975**	**66.28 %**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation obligation of defined benefit plans (IAS 19)	-3,952	2,898	-6,849	< -200.00 %
Deferred taxes of revaluation IAS 19	988	-724	1,712	< -200.00 %
Total items that will not be reclassified to profit or loss	-2,964	2,173	-5,137	< -200.00 %
Items that may be reclassified to profit or loss				
Available for sale reserve (including deferred taxes)				
Change in fair value	-4,033	12,379	-16,412	-132.58 %
Net amount transferred to profit or loss	162	-718	880	-122.50 %
Change in deferred taxes of untaxed reserves	387	78	309	> 200.00 %
Change from companies measured at equity	56	231	-175	-75.72 %
Total items that may be reclassified to profit or loss	**-3,428**	**11,970**	**-15,398**	**-128.64 %**
Other comprehensive income total	**-6,392**	**14,143**	**-20,535**	**-145.20 %**
Comprehensive income	**18,632**	**29,192**	**-10,560**	**-36.17 %**
Comprehensive income attributable to shareholders of the parent company	17,236	29,172	-11,936	-40.92 %
thereof from continued operations	17,236	29,172	-11,936	-40.92 %
thereof from discontinued operations	0	0	0	0.00 %
Comprehensive income attributable to non-controlling interest	1,395	19	1,376	> 200.00 %
thereof from continued operations	1,395	19	1,376	> 200.00 %
thereof from discontinued operations	0	0	0	0.00 %

Statement of financial position as at 31 December 2016

	Note	31 Dec 2016 Euro thousand	restated 31 Dec 2015 Euro thousand	Changes Euro thousand	%
Assets					
Liquid funds	12	1,119,252	1,280,269	-161,016	-12.58 %
Loans and advances to credit institutions (gross)	13	2,196,042	2,794,241	-598,200	-21.41 %
Loans and advances to customers (gross)	14	4,351,134	3,722,212	628,922	16.90 %
Risk provisions (-)	15	-69,099	-68,782	-317	0.46 %
Trading assets	16	137,550	172,286	-34,735	-20.16 %
Financial investments	17	1,855,462	1,717,908	137,554	8.01 %
Investment property	18	32,949	35,852	-2,903	-8.10 %
Companies measured at equity	19	22,046	19,601	2,444	12.47 %
Participations	20	15,781	31,691	-15,911	-50.20 %
Intangible assets	21	31,652	17,289	14,363	83.08 %
Tangible fixed assets	22	128,851	120,579	8,271	6.86 %
Tax assets	23	48,538	35,126	13,411	38.18 %
Current tax assets		1,108	4,133	-3,025	-73.18 %
Deferred tax assets		47,429	30,994	16,436	53.03 %
Other assets	24	137,534	125,466	12,068	9.62 %
TOTAL ASSETS		**10,007,692**	**10,003,739**	**3,953**	**0.04 %**
Liabilities and Equity					
Amounts owed to credit institutions	25	3,338,048	4,071,299	-733,251	-18.01 %
Amounts owed to customers	26	4,691,373	3,992,500	698,873	17.50 %
Debts evidenced by certificates	27	725,217	798,362	-73,145	-9.16 %
Trading liabilities	28	413,543	447,361	-33,818	-7.56 %
Provisions	29, 30	82,259	73,380	8,880	12.10 %
Tax liabilities	23	5,968	7,932	-1,963	-24.75 %
Current tax liabilities		4,892	200	4,691	> 200.00 %
Deferred tax liabilities		1,077	7,731	-6,655	-86.07 %
Other liabilities	31	251,255	212,799	38,456	18.07 %
Subordinated liabilities	32	28,881	17,674	11,207	63.41 %
Equity	34	471,147	382,434	88,713	23.20 %
Shareholders' equity		467,189	379,760	87,429	23.02 %
Non-controlling interest		3,958	2,674	1,284	48.01 %
Total Liabilities and Equity		**10,007,692**	**10,003,739**	**3,953**	**0.04 %**

Changes in the Group's equity

Euro thousand	Subscribed capital 1)	Capital reserve	Retained earnings	IAS 39 valuation reserves 2) Available for sale reserve	Shareholders' equity	Non-controlling interest	Equity
As at 1 January 2015	**74,198**	**42,544**	**79,111**	**3,232**	**199,086**	**0**	**199,086**
Consolidated net income 3)			15,029		15,029	20	15,049
Change in deferred taxes arising from untaxed reserve			78		78	0	78
Revaluation obligation of defined benefit plans (IAS 19 including deferred taxes)			2,173		2,173	0	2,173
Available for sale reserve (including deferred taxes)				11,661	11,661	0	11,661
Change from companies measured at equity			-9	240	231		231
Comprehensive income	0	0	17,271	11,901	29,172	19	29,192
Kapitalerhöhung	51,023	111,618			162,641		162,641
Dividends paid			-6,788		-6,788	0	-6,788
Participation capital	-10,740				-10,740	1	-10,739
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation			6,348	41	6,389	2,653	9,043
As at 31 Dec 2015	**114,481**	**154,162**	**95,943**	**15,174**	**379,760**	**2,674**	**382,434**
Consolidated net income 3)			23,625		23,625	1,399	25,024
Change in deferred taxes arising from untaxed reserve			387		387		387
Revaluation obligation of defined benefit plans (IAS 19 including deferred taxes)			-2,960		-2,960	-3	-2,964
Available for sale reserve (including deferred taxes)				-3,871	-3,871	0	-3,871
Change from companies measured at equity			-60	116	56		56
Comprehensive income	0	0	20,992	-3,755	17,236	1,395	18,632
Capital increase	19,460	48,602			68,062		68,062
Dividends paid			-393		-393	-19	-411
Participation capital	-7,004	-845	0		-7,849		-7,849
Payment Shareholder		10,290			10,290		10,290
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation			82		82	-93	-11
As at 31 Dec 2016	**126,938**	**212,209**	**116,624**	**11,419**	**467,189**	**3,958**	**471,147**

1) Subscribed capital corresponds to the figures reported in the financial statements of VOLKSBANK WIEN AG (VBW).
2) As at 30 September 2016, the available for sale reserve included deferred taxes of euro -6,746 thousand (30 September 2015: euro -4,637 thousand).
3) In 2016 (and 2015) the financial statements of VBW contain no currency translation differences resulted from the application of average rates of exchange in the income statement, whether for shareholders' equity nor for non-controlling interest.

Cash flow statement

In euro thousand	1-12/2016	restated 1-12/2015
Annual result (before non-controlling interest)	**25,024**	**15,049**
Non-cash positions in annual result		
Net interest income	-89,790	-65,614
Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets	20,939	9,176
Allocation to and release of provisions, including risk provisions	6,005	-5,448
Gains from the sale of financial investments and fixed assets	-3,808	-91
Result from contribution of assets and liabilities	0	-9,070
Income taxes	-13,319	-12,346
Changes in assets and liabilities from operating activities		
Loans and advances to credit institutions	567,841	1,162,658
Loans and advances to customers	98,280	335,542
Trading assets	-16,683	-7,482
Financial investments	57,185	164,772
Investment property	4,163	5,905
Other assets from operating activities	-11,969	272,371
Amounts owed to credit institutions	-581,671	-1,773,593
Amounts owed to customers	-162,111	-389,371
Debts evidenced by certificates	-58,700	-37,623
Derivatives	11,112	10,559
Other liabilities	27,114	-260,155
Interest received	138,704	103,003
Interest paid	-46,367	-29,954
Dividends received	2,068	331
Income taxes paid	2,734	-4,561
Cash flow from operating activities	**-23,249**	**-515,941**
Proceeds from the sale or redemption of		
Securities held to maturity	0	14,897
Participations	20,186	296
Fixed assets	5,277	1,527
Payments for the acquisition of		
Securities held to maturity	-182,768	0
Participations	-4,689	0
Fixed assets	-2,589	-3,628
Acquisition of subsidiaries - liquid funds	11,778	1,645,765
Cash flow from investing activities	**-152,805**	**1,658,857**
Capital increase	0	112,998
Payment Shareholder	10,290	0
Dividends paid	-411	-6,788
Changes in subordinated liabilities	-496	85
Repayment non-controlling interest	-11	0
Cash flow from financing activities	**9,372**	**106,295**
Cash and cash equivalents at the end of previous period	**1,280,269**	**31,057**
Cash flow from operating activities	-23,249	-515,941
Cash flow from investing activities	-152,805	1,658,857
Cash flow from financing activities	9,372	106,295
Cash and cash equivalents at the end of period	**1,113,587**	**1,280,268**

Details of the calculation method of cash flow statement are shown in note 3) ii).
Details of the calculation of the acquisition of subsidiaries are included in note 2).
Details to cash and cash equivalents are shown in note 12).

NOTES

1) General information

VOLKSBANK WIEN AG (VBW), which has its registered office at Kolingasse 14-16, 1090 Vienna, is the parent company of national acting subsidiaries and the central organisation (CO) of the Austrian Volksbank sector. In addition to the sector business with Volksbanks, the priorities in private and corporate customer business are based in Austria.

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

VBW was obliged to produce consolidated financial statements for the first time as at 31 December 2015, as it exceeds the thresholds set out under section 246 of the Austrian Commercial Code (Unternehmensgesetzbuch - UGB). Furthermore, because VBW has acquired securities admitted to trading on a regulated market within the meaning of section 2 (37) of the Austrian Banking Act (Bankwesengesetz - BWG), VBW was obliged to prepare consolidated financial statements under international accounting standards. Pursuant to section 245a UGB, VBW was therefore preparing consolidated financial statements under International Financial Reporting Standards (IFRS) for the first time as at 31 December 2015. As no consolidated financial statements have been prepared under Austrian financial reporting standards for VBW, the requirement under IFRS 1 to provide an explanation of how the transition from the previous financial reporting standards to IFRS affect its financial position, financial performance and cash flows does not apply.

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

The present consolidated financial statements were signed by the Managing Board on 22 March 2017 and then subsequently submitted to the Supervisory Board for notice.

a) Adaptation of comparable figures according to IAS 8

Within the scope of the impairment test of the customer relationships of the year 2015 from the purchase price allocation of the CO function, it was found that due to the special features of the cost allocation agreement with the members of the Association of Volksbanks a correlation exists with the valuation of the customer relationships within the CO. Hence, the customer relationship does not represent a separate asset. The values recognised in the previous year were restated in the present financial statements.

Restatement profit and loss account

Euro thousand	2015
General administrative expenses	643
Other operating result	-14,475
Result before taxes	**-13,832**
Income taxes	-161
Result after taxes	**-13,992**
Result attributable to shareholders of the parent company (Consolidated net result)	-13,992
Result attributable to non-controlling interest	0
Other comprehensive income total	**-13,992**
Comprehensive income	**-13,992**
Comprehensive income attributable to shareholders of the parent company	-13,992
Comprehensive income attributable to non-controlling interest	0

The restatement is attributable to continued operation.

Restatement balance sheet

Euro thousand	31 Dec 2015
Intangible assets	-18,657
Deferred tax assets	4,664
Total assets	**-13,992**
Equity	-13,992
Shareholders' equity	-13,992
Non-controlling interest	0
Total liabilities and equity	**-13,992**

2) Presentation and changes in the scope of consolidation

Volksbank Weinviertel e.Gen. transferred its company – the Weinviertel banking operations (VB Weinviertel) with retention of euro 1 million in cash, all shares in VBW and all shares in Volksbank Wien Beteiligung eGen. – to VBW through a transfer and contribution in kind agreement of 18 May 2016. The transfer was made as a contribution in kind for 51,731 new shares in VBW. The transfer was entered in the Commercial Register on 19 July 2016.

Volksbank Südburgenland eG transferred its company – the Südburgenland banking operations (VB Südbgld) with retention of euro 1.1 million in cash, all shares in VBW and all shares in Volksbank Wien Beteiligung eGen – to VBW through a transfer and contribution in kind agreement of 7 September 2016. The transfer was made as a contribution in kind for 57,032 new shares in VBW. The transfer was entered in the Commercial Register on 3 November 2016.

Volksbank Niederösterreich Süd eG also transferred its company – the Niederösterreich Süd banking operations (VB NÖ Süd) with retention of euro 500 thousand in cash, all shares in VBW, all shares in Volksbank Wien Beteiligung eGen. and one property – to VBW through a transfer and contribution in kind agreement of 7 September 2016. The transfer was made as a contribution in kind for 98,814 new shares in VBW. The transfer was entered in the Commercial Register on 3 November 2016.

For the transfers described above the purchase prices and the fair values of the assets and liabilities acquired, based on purchase price allocation are set out in the table below:

	Fair values at the date of acquisition			
Euro thousand	**VB Weinviertel**	**VB Südbgld**	**VB NÖ Süd**	**Total**
Liquid funds	4,021	2,481	5,276	11,778
Loans and advances to credit institutions	44,063	62,402	48,609	155,075
Loans and advances to customers	204,541	187,484	351,852	743,878
Risk provisions (-)	-1,049	-3,554	-3,716	-8,319
Financial investments	12,720	6,598	1,755	21,072
Participations	54	2,101	518	2,673
Intangible assets	7,626	4,240	2,669	14,535
Tangible fixed assets	6,179	5,099	8,104	19,381
Tax assets	1,002	317	2,208	3,526
Other assets	589	645	671	1,905
Amounts owed to credit institutions	0	-9	-17,878	-17,887
Amounts owed to customers	-256,699	-243,134	-363,695	-863,528
Debts evidenced by certificates	0	0	-2,471	-2,471
Provisions	-3,324	-3,680	-4,431	-11,435
Tax liabilities	-189	-1,213	0	-1,401
Other liabilities	-2,904	-1,195	-2,968	-7,068
Subordinated liabilities	-1,798	-1,536	-520	-3,855
Net assets acquired	**14,832**	**17,044**	**25,983**	**57,860**
Purchase price = capital increase	16,962	18,700	32,400	68,062
Goodwill	**2,130**	**1,656**	**6,417**	**10,203**

Factors leading to the recognition of goodwill are mainly the expected synergies in the cost area.

As the purchase prices were settled through share issues by VBW, there was no cash outflow from the Group. The cash inflow relates to the cash reserve acquired in each case. Loans and advances which have been written down are displayed on a gross basis in the table above and throughout the financial statements. In order to ensure that data is consistent with the risk management systems and regulatory reporting, risk provisions acquired as part of the acquisitions have therefore been reported separately. Any adjustments to reflect fair value were therefore reported in the items loans and advances to credit institutions or loans and advances to customers.

The fair value and the gross value of the loans and advances acquired as well as the cash flows expected to be irrecoverable as at the acquisition date are as follows:

Euro thousand	**VB Weinviertel**	**VB Südbgld**	**VB NÖ Süd**	**Total**
Fair value of purchased receivables	204,541	187,484	351,852	743,878
Gross sum of receivables	215,828	193,943	362,079	771,850
Estimated irrrecoverable receivables	-1,272	-4,010	-4,504	-9,787

Fair values of euro 74 thousand for VB Weinviertel, euro 125 thousand for VB Südbgld and euro 234 thousand for VB NÖ Süd were determined for guarantees in force and credit facilities committed as at the acquisition date and recognised as provisions. The maturities are mainly at one year. Cash outflows of around euro 0.4 million are expected during this period.

Incidental acquisition costs are recognised under other operating expenses in the income statement and stand at euro 516 thousand.

The information about the amount of net interest income and the annual result after taxes that were achieved in the acquired banking operations since the date of acquisition is not available for these banking operations, since no separate records are available after the merger.

If VB Weinviertel, VB Südbgld and VB NÖ Süd had already been acquired on 1 January 2016, net interest income of the VBW Group would have been euro 13,825 thousand higher in total and the annual profit after taxes euro 1,298 thousand higher.

Euro thousand	VB Weinviertel	VB Südbgld	VB NÖ Süd	Total
Net interest income	2,872	3,705	7,248	13,825
Result after taxes	-253	-44	1,595	1,298

Number of consolidated companies

	31 Dec 2016			31 Dec 2015		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Fully consolidated companies						
Credit institutions	1	0	1	1	0	1
Financial institutions	1	0	1	1	0	1
Other companies	7	0	7	7	0	7
Total	**9**	**0**	**9**	**9**	**0**	**9**
Companies measured at equity						
Credit institutions	1	0	1	2	0	2
Other companies	1	0	1	0	0	0
Total	**2**	**0**	**2**	**2**	**0**	**2**

Number of unconsolidated companies

	31 Dec 2016			31 Dec 2015		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Affiliates	7	0	7	5	0	5
Associated companies	26	3	29	20	1	21
Companies total	**33**	**3**	**36**	**25**	**1**	**26**

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

The complete list of companies included in the consolidated financial statements, companies measured at equity, as well as the unconsolidated companies including detailed information, can be found at the end of the notes (see note 50), 51), 52)).

3) Accounting principles

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

The VBW Group’s consolidated financial statements for 2016 and the comparative figures for 2015 have been prepared in accordance with the IFRS/IAS and thus comply in full with the provisions set out in section 245a of the Austrian Commercial Code and section 59a of the Austrian Banking Act regulating exempting consolidated financial statements prepared in accordance with internationally recognised accounting principles.

The consolidated financial statements have been prepared in accordance with all IFRS/IAS published by the International Accounting Standards Board (IASB) in force on the balance sheet date as well as all interpretations of the International

Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) as endorsed by the European Union (EU).

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

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

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

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 will not have any significant impact on VBW Group.

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 will not have any significant impact on VBW Group.

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 will not have any significant impact on VBW Group.

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 will not have any impact on VBW Group.

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 will not have any significant impact on VBW Group.

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 – either prospectively or retrospectively, depending on the respective amendment. The amendments will not have any significant impact on VBW Group.

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 VBW Group.

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 VBW Group.

Amendments to IAS 12 – Income taxes. The amendments clarify that losses on debt instruments 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 VBW Group.

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. The amendments will probably not have any significant impact on the VBW Group.

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 securities 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 VBW Group.

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 the OCI 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 VBW Group.

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 VBW Group.

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 VBW Group.

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 mandatorily be applied for the first time with effect from 1 January 2018. The project for implementation of IFRS 9 was started in the VBW group 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 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. According to an initial investigation, in the case of credit loans, some 5.5 % to 6 % must be classified as SPPI-non-compliant, corresponding to a volume of approx. euro 262 million. In the case of current credits and overdraft facilities, there is a volume of approx. euro 19 million in SPPI-non-compliant contracts. The SPPI criterion of those loans and credits 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 VBW group lies within a range of euro 4 to 7 million.

Basically, all lending portfolios are defined as “to be held”, unless there is any intention to sell the loans or the company holding such loans. If the SPPI criterion is met, therefore, valuation is effected at amortised cost. Those portfolios that are meant to be sold, and those that are held in companies up for sale are designated as “for sale” and must mandatorily be measured at fair value through profit or loss. The analysis regarding business model allocation of securities has already been completed within VBW. The positive effect on the carrying amounts of securities portfolios to be expected in the course of reclassification amounts to approx. euro 21 million, according to a preliminary calculation. On the other hand there is an increase of OCI by euro 19 million and of the IFRS 9 reserve by euro 2 million. According to the current plan, all valuation methods under IFRS 9 (valuation at cost, fair value measurement through profit or loss, as well as fair value measurement through OCI) are applied to the securities portfolio within the VBW group. A decision as to application of the option of measuring equity instruments at fair value through OCI (OCI option) will only be taken in the course of 2017.

Accounting of 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 ever 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 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 twelve months. Exceptions apply to trade receivables and leasing 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 is required to determine lifetime expected credit losses. Due to 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 9 and 13 million is expected. For this risk provision simulation of the off-balance sheet transactions the VBW group 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 IFRS 9 standard intends amendments to the hedge accounting principles, including that the assessment of the hedging relationships is 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 whether the option to apply hedge accounting in line with the previous way of procedure under IAS 39 until finalisation of the macro hedge accounting project will be exercised.

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 VBW 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 of the customer contract 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. The 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 VBW group. Commission fees and charges may fall within the scope of IFRS 15. 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. 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 VBW group is currently assessing the potential impact of IFRS 16 on the consolidated financial statements. Within the VBW, business transactions subject to application of IFRS 16 concern motor vehicle, 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 VBW group, as VBW 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, 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 VBW group.

c) Application of estimates and assumptions

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

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

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

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

If estimates were required to a greater extent, the assumptions made are shown with the note on the corresponding item. Actual values may deviate from the assumptions and estimates made if overall conditions develop contrary to expectations as at the balance sheet date. Amendments are recognised in profit or loss and assumptions adjusted accordingly once better information is obtained. As at 31 December 2016, the scope of consolidation of VBW does not include any foreign subsidiary in foreign currency.

d) Consolidation principles

The consolidated financial statement is based on the separate financial statements of all fully consolidated companies prepared in accordance with IFRS. The figures reported in the individual financial statements of associated companies measured at equity have been adjusted to Group accounting principles where the effects on the consolidated financial statements were significant.

The financial statements of the fully consolidated companies and the companies consolidated using the equity method were prepared on the basis of the Group's balance sheet date of 31 December 2016.

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

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

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

e) Currency translation

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

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

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

f) Net interest income

Interest income and interest expenses are recognised on an accrual basis in the income statement. Current or non-recurring income or expenses similar to interest, such as commitment fees, overdraft commissions or handling fees, are reported in net interest income in accordance with the effective interest method. 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 therefore 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 investment property assets
- Interest and similar expenses for deposits
- Interest and similar expenses for debts evidenced by certificates and subordinated liabilities
- The interest component of derivatives reported in the investment book

Interest 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), determination of the risk provision is effected 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 computer-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 Group's operations.

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

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

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

k) Other operating result

In addition to the result from measurement or repurchasing of financial liabilities, impairment of goodwill, measurement of IFRS 5 disposal groups, and the deconsolidation result from the disposal of subsidiaries, this item contains all results from the Group'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 Group becomes party to a contract on the financial instrument and thus acquires the right to receive or assumes a legal obligation to pay liquid funds. 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 Group conducts transactions in which financial assets are transferred but the risks or rewards incident to the ownership of the asset remain with the Group. If the Group 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 Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

Amortised cost

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

Fair value measurement

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

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

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

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

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

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

Impairment

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

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

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

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

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

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

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

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

Financial instruments designated at fair value through profit or loss

The Group 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 be demonstrated to prevent inconsistencies in the valuation of financial assets and liabilities.
- A financial instrument contains an embedded derivative that is generally required to be reported separately from the host agreement at fair value.

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

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

Changes in the market value of derivatives that are used for a fair value hedge are recognised immediately in the income statement under income from financial investments. The change in market value of the underlying transaction resulting from the hedged risk is also recognised under net income from financial instruments, irrespective of its allocation to individual categories under IAS 39. The Group 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 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. The valuation of the underlying transaction depends on the classification of the underlying transaction into the different categories. The Group doesn't use cash flow hedges at the moment.

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

n) Loans and advances to credit institutions and customers

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

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

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

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. Shares which are not traded on a stock exchange and whose fair value cannot be reliably determined are carried at cost less any impairment losses. All other available for sale assets are measured at fair value. Changes in fair value are taken directly to equity until these financial investments are sold or impaired and the remeasurement result is transferred from equity to the income statement. With regard to debt securities, the difference between cost including transaction cost and the redemption amount is amortised in accordance with the effective interest method and recognised in income. Accordingly, only the difference between amortised cost and fair value is recognised in the available for sale reserve.

Loans & receivables

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

Held to maturity

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

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

r) Investment property

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

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

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

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

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

s) Participations

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

Companies over which the Group exercises a significant influence are measured using the equity method. All other participations are recognised at their respective fair values. Fair values are determined by reference to quoted market prices on active markets, or by using a valuation method if there is no active market. Valuation methods include using discounted cash flow techniques and valuations using multiples. If discounted cash flow procedures are used, the discount rates applied are based on the current recommendations of the Expert Committee of the Austrian Chamber of Public Accountants and Tax Advisers and international financial information service companies. In 2016 it was at 7 - 8.3 % (2015: 9.0 %). Market risk premiums used in these calculations in 2016 were at 6.75 % (2015: 6.75 %), beta values at 0.9 - 1.1 % (2015: 1.1 %). Additional sovereign risks were not observed. Since no participations were recognised at fair value in the previous year, there are no comparative figures. 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, customer relationships and software.

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

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

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

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

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) Liabilities

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

x) Employee benefits

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

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

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 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

	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 %		
Future salary increase	3.00 %	3.00 %	3.00 %	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).

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

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.

y) Other provisions

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

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

z) 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.

aa) Subordinated liabilities

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

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

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

bb) Equity

Financial instruments issued by the VBW Group 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 in VBW Group is done on the basis of the supervisory capital. For further details see chapter ee) Own funds in accordance chapter 49)c) Risk strategy and internal capital adequacy assessment process.

cc) Capital reserves

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

dd) Retained earnings

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

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 there constitute the central management variable in the VBW Group. These ratios reflect the relationship between regulatory own funds and credit, market and operational risk. Accordingly, the risk/return management of VBW Group is based on the capital allocated to one business or, ultimately, one organisational unit and the income to be generated from this, taking into account the corresponding risk considerations.

Credit risk is determined by multiplying on-balance-sheet and off-balance-sheet exposures 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 Group is also calculated using the standard approach. The capital requirements for operational risk are calculated by multiplying the revenues by the respective percentages for the divisions.

Regulatory own funds can be broken down into three elements:

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

The first two components comprise the Tier I capital.

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

T2 also includes non-current subordinated liabilities.

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

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

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

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

ff) Trustee transaction

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

gg) Repurchase transactions

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

hh) Contingent liabilities

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

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

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

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

ii) Cash flow statement

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

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

4) Net interest income

Euro thousand	2016	2015
Interest and similar income	124,768	101,420
Interest and similar income from	118,657	96,635
liquid funds	25	-1,157
credit and money market transactions with credit institutions	3,362	4,054
credit and money market transactions with customers	101,689	81,009
debt securities	3,095	3,310
derivatives in the investment book	10,486	9,419
Current income from	2,823	1,663
equities and other variable-yield securities	758	1,325
other affiliates	200	0
investments in other companies	1,865	338
Income from operating lease and investment property	3,289	3,123
rental income investment property	3,289	3,123
Interest and similar expenses of	-25,088	-31,358
deposits from credit institutions (including central banks)	-12,850	-12,783
deposits from customers	-9,925	-16,939
debts evidenced by certificates	-1,721	-1,082
subordinated liabilities	-591	-553
Net interest income	**99,681**	**70,062**

Net interest income according to IAS 39 categories

Euro thousand	2016	2015
Interest and similar income	124,768	101,420
Interest and similar income from	118,657	96,635
derivatives in the investment book	10,486	9,419
financial investments not at fair value through profit or loss	108,170	87,216
financial investments available for sale	1,758	2,649
financial investments at amortised cost	105,078	83,909
of which unwinding of risk provisions	1,233	814
financial investments held to maturity	1,335	658
Current income from	2,823	1,663
financial investments available for sale	2,823	1,663
Income from operating lease and investment property	3,289	3,123
Interest and similar expenses of	-25,088	-31,358
financial investments at amortised cost	-25,088	-31,358
Net interest income	**99,681**	**70,062**

Due to the trend of money market interest rates towards negative reference rates, interest income of euro 4,130 thousand (2015: euro 9,458 thousand) and interest expenses of euro -6,932 thousand (2015: euro -2,490 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 -1,204 thousand) and secondly, primarily involve CHF/EUR swaps.

5) Risk provisions

Euro thousand	2016	2015
Allocation to risk provisions	-27,861	-15,392
Release of risk provisions	19,774	25,682
Allocation to provisions for risks	-1,945	-2,920
Release of provisions for risks	3,289	2,320
Direct write-offs of loans and advances	-9,663	-7,964
Income from loans and receivables previously written off	2,759	12,033
Risk provisions	**-13,645**	**13,758**

6) Net fee and commission income

Euro thousand	2016	2015
Fee and commission income from	70,035	45,184
lending operations	9,691	5,466
securities business	32,025	18,307
payment transactions	22,823	16,825
from foreign exchange, foreign notes and coins and precious metals transactions	113	895
other banking services	5,383	3,692
Fee and commission expenses from	-28,915	-15,123
lending operations	-7,955	-3,456
securities business	-18,969	-9,555
payment transactions	-1,869	-1,825
from foreign exchange, foreign notes and coins and precious metals transactions	-83	-15
other banking services	-39	-272
Net fee and commission income	**41,120**	**30,060**

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

Furthermore, net fee and commission income does not include any management fees for trust agreements.

7) Net trading income

Euro thousand	2016	2015
Equity related transactions	-30	41
Exchange rate related transactions	3,720	2,539
Interest rate related transactions	1,206	4,500
Net trading income	**4,896**	**7,080**

8) General administrative expenses

Euro thousand	2016	2015
Staff expenses	-97,315	-64,369
Wages and salaries	-72,567	-47,933
Expenses for statutory social security	-19,106	-12,503
Fringe benefits	-1,191	-1,136
Expenses for retirement benefits	-1,402	-938
Allocation to provision for severance payments and pensions	-3,049	-1,859
Other administrative expenses	-62,159	-49,490
Depreciation of fixed tangible and intangible assets	-14,921	-7,657
Scheduled depreciation (-)	-11,803	-7,657
Impairment (-)	-3,117	0
General administrative expenses	**-174,394**	**-121,516**

Staff expenses include payments for defined contribution plans totalling euro 2,224 thousand (2015: euro 1,978 thousand).

Other administrative expenses include expenses for managing contracts for investment properties to the amount of euro 82 thousand (2015: euro 10 thousand).

For the business year, expenses for the auditor KPMG Austria GmbH Wirtschaftsprüfung und Steuerberatungsgesellschaft amounted to euro 1,813 thousand (2015: euro 1,597 thousand). Thereof euro 1,508 thousand (2015: euro 1,597 thousand) fall upon the audit of the annual financial statements, consolidated financial statements and annual financial statements of the Association of Volksbanks, as well as of financial statements of individual affiliates and joint ventures included in the consolidated financial statements, euro 84 thousand (2015: euro 0 thousand) to other certifications and euro 220 thousand (2015: euro 0 thousand) to other services.

Information on compensation to board members

Euro thousand	2016	2015
Total compensation		
Supervisory Board	403	57
Managing Board	1,949	1,244
Former board members and their surviving dependents	676	352
Expenses for severance payments and pensions		
Managing Board	840	900
Thereof defined contribution plans	137	69

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

Principles and prerequisites of the pension scheme

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

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

The statutory severance pay conditions under section 23 Angestelltengesetz (Employees Act) apply to one Managing Board member, other members of the Managing Board are subject to the new severance payment system ("Abfertigung Neu"). There is also a D&O insurance policy (directors' and officers' insurance).

Number of staff employed

	Average number of staff		Number of staff at end of period	
	2016	2015	31 Dec 2016	31 Dec 2015
Domestic	1,139	815	1,242	1,130
Foreign	0	0	0	0
Number of staff total	**1,139**	**815**	**1,242**	**1,130**

9) Other operating result

Euro thousand	2016	2015
Other operating income	128,611	43,235
Other operating expenses	-57,990	-40,840
Other taxes	-26,115	-1,078
Impairment of goodwill	-5,510	0
Other operating result	**38,997**	**1,317**

Other operating income includes income from cost allocations, essentially to the Association of Volksbanks, in the amount of euro 106,331 thousand (2015: euro 29,235 thousand). Early redemptions of issues generated a result of euro 11,866 thousand (2015: euro 2,898 thousand). Due to an agreement on improvement in connection with the sale of the VB Invest Group in the previous year, income in the amount of euro 2,707 thousand was recognised. Additionally, other operating income includes income from the sale of fixed assets in the amount of euro 2,726 thousand (2015: euro 1,201 thousand) as well as income from drawing on guarantees regarding Volksbank Marchfeld e.Gen. and Volksbanken Holding eGen (VB Holding) in the amount of euro 3,650 thouand. In the previous period, the result from the contributions in the amount of euro 9,070 thousand is included.

Other operating expenses include costs of external companies in the amount of euro -54,543 thousand (2015: euro -17,294 thousand). These costs are essentially allocated to members of the Association of Volksbanks. Moreover, the addition to a provision for any repayment, in case of the guarantee with respect to VB Holding being called, in the amount of euro 2,850 thousand was recognised. In the business year claims caused an expense of ´ euro -391 thousand (2015: euro -2,081 thousand), which is included in other operating expenses. In the previous period, this position included losses in the amount of euro -16,679 thousand due to Österreichische Volksbanken-Aktiengesellschaft (VBAG)´s departure from the Association of Volksbanks.

Other taxes include the bank levy in the amount of euro -25,643 thousand (2015: euro -760 thousand). The amount includes the non-recurring special payment of euro -16,601 thousand.

Regarding the write-down of goodwill, please refer to the information contained in Note 21) Intangible assets.

10) Income from financial investments

Euro thousand	2016	2015
Result from fair value hedges	**-1,975**	**-221**
Result from revaluation of underlying instruments	14,909	-4,711
Loans and advances to credit institutions and customers	-2,737	-1,667
Debt securities	17,955	965
Amounts owed to credit institutions and customers	66	-78
Debts evidenced by certificates	-375	-3,930
Result from revaluation of derivatives	-16,884	4,490
Result from valuation of other derivatives in the investment book	**3,379**	**5,916**
Exchange rate related transactions	6,579	-2,229
Interest rate related transactions	257	-860
Credit related transactions	-75	-613
Other transactions	-3,382	9,619
Result from available for sale financial investments (including participations)	**-3,366**	**-2,638**
Realised gains / losses	248	725
Income from revaluation	540	143
Impairments	-4,154	-3,505
Result from loans & receivables financial investments	**1**	**0**
Realised gains / losses	1	0
Result from assets for operating lease and investment property assets as well as other financial investments	**3,700**	**5,453**
Realised gains / losses	2,441	0
Change in value investment property	1,260	5,453
Income from financial investments	**1,740**	**8,510**

In 2016, an amount of euro -162 thousand (2015: euro 718 thousand) previously recognised in the available for sale reserve was reclassified and shown in the income statement.

Euro thousand	2016	2015
Result from financial investments, which are measured at fair value through profit or loss	**2,664**	**11,148**
Fair value hedges	-1,975	-221
Other derivatives in the investment book	3,379	5,916
Investment property assets	1,260	5,453
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	**-924**	**-2,638**
Realised gains / losses	2,690	724
Available for sale financial investments	248	725
Loans & receivables financial investments	1	0
Operating lease assets and other financial investments	2,441	0
Income from revaluation	540	143
Available for sale financial investments	540	143
Impairments	-4,154	-3,505
Available for sale financial investments	-4,154	-3,505
Income from financial investments	**1,740**	**8,510**

11) Income taxes

Euro thousand	31 Dec 2016	31 Dec 2015
Current income taxes	-5,133	1,907
Deferred income taxes	18,176	12,888
Income taxes for the current fiscal year	**13,044**	**14,796**
Income taxes from previous periods continued operation	275	-2,167
Income taxes from previous periods	275	-2,167
Income taxes	**13,319**	**12,629**

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

Euro thousand	2016	2015
Annual result before taxes - continued operation	11,705	2,420
Annual result before taxes - total	**11,705**	**2,420**
imputed income tax 25 %	2,926	605
Tax relief resulting from		
tax-exempt investment income	-1,602	-90
investment allowances	566	87
non-tax deductible impairment of goodwill	1,378	0
measurement of participation	-2,677	-663
non-taxable valuation results	0	-2,267
re-inclusion of deferred tax assets	-12,855	-12,389
other differences	-780	-78
Reported income taxes	**-13,044**	**-14,796**
Effective tax rate - continued operations	**-111.44 %**	**< -200.00 %**
Effective tax rate - including discontinued operations	-111.44 %	< -200.00 %

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

		2016			2015	
Euro thousand	Result before tax	Income taxes	Result after tax	Result before tax	Income taxes	Result after tax
Revaluation obligation of defined benefit plans (IAS 19)	-3,952	988	-2,964	2,898	-724	2,173
Available for slae reserve	-5,162	1,290	-3,871	15,548	-3,887	11,661
Change in deferred taxes of untaxed reserve	0	387	387	0	78	78
Change from companies measured at equity	75	-19	56	308	-77	231
Other comprehensive income total	**-9,039**	**2,646**	**-6,392**	**18,753**	**-4,610**	**14,143**

Notes to the consolidated statement of financial positions

12) Liquid funds

Euro thousand	31 Dec 2016	31 Dec 2015
Cash in hand	216,989	32,882
Balances with central banks	902,264	1,247,387
Liquid funds	**1,119,252**	**1,280,269**

Transition from liquid funds to cash and cash equivalents

Euro thousand	31 Dec 2016	31 Dec 2015
Liquid funds	1,119,252	1,280,269
Restricted cash and cash equivalents	-5,666	0
Cash and cash equivalents	**1,113,587**	**1,280,269**

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 2,196,042 thousand (2015: euro 2,794,241 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2016	31 Dec 2015
on demand	300,441	426,343
up to 3 months	837,785	794,941
up to 1 year	598,973	148,754
up to 5 years	385,705	1,388,334
more than 5 years	73,137	35,869
Loans and advances to credit institutions	**2,196,042**	**2,794,241**

Further information on maturities are included in note 49) 0 Credit risk.

14) Loans and advances to customers

Loans and advances to customers amounting to euro 4,351,134 thousand. (2015: euro 3,722,212 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2016	31 Dec 2015
on demand	111,981	115,872
up to 3 months	182,794	164,166
up to 1 year	256,754	442,556
up to 5 years	702,048	1,108,868
more than 5 years	3,097,557	1,890,750
Loans and advances to customers	**4,351,134**	**3,722,212**

Further information on maturities is included in note 49) 0 Credit risk.

15) Risk provisions

Euro thousand	Individual impairment credit institutions	Individual impairment customers	Portfolio based allowance	Total
As at 1 Jan 2015	**0**	**31,114**	**4,088**	**35,202**
Changes in the scope of consolidation	0	62,414	3,175	65,590
Currency translation	0	132	28	159
Reclassification	0	-250	0	-250
Unwinding	0	-814	0	-814
Utilisation	0	-20,814	0	-20,814
Release	0	-24,837	-845	-25,682
Addition	0	15,010	382	15,392
As at 31 Dec 2015	**0**	**61,954**	**6,828**	**68,782**
Changes in the scope of consolidation	0	8,319	1,468	9,787
Currency translation	0	33	0	33
Reclassification	0	23	0	23
Unwinding	0	-1,233	0	-1,233
Utilisation	0	-16,380	0	-16,380
Release	0	-19,774	0	-19,774
Addition	0	22,214	5,647	27,861
As at 31 Dec 2016	**0**	**55,156**	**13,943**	**69,099**

Loans and advances to customers include non-interest-bearing receivables amounting to euro 86,607 thousand (2015: euro 99,149 thousand). The additions include an amount of euro 0 thousand (2015: euro 0 thousand), which is caused by allocation due to interest past-due. The line reclassification includes reclassifications to the position other assets. Portfolio based allowances related almost entirely to loans and advances to customers.

16) Trading assets

Euro thousand	31 Dec 2016	31 Dec 2015
Debt securities	24,162	7,479
Positive fair value from derivatives	113,389	164,807
exchange rate related transactions	0	710
interest rate related transactions	113,389	164,097
Trading assets	**137,550**	**172,286**

Breakdown by residual term

Euro thousand	31 Dec 2016	31 Dec 2015
up to 3 months	1,739	305
up to 1 year	1,410	0
up to 5 years	12,392	1,737
more than 5 years	8,620	5,437
Debt securities	**24,162**	**7,479**

Since the acquisition of CO functions the company 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	1,594,123	1,637,976
Debt securities	1,529,702	1,584,288
Equity and other variable-yield securities	64,421	53,688
Financial investments loans & receivables	0	414
Financial investments held to maturity	261,339	79,518
Financial investments	**1,855,462**	**1,717,908**

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	15,516	21,027
up to 1 year	97,556	50,459
up to 5 years	568,187	642,479
more than 5 years	1,109,783	950,254
Debt securities	**1,791,041**	**1,664,220**

Breakdown of debt securities in accordance with the Austrian Banking Act

Euro thousand	31 Dec 2016	31 Dec 2015
Listed securities	1,765,337	1,645,977
Debt securities	1,764,589	1,635,441
Equity and other variable-yield securities	748	10,536
Securities allocated to fixed assets	1,715,638	1,574,538
Securities eligible for rediscounting	1,707,321	1,534,546

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

18) Investment property

Euro thousand	Investment properties
Cost as at 1 Jan 2015	13,851
Changes in the scope of consolidation	21,703
Additions, including transfers	946
Disposals, including transfers	-1,502
Cost as at 31 Dec 2015	34,998
Changes in the scope of consolidation	85
Additions, including transfers	1,468
Disposals, including transfers	-5,114
Cost as at 31 Dec 2016	**31,436**

Euro thousand	Investment properties
2015	
Cost as at 31 Dec 2015	34,998
Cumulative write-downs and write-ups	854
Carrying amount as at 31 Dec 2015	**35,852**
Impairments of fiscal year	-330
Revaluations of fiscal year	5,784
Carrying amount as at 01 Jan 2015	13,780
2016	
Cost as at 31 Dec 2016	31,436
Cumulative write-downs and write-ups	1,513
Carrying amount as at 31 Dec 2016	**32,949**
Impairments of fiscal year	0
Revaluations of fiscal year	1,260

The valuations shown in the table above are included within the income from financial investments item. These valuations include holdings of investment property assets to the amount of euro 540 thousand (2015: euro 150 thousand) at the reporting date.

In 2016, a carrying amount of investment property assets to the amount of euro 4,982 thousand (2015: euro 6,851 thousand) was disposed of.

Investment properties contain 14 completed properties (2015: 27) with a carrying amount of euro 19,142 thousand (2015: euro 23,872 thousand), as well as undeveloped land with a carrying amount of euro 13,807 thousand (2015: euro 11,980 thousand). These properties are located in Austria. At balance sheet 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			2015		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	64	4,040	1,367	40	3,850	884
Rentable space in sqm	38	2,762	1,610	30	48,263	2,774
Occupancy rate	62 %	100 %	95 %	0 %	100 %	92 %
Discount rate	3.30 %	7.00 %	5.00 %	1.50 %	7.00 %	4.70 %

Sensitivity analysis

Euro thousand	Changes in the carrying amount	
31 Dec 2016	if assumption is increased	if assumption is decreased
Discount rate (0.25 % change)	-911	1,007
Discount rate (0.50 % change)	-1,739	2,125
31 Dec 2015		
Discount rate (0.25 % change)	-1,207	1,342
Discount rate (0.50 % change)	-2,297	2,845

Undeveloped land

	2016			2015		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	24	2,930	767	20	2,840	922
Plot size in sqm	540	48,263	13,066	540	41,847	13,708
Value per sqm	5	626	165	5	626	244

Sensitivity analysis

Euro thousand	Changes in the carrying amount	
31 Dec 2016	if assumption is increased	if assumption is decreased
Land value (10 % change)	1,381	-1,381
Land value (5 % change)	690	-690
31 Dec 2015		
Land value (10 % change)	1,198	-1,198
Land value (5 % change)	599	-599

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

19) Companies measured at equity

Euro thousand	Associates
Carrying amount as at 1 Jan 2015	0
Changes in the scope of consolidation	25,901
Additions	0
Disposals	0
Comprehensive income proportional	-1,485
Received dividend	0
Impairment	-4,815
Reversal of impairment	0
Carrying amount as at 31 Dec 2015	19,601
Changes in the scope of consolidation	20,622
Additions	1
Disposals	-18,502
Comprehensive income proportional	96
Received dividend	-2,831
Impairment	-7,149
Reversal of impairment	10,208
Carrying amount as at 31 Dec 2016	**22,046**

Associates

VBW holds shares in the following associated companies. Volksbank Kärnten eGen (VB Kärnten, previously: Volksbank Gewerbe- und Handelsbank Kärnten eGen) and VB Verbund-Beteiligung eG (VB Bet).

VBW holds a 25.17 % (2015: 31.85 %) share in VB Kärnten with registered office in Klagenfurt. The company's main business purpose consists of banking operations and bank-related brokering and services. In the 2016 business year, Volksbank Feldkirchen eG, Volksbank Kärnten Süd e.Gen. and Volksbank Oberkärnten reg. Gen.m.b.H. were merged with VB Kärnten as the absorbing company. The contributed assets and liabilites were initially measured at fair value using the equity method. The appreciation in value was recognised as reversal of impairment through profit or loss. Subsequently, the shares of VB Kärnten were impaired to the fair value. Hence, the reversal of impairment was mostly offset.

VBW holds a 21.16 % share in VB Bet with registered office in Vienna. The main business of the company is the holding of participations within the Association of Volksbanks. By transferring the banking operations of VB NÖ Süd and VB Südbgld, VBW has obtained significant influence on the participation, and therefore the equity method was applied as of 3 November 2016.

The shares in IMMO-BANK were sold to the BAWAG PSK Group on 1 December 2016. The sales result of euro 1,268 thousand, together with the proportional result up to the time of the sale, is reported in the result from companies measured at equity.

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 VBW reporting.

Additional information regarding associates

Euro thousand	Other companies 2016	2015
Assets		
Liquid funds	11,870	5,111
Loans and advances to credit institutions (gross)	199,508	469,444
Loans and advances to customers (gross)	1,023,337	1,639,155
Risk provisions	-28,159	-11,063
Financial investments	22,406	21,415
Other assets	195,650	88,582
Total assets	**1,424,611**	**2,212,645**
of which current assets	562,323	739,624
Liabilities and Equity		
Amounts owed to credit institutions	37,833	508,376
Amounts owed to customers	1,123,607	845,386
Debts evidenced by certificates	15,190	624,263
Subordinated liabilities	36,375	46,926
Other liabiliites	25,846	34,302
Equity	185,761	153,392
Total liabilities and equity	**1,424,611**	**2,212,645**
of which current liabilities	910,101	1,152,526
Statement of comprehensive income		
Interest and similar income	42,570	41,046
Interest and similar expense	-6,962	-8,451
Net interest income	35,608	32,595
Risk provisions	-17,394	-14,695
Result before taxes	-2,669	-6,061
Income taxes	2,546	220
Result after taxes	-123	-5,841
Other comprehensive income	427	762
Comprehensive income	**304**	**-5,079**

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	185,761	153,392
Equity interest	n.a.	n.a.
Equity proportional	42,829	41,343
Cumulative impairment and reversals	-11,471	-4,815
Not recognised proportional loss	0	0
Valuation previous years	-9,313	-16,926
Transfer carrying amount	0	0
Carrying amount	22,046	19,601

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

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

20) Participations

Euro thousand	31 Dec 2016	31 Dec 2015
Investments in unconsolidated affiliates	842	579
Participating interests	2,570	2,616
Investments in other companies	12,369	28,496
Participations	**15,781**	**31,691**

A list of unconsolidated affiliates can be found in note 52). Participations with a carrying amount of euro 153 thousand (2015: euro 290 thousand) were disposed of during the business year. Profit from these sales amounted to euro 410 thousand (2015: euro 7 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 22,859 thousand) were measured at market value.

21) Intangible assets

Euro thousand	Software	Goodwill	Other	Total
Cost as at 1 Jan 2015	1,365	0	0	1,365
Changes in the scope of consolidation	28,797	3,570	9,297	40,664
Additions, including transfers	875	0	0	875
Disposals, including transfers	-5,916	0	0	-5,916
Cost as at 31 Dec 2015	25,122	3,570	9,297	37,988
Changes in the scope of consolidation	406	10,203	14,523	25,131
Additions, including transfers	891	0	0	891
Disposals, including transfers	0	0	0	0
Cost as at 31 Dec 2016	**26,418**	**13,772**	**23,820**	**64,010**

Euro thousand	Software	Goodwill	Other	Total
2015				
Cost as at 31 Dec 2015	25,122	3,570	9,297	37,988
Cumulative write-downs and write-ups	-20,622	0	-77	-20,699
Carrying amount as at 31 Dec 2015	**4,500**	**3,570**	**9,220**	**17,289**
of which unlimited useful life	0	3,570	0	3,570
of which limited useful life	4,500	0	9,220	13,719
Amortisation in fiscal year	-2,630	0	-77	-2,707
Impairments in fiscal year	0	0	0	0
Carrying amount as at 1 Jan 2015	10	0	0	10
2016				
Cost as at 31 Dec 2016	26,418	13,772	23,820	64,010
Cumulative write-downs and write-ups	-26,089	-5,510	-759	-32,358
Carrying amount as at 31 Dec 2016	**329**	**8,262**	**23,061**	**31,652**
of which unlimited useful life	0	8,262	0	8,262
of which limited useful life	329	0	23,061	23,390
Amortisation in fiscal year	-4,215	0	-681	-4,896
Impairments in fiscal year	0	-5,510	0	-5,510

Composition of goodwill

Euro thousand	Carrying amount 31 Dec 2016	Impairment 2016	Carrying amount 31 Dec 2015	Impairment 2015
Retail segment	8,262	-5,510	3,570	0
Total	**8,262**	**-5,510**	**3,570**	**0**

Goodwill for the 2016 business year in the retail segment relates to the goodwill from the acquisition of VB Ost in 2015 business year and from the acquisitions of VB Weinviertel, VB Südbgld and VB NÖ Süd in 2016 business year.

The goodwills are allocated to cash generating units (CGU). These CGU correspond to the segments under IFRS 8. The allocated goodwills were reviewed for recoverability in accordance with IAS 36. The review is performed based on the respective long-term planning annually in the fourth quarter. Additionally, a review is carried out if a triggering event occurs.

The review of goodwill in the retail segment was performed based on the 2017-2021 plan of the retail segment, which corresponds to the CGU allocated. This plan was based on empirical historical values and management's best estimates regarding future developments. In the following years, the continued existence of the CGU for an unlimited period of time (perpetuity) was assumed.

The value in use based on discounted cash flows is determined as the amount recoverable. The special characteristics of the banking business and any regulatory requirements are taken into account. The present value of expected future dividends that can be distributed to the shareholders after compliance with the relevant regulatory capital requirements represents the amount recoverable. The cash flows beyond the planning period are estimated by extrapolating a constant growth rate of 2.0 % for subsequent years. The amount depends on the expected long-term inflation rate. The discount rate used was 7.37 % and was determined in line with the capital asset pricing model. It is composed of a risk-free interest rate and risk premium. The risk premium is calculated as the product of market risk premium and beta coefficient. Both the risk-free interest rate and the market risk premium were derived from market data. The beta coefficient was determined on the basis of a comparable group of regional banks active in Western Europe.

The underlying planning is based on estimates regarding macroeconomic assumptions made by VBW´s research department for the following five years. These estimates are also compared with external sources of international organisations as well as of large banks which are active in the same economic area. Assumptions regarding growth and inflation rate, in particular, as well as interest rates and currencies are presented in the Asset-Liability Committee and also notified to the bodies of the bank.

In the Retail segment, a moderate demand for corporate loans and increasing growth in the sphere of private housing construction form the basis for the planning horizon. Both are adjusted to the expected demand for loans estimated by the research department and the growth targets of the bank in individual customer segments. Interest rate planning is based on the expectation of low rates for the coming years and an increase occurring only in the medium term due to expectations of increasing economic indicators and inflation rates. Regarding costs, continuous optimisations in the branch network coupled with an enhanced offer in the area of digitalisation is planned. Moreover, planned synergies from the mergers carried out in 2015 and 2016 are meant to be realised.

Due to the assumptions made in planning and the associated uncertainties, the following future circumstances may basically – but without limitation –influence the target values of the cash generating units negatively: A weakening of the macroeconomic environment and a resulting negative effect on the growth forecast, a reduced demand for loans and long-term low interest rates, as well as further pressure on interest margins due to competition.

The comparison of the ascertained value in use with the carrying amount required a write-down of euro 5,510 thousand, which is reported in the other operating result through profit or loss. The impairment was essentially required due to the change of the market interest rate and an adjustment of assumptions made for planning (in particular taking into account the lower interest rate level compared to the previous year, and higher costs due to regulatory requirements).

22) Tangible fixed assets

Euro thousand	Land and buildings	EDP-equipment	Office furniture and equipment	Other	Total
Cost as at 1 Jan 2015	62,686	2,304	24,260	4,872	94,121
Changes in the scope of consolidation	79,012	6,362	28,255	3,148	116,777
Additions, including transfers	21,547	196	2,247	0	23,991
Disposals, including transfers	-2,339	-2,565	-16,716	-8,020	-29,640
Cost as at 31 Dec 2015	160,906	6,298	38,045	0	205,249
Changes in the scope of consolidation	28,512	2,184	10,682	685	42,062
Additions, including transfers	2,527	238	2,331	2	5,099
Disposals, including transfers	-5,743	-1,356	-1,670	-687	-9,457
Cost as at 31 Dec 2016	**186,201**	**7,364**	**49,388**	**0**	**242,954**

Euro thousand	Land and buildings	EDP-equipment	Office furniture and equipment	Other	Total
2015					
Cost as at 31 Dec 2015	160,906	6,298	38,045	0	205,249
Cumulative write-downs and write-ups	-50,644	-5,888	-28,138	0	-84,670
Carrying amount as at 31 Dec 2015	**110,263**	**410**	**9,907**	**0**	**120,579**
Depreciation in fiscal year	-3,427	-466	-1,057	0	-4,950
Extraordinary revaluation in fiscal year	0	0	0	0	0
Carrying amount as at 1 Jan 2015	32,011	351	5,113	3,323	40,798
2016					
Cost as at 31 Dec 2016	186,201	7,364	49,388	0	242,954
Cumulative write-downs and write-ups	-65,300	-6,988	-41,814	0	-114,103
Carrying amount as at 31 Dec 2016	**120,901**	**376**	**7,574**	**0**	**128,851**
Depreciation in fiscal year	-3,952	-210	-2,749	3	-6,908
Extraordinary revaluation in fiscal year	0	0	-3,117	0	-3,117

23) Tax assets and liabilities

	31 Dec 2016		31 Dec 2015	
Euro thousand	**Tax assets**	**Tax liabilities**	**Tax assets**	**Tax liabilities**
Current tax	1,108	4,892	4,133	200
Deferred tax	47,429	1,077	30,994	7,731
Tax total	**48,538**	**5,968**	**35,126**	**7,932**

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.

Euro thousand	2016 Tax assets	2016 Tax liabilities	2015 Tax assets	2015 Tax liabilities	Net deviation 2016 Total	Net deviation 2016 In income statement	Net deviation 2016 In other comprehensive income
Loans and advances to credit institutions	0	1,913	0	5,192	3,279	3,279	0
Loans and advances to customers, including risk provisions	27,851	192	20,344	8,776	16,091	23,291	0
Trading assets	162	18	208	0	-64	-64	0
Financial investments	0	78,893	0	75,351	-3,542	-3,286	6
Investment property	0	1,864	0	1,871	7	19	0
Participations	4,608	0	5,092	6,992	6,508	3,161	1,285
Intangible and tangible fixed assets	1,005	9,766	270	6,255	-2,776	-6,534	0
Amounts owed to credit institutions	80	368	143	0	-431	-431	0
Amounts owed to customers	29	0	41	0	-11	65	0
Debts evidenced by certificates and subordinated liabilities	27,952	2,583	29,264	2	-3,893	-3,893	0
Trading liabilities	0	52	0	349	297	297	0
Provisions for pensions, severance payments and other provisions	8,665	4,742	6,662	2,669	-70	-1,762	988
Other assets and liabilities	92,095	29,835	87,179	31,880	6,961	6,730	0
Other balance sheet items	0	6,119	0	6,537	418	0	387
Tax loss carryforwards	20,249	0	19,933	0	315	-2,697	0
Deferred taxes before netting	182,697	136,344	169,137	145,874	23,091	18,176	2,665
Offset between deferred tax asset and deferred tax liabilities	-135,268	-135,268	-138,143	-138,143	0	0	0
Reported deferred taxes	**47,429**	**1,077**	**30,994**	**7,731**	**23,091**	**18,176**	**2,665**

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

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

For verification of the usability of tax loss carryforwards and the impairment of other deferred tax a period 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 303,992 thousand (2015: euro 360,324 thousand) no deferred taxes were recognised for. In the 2015 and 2016 business years, no deferred tax assets for tax loss carryforwards and other deferred tax assets (tax base) 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 tax loss carry-forwards, euro 303.992 thousand (2015: euro 360.324 thousand) can be carried forward without restriction and especially concern VBW itself.

24) Other assets

Euro thousand	31 Dec 2016	31 Dec 2015
Deferred items	1,152	1,211
Other receivables and assets	33,030	24,068
Positive fair value from derivatives in the investment book	103,352	100,186
Other assets	**137,534**	**125,466**

Other receivables and assets essentially consist of property sales in the amount of euro 12,518 thousand, other assets associated with the trust fund in the amount of euro 7,576 thousand, auxiliary accounts of the banking business in the amount of euro 3,207 thousand, and deferrals in the amount of euro 2,802 thousand.

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

Euro thousand	31 Dec 2016 Fair value hedge	31 Dec 2015 Fair value hedge
Interest rate related transactions	65,372	64,241
Positive fair value from derivatives	**65,372**	**64,241**

25) Amounts owed to credit institutions

Euro thousand	31 Dec 2016	31 Dec 2015
Central banks	139,855	78,054
Other credit institutions	3,198,193	3,993,244
Amounts owed to credit institutions	**3,338,048**	**4,071,299**

Amounts owed to credit institutions are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2016	31 Dec 2015
on demand	2,711,680	3,548,946
up to 3 months	220,956	267,207
up to 1 year	112,492	120,608
up to 5 years	111,246	94,354
more than 5 years	181,674	40,184
Amounts owed to credit institutions	**3,338,048**	**4,071,299**

The information about maturities of future cash flows are shown in note 33) Cash flows based on maturities.

26) Amounts owed to customers

Euro thousand	31 Dec 2016	31 Dec 2015
Measured at amortised cost	4,691,373	3,992,500
Saving deposits	2,019,400	1,622,678
Other deposits	2,671,974	2,369,822
Amounts owed to customers	**4,691,373**	**3,992,500**

Amounts owed to customers are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2016	31 Dec 2015
on demand	3,107,049	2,738,002
up to 3 months	83,195	309,702
up to 1 year	803,036	522,807
up to 5 years	375,009	380,594
more than 5 years	323,084	41,395
Amounts owed to customers	**4,691,373**	**3,992,500**

The information about maturities of future cash flows are shown in note 33) Cash flows based on maturities.

27) Debts evidenced by certificates

Euro thousand	31 Dec 2016	31 Dec 2015
Bonds	725,217	798,362
Debts evidenced by certificates	**725,217**	**798,362**

Debts evidenced by certificates are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2016	31 Dec 2015
up to 3 months	870	3,149
up to 1 year	13,560	35,706
up to 5 years	203,374	172,579
more than 5 years	507,412	586,929
Debts evidenced by certificates	**725,217**	**798,362**

The information about maturities of future cash flows are shown in note 33) Cash flows based on maturities.

28) Trading liabilities

Euro thousand	31 Dec 2016	31 Dec 2015
Negative fair values from derivatives		
Exchange rate related transactions	15,022	15,320
Interest rate related transactions	398,521	432,040
Trading liabilities	**413,543**	**447,361**

29) Provisions

Euro thousand	Provisions for risk	Other provisions	Total
As at 1 Jan 2015	1,057	6,998	8,055
Changes in the scope of consolidation	4,709	14,535	19,245
Reclassification	-137	558	421
Unwinding	5	0	5
Utilisation	-2	-1,873	-1,875
Release	-2,320	-880	-3,200
Addition	2,920	3,878	6,799
As at 31 Dec 2015	6,233	23,216	29,449
Change in the scope of consolidation	432	456	888
Reclassification	0	0	0
Unwinding	-19	0	-19
Utilisation	-1	-2,815	-2,817
Release	-3,289	-11,630	-14,919
Addition	1,945	9,164	11,108
As at 31 Dec 2016	**5,300**	**18,391**	**23,691**

Provisions for risk include provisions for off-balance transactions particularly for commitments and guarantees. Mainly these provisions are long-term provisions. The maturities of these provisions are included in note 42) Contingent liabilities and credit risks.

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 totalled euro 7,841 thousand (2015: euro 13,082 thousand) as at the reporting date. Other long-term provisions were recognised for pending litigation amounting to euro 3,826 thousand (2015: euro 5,478 thousand).

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

30) 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	6,664	14,782	2,128	23,575
Changes in the scope of consolidation	2,092	19,330	2,868	24,289
Current service costs	57	1,175	254	1,486
Interest costs	122	503	67	692
Payments	-643	-1,069	-213	-1,925
Actuarial gains or losses	238	-3,135	-426	-3,324
Net present value as of 31 Dec 2015	8,530	31,586	4,677	44,793
Changes in the scope of consolidation	3,373	6,655	878	10,906
Current service costs	45	1,654	338	2,037
Interest costs	145	708	106	958
Payments	-746	-2,851	-364	-3,962
Actuarial gains or losses	972	2,979	761	4,712
Net present value as of 31 Dec 2016	**12,318**	**40,731**	**6,396**	**59,445**

Net present value of plan assets

Euro thousand	Provisions for pensions
Net present value of plan assets as of 1 Jan 2015	0
Changes in the scope of consolidation	723
Return on plan assets	144
Contributions to plan assets	-19
Payments	15
Actuarial gains or losses	0
Net present value of plan assets as of 31 Dec 2015	862
Changes in the scope of consolidation	0
Return on plan assets	4
Contributions to plan assets	11
Payments	0
Actuarial gains or losses	0
Net present value of plan assets as of 31 Dec 2016	**877**

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

In the 2016 business year, contribution payments to plan assets are expected in the amount of euro 4 thousand (2015: euro 0 thousand).

Euro thousand	Provisions for pensions	Provisions for severance payments	Provisions for anniversary bonuses	Total
31 Dec 2015				
Long-term employee provisions	8,530	31,586	4,677	44,793
Net present value of plan assets	-862	0	0	-862
Net liability recognised in balance sheet	**7,668**	**31,586**	**4,677**	**43,931**
31 Dec 2016				
Long-term employee provisions	12,318	40,731	6,396	59,445
Net present value of plan assets	-877	0	0	-877
Net liability recognised in balance sheet	**11,441**	**40,731**	**6,396**	**58,569**

Historical Information

Euro thousand	2016	2015	2014	2013	2012
Net present value of obligation	59,445	44,793	23,575	20,408	9,162
Net present value of plan assets	877	862	0	0	0

Composition of plan assets

	31 Dec 2016			31 Dec 2015		
Euro thousand	Plan assets - quoted	Plan assets - non-quoted	Plan assets - total	Plan assets - quoted	Plan assets - non-quoted	Plan assets - total
Bond issues regional administration bodies	289	0	289	399	4	402
Bond issues credit institutions	81	0	81	76	4	80
Other bond issues	130	1	131	28	17	44
Shares european countries	105	0	105	119	0	119
Shares USA and Japan	96	0	96	65	0	65
Other shares	72	1	73	39	0	39
Derivatives	32	20	52	0	60	60
Real estate	0	20	20	0	19	19
Cash in hand	0	30	30	0	35	35
Total	**804**	**72**	**877**	**725**	**137**	**862**

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

Sensitivity analysis

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

	Change in the present value	
Euro thousand	increase of assumption	decrease of assumption
31 Dec 2015		
Discount rate (0.75 % modification)	-3,428	3,910
Future wage and salary increases (0.50 % modification)	2,318	-2,146
Future pension increase (0.25 % modification)	213	-204
Future mortality (1 year modification)	479	-465
31 Dec 2016		
Discount rate (0.75 % modification)	-4,786	4,496
Future wage and salary increases (0.50 % modification)	2,871	-2,659
Future pension increase (0.25 % modification)	303	-290
Future mortality (1 year modification)	730	-703

As of 31 December 2016, the weighted average term of defined-benefit obligations for pensions was 10.7 years (2015: 13.6 years) and for severance payment 11.9 years (2015: 11.8 years).

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

31) Other liabilities

Euro thousand	31 Dec 2016	31 Dec 2015
Deferred items	276	248
Other liabilities	83,030	41,477
Negative fair values from derivatives in the investment book	167,949	171,074
Other liabilities	**251,255**	**212,799**

Other liabilities essentially consist of deferrals in the amount of euro 34,938 thousand, taxes and fiscal liabilities in the amount of euro 23,386 thousand, as well as incoming invoices in the amount of euro 8,702 thousand.

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

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	25,239	25,543
Negative fair value from derivatives	**54,718**	**56,897**

32) Subordinated liabilities

Euro thousand	31 Dec 2016	31 Dec 2015
Subordinated liabilities	10,503	10,443
Supplementary capital	18,378	7,231
Subordinated liabilities	**28,881**	**17,674**

Breakdown by residual term

Euro thousand	31 Dec 2016	31 Dec 2015
up to 3 months	4,988	0
up to 5 years	19,484	13,265
more than 5 years	4,409	4,409
Subordinated liabilities	**28,881**	**17,674**

33) Cash flows based on maturities

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

Euro thousand	Amounts owed to credit institutions	Amounts owed to customers	Debts evidenced by certificates	Subordinated liabilities	Derivatives trading book	Derivatives investment book
31 Dec 2016						
Carrying amount	3,338,048	4,691,373	725,217	28,881	413,543	167,949
Undiscounted cash flows	**3,382,763**	**4,768,928**	**1,048,096**	**30,182**	**413,619**	**159,189**
up to 3 months	2,933,211	3,241,741	870	4,993	0	0
up to 1 year	115,262	812,738	40,285	345	2,305	22,237
up to 5 years	120,107	379,453	305,734	20,276	68,591	103,472
more than 5 years	214,183	334,996	701,207	4,569	342,723	33,481
31 Dec 2015						
Carrying amount	4,071,299	3,992,500	798,362	17,674	447,361	171,074
Undiscounted cash flows	**4,131,499**	**4,032,087**	**1,169,081**	**19,983**	**449,141**	**141,645**
up to 3 months	3,818,131	3,063,483	3,162	0	0	0
up to 1 year	124,244	536,296	63,449	494	2,708	1,202
up to 5 years	107,676	390,580	280,362	14,541	74,737	125,489
more than 5 years	81,448	41,728	822,109	4,948	371,696	14,954

Cash flows for contingent liabilities are displayed in note 42) Contingent liabilities and credit risks. In the column derivatives trading book only derivative instruments are included.

34) Equity

As at 31 December 2016, the subscribed capital of VBW before deduction of treasury stocks amounted to euro 126,938 thousand. It consists of registered shares as follows:

		Euro thousand
1,354,001	Non-par value shares	126,938

Volksbank Weinviertel e.Gen. transferred its company – the Weinviertel banking operations (VB Weinviertel) – as a contribution in kind for 51,731 new shares with a value of euro 4,850 thousand through a transfer and contribution in kind agreement of 18 May 2016. The transfer was entered in the Commercial Register on 19 July 2016.

Volksbank Südburgenland eG transferred its company – the Südburgenland banking operations (VB Südbgld) – as a contribution in kind for 57,032 new shares with a value of euro 5,347 thousand through a transfer and contribution in kind agreement of 7 September 2016. The transfer was entered in the Commercial Register on 3 November 2016.

Furthermore, Volksbank Niederösterreich Süd eG also transferred its company – the Niederösterreich Süd banking operations (VB NÖ Süd) – for 98,814 new shares with a value of euro 9,264 thousand through a transfer and contribution in kind agreement of 7 September 2016. The transfer was entered in the Commercial Register on 3 November 2016.

Changes in subscribed capital

Number of units	Shares	Participation certificates
Shares and participation certificates outstanding as of 1 Jan 2015	602,180	17,744
Capital Increase	378,035	0
Contribution CO business unit	23,400	-11,000
Contribution VB Ost	118,459	260
Contribution VB OWD	24,350	0
Shares and participation certificates outstanding as of 31 Dec 2015	**1,146,424**	**7,004**
Reclassification	0	-7,004
Contribution VB Weinviertel	51,731	0
Contribution VB Südbgld	57,032	0
Contribution VB NÖ Süd	98,814	0
Shares and participation certificates outstanding as of 31 Dec 2016	**1,354,001**	**0**

In the 2016 business year, the participation capital was reclassified to subordinated liabilities entirely. In 2015 business year, 7,004 of the participation certificates outstanding and of the total participation certificates had a nominal value of euro 1 thousand per participation certificate. The transfer of the CO business unit decreased the participation capital held in VBW by VBAG in the amount of euro 11 million.

Dividend payment including participation capital

Euro thousand	2016	2015
Dividend voting equity	0	6,515
Dividend non-voting equity	393	273
Total	**393**	**6,788**

The dividend payment includes the distribution to the federal government from the participation right in VB Rückzahlungsgesellschaft mbH (VB RZG) in the amount of euro 293 thousand. Due to the restructuring agreement 2015 between the Republic of Austria and VBW, a participation right was issued in VB RZG. This participation right is 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 on the participation right by VB RZG are at the discretion of VBW as the sole shareholder of VB RZG. There is no claim for profit shares.

A euro 12 million distribution on voting capital is planned for the 2017 business year.

Return on capital employed

The return on capital employed for the business year was 0.25 % (2015: 0.15 %) and was calculated as the ratio of the result after taxes to total assets as at the reporting date.

Non-controlling interest

Company name	Minority interest 2016	Minority interest 2015	Assignment
VB Services für Banken Ges.m.b.H.; Wien	1.11 %	1.11 %	Other companies
Verwaltungsgenossenschaft der IMMO-BANK eG; Wien	9.63 %	11.15 %	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 the companies in aggregated form as the latter are immaterial.

Additional information non-controlling interest

Euro thousand	Other companies 2016	Other companies 2015
Assets		
Loans and advances to credit institutions (gross)	42,480	20,822
Loans and advances to customers (gross)	4	15
Financial investments	682	680
Other assets	11,444	15,492
Total assets	**54,609**	**37,010**
Liabilities and Equity		
Amounts owed to credit institutions	0	4
Amounts owed to customers	0	7
Other liabilities	17,470	14,382
Equity	37,140	22,617
Total liabilities and equity	**54,609**	**37,010**
Statement of comprehensive income		
Interest and similar income	2,919	540
Income from investment property and operating leases	457	0
Net interest income	3,376	540
Risk provisions	-7	-1
Result before taxes	20,209	1,907
Income taxes	-3,705	-54
Result after taxes	16,504	1,853
Other comprehensive income	-307	3
Comprehensive income	**16,196**	**1,856**

35) Own funds

The own funds of the VBW credit institution group which were calculated pursuant to the Capital Requirement Regulations (CRR) can be broken down as follows:

Euro thousand	31 Dec 2016	31 Dec 2015
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	304,890	236,432
Retained earnings	103,223	81,575
Accumulated other comprehensive income (and other reserves)	70,571	68,421
Amount of capital instruments subject to phase out from CET1	9,907	4,903
Non-controlling interest	1,584	1,591
Common tier I capital before regulatory adjustments	490,175	392,922
Common tier I capital: regulatory adjustments		
Regulatory value adjustments	0	0
Goodwill (net of related tax liability)	-8,262	-3,570
Intangible assets (net of related tax liability)	-23,390	-13,719
Value adjustments due to the requirement for prudent valuation	-2,465	-2,603
Deferred tax assets arising from temporary differences (amount above 10 % threshold, net of related tax liability)	-747	0
Regulatory adjustments - transitional provisions	5,975	1,254
Unrealised gains (40 %; 2015: 60 %)	-6,810	-9,119
Intangible assets (40 %; 2015: 60 %)	12,661	10,373
CET1 instruments of financial sector entities	124	0
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	-12,723	-10,373
Total regulatory adjustments	-41,613	-29,011
Common equity tier I capital - CET1	**448,562**	**363,911**
Additional tier I capital: instruments		
Capital instruments including share premium accounts, allowable as additional tier I capital	0	0
Additional tier I capital before regulatory adjustments	0	0
Additional tier I capital: regulatory adjustments		
Regulatory adjustments - transitional provisions	-12,723	-10,373
Intangible assets (40 %; 2015: 60 %)	-12,661	-10,373
CET1 instruments of financial sector entities	-62	0
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	12,723	10,373
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**0**	**0**
Tier I capital – T1 (CET1 + AT1)	**448,562**	**363,911**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts, allowable as additional tier II capital	5,734	9,509
Capital instruments subject to phase out from tier II	1,620	2,600
Tier II capital before regulatory adjustments	7,354	12,109
Tier II capital: regulatory adjustments		
T2 instruments of financial sector entities where the institution has a significant investment	-200	-1,700
Regulatory adjustments - transitional provisions	-62	0
CET1 instruments of financial sector entities	-62	0
Total regulatory adjustments	-262	-1,700
Tier II capital - T2	**7,092**	**10,409**
Total own funds – TC (T1 + T2)	**455,654**	**374,319**

Common equity tier I capital ratio (tier 1)	13.88 %	12.38 %
Tier I capital ratio	13.88 %	12.38 %
Equity ratio	14.10 %	12.74 %

each in relation to total risk exposure amount

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

Euro thousand	31 Dec 2016	31 Dec 2015
Risk weighted exposure amount - credit risk	2,432,708	2,083,509
Total risk exposure amount for position, foreign exchange and commodities risks	153,424	188,413
Total risk exposure amount for operational risks	586,132	576,920
Total risk exposure amount for credit valuation adjustment (cva)	60,451	90,030
Total risk exposure amount	**3,232,716**	**2,938,872**

Group issues which are included in Tier I or Tier II

31 Dec 2016 Name	Identification IFRS	Redemption date	Conditions	Nominal value in euro thousand
CET1				
Participation certificate 2006	equity	perpetual	Average 3m Euribor + 130 bp	9,907
Tier II issues				
Subordinated 02/17	subordinated liabilities	27 Feb 2017	12m Euribor + 50 bp, max. 6.00 % p.a.	4,988
Subordinated 08/18	subordinated liabilities	25 Aug 2018	3m Euribor + 25 bp, max. 6.00 % p.a.	4,915
Subordinated 12/22	subordinated liabilities	01 Dec 2022	3.50 % p. a.	600
Supplementary capital 12/22	subordinated liabilities	01 Dec 2022	12m Euribor + 62.5 bp, max. 7.00 % p.a., at least 4.00 % p.a.	3,809
Supplementary capital 06/18	subordinated liabilities	16 Jun 2018	3m Euribor + 50 bp, not negative	2,630
Supplementary capital 07/19	subordinated liabilities	16 Jul 2019	Average 3m Euribor + 35 bp, not negative	792

31 Dec 2015 Name	Identification IFRS	Redemption date	Conditions	Nominal value in euro thousand
CET1				
Participation certificate 2006	equity	perpetual	Average 3m Euribor + 130 bp	7,004
Tier II issues				
Subordinated 02/17	subordinated liabilities	27 Feb 2017	12m Euribor + 50 bp, max. 6.00 % p.a.	4,938
Subordinated 08/18	subordinated liabilities	25 Aug 2018	3m Euribor + 25 bp, max. 6.00 % p.a.	4,905
Subordinated 12/22	subordinated liabilities	01 Dec 2022	3.50 % p. a.	600
Supplementary capital 12/22	subordinated liabilities	01 Dec 2022	12m Euribor + 62.5 bp, max. 7.00 % p.a., at least 4.00 % p.a.	3,809
Supplementary capital 06/18	subordinated liabilities	16 Jun 2018	3m Euribor + 50 bp, not negative	2,630
Supplementary capital 07/19	subordinated liabilities	16 Jul 2019	Average 3m Euribor + 35 bp, not negative	792

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

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

In 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	1,119,252	1,119,252	1,119,252
Loans and advances to credit institutions	0	0	0	0	2,196,042	2,196,042	
Loans to credit institutions less individual impairments	0	0	0	0	2,196,042	2,196,042	2,197,326
Loans and advances to customers	0	0	0	0	4,351,134	4,351,134	
Individual impairments to customers	0	0	0	0	-55,156	-55,156	
Loans to customers less individual impairments	0	0	0	0	4,295,978	4,295,978	4,208,101
Trading assets	137,550	0	0	0	0	137,550	137,550
Financial investments	0	0	261,339	1,594,123	0	1,855,462	1,854,283
Participations	0	0	0	15,781	0	15,781	15,781
Derivatives - investment book	103,352	0	0	0	0	103,352	103,352
Financial assets total	**240,903**	**0**	**261,339**	**1,609,904**	**7,611,272**	**9,723,418**	**9,635,646**
Amounts owed to credit institutions	0	0	0	0	3,338,048	3,338,048	3,332,836
Amounts owed to customers	0	0	0	0	4,691,373	4,691,373	4,684,806
Debts evidenced by certificates	0	0	0	0	725,217	725,217	733,260
Trading liabilities	413,543	0	0	0	0	413,543	413,543
Derivatives - investment book	167,949	0	0	0	0	167,949	167,949
Subordinated liabilities	0	0	0	0	28,881	28,881	26,727
Financial liabilities total	**581,491**	**0**	**0**	**0**	**8,783,520**	**9,365,011**	**9,359,121**

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	1,280,269	1,280,269	1,280,269
Loans and advances to credit institutions	0	0	0	0	2,794,241	2,794,241	
Loans to credit institutions less individual impairments	0	0	0	0	2,794,241	2,794,241	2,794,594
Loans and advances to customers	0	0	0	0	3,722,212	3,722,212	
Individual impairments to customers	0	0	0	0	-61,954	-61,954	
Loans to customers less individual impairments	0	0	0	0	3,660,259	3,660,259	3,515,807
Trading assets	172,286	0	0	0	0	172,286	172,286
Financial investments	0	0	79,518	1,637,976	414	1,717,908	1,718,505
Participations	0	0	0	31,691	0	31,691	31,691
Derivatives - investment book	100,186	0	0	0	0	100,186	100,186
Financial assets total	**272,472**	**0**	**79,518**	**1,669,667**	**7,735,183**	**9,756,840**	**9,613,338**
Amounts owed to credit institutions	0	0	0	0	4,071,299	4,071,299	4,077,102
Amounts owed to customers	0	0	0	0	3,992,500	3,992,500	3,981,281
Debts evidenced by certificates	0	0	0	0	798,362	798,362	805,277
Trading liabilities	447,361	0	0	0	0	447,361	447,361
Derivatives - investment book	171,074	0	0	0	0	171,074	171,074
Subordinated liabilities	0	0	0	0	17,674	17,674	14,284
Financial liabilities total	**618,434**	**0**	**0**	**0**	**8,879,835**	**9,498,269**	**9,496,378**

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 4,674 thousand (2015: euro 31,733 thousand) and participations in the amount of euro 11,267 thousand (2015: euro 8,832 thousand) are measured at cost as their fair value cannot be reliably determined. Instruments measured at cost with a carrying amount of euro 153 thousand (2015: euro 290 thousand) were sold in the 2016 business year. A result of euro 410 thousand (2015: euro 7 thousand) was realised. The fair value cannot reliably be determined as there is no active market for these securities and it is not possible to make a reasonable assessment of the probabilities of different fair value estimates. This mainly involves assets that were issued in the sector.

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

Carrying amounts of underlyings of fair value hedges

	Interest rate risk		Foreign currency risk	
Euro thousand	**Available for sale**	**Amortised costs**	**Available for sale**	**Amortised costs**
31 Dec 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	630,420	0	0
Financial liabilities	**0**	**647,740**	**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	661,148	0	0
Financial liabilities	**0**	**678,534**	**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	125,784	0	137,550
Financial investments	1,498,969	61,096	29,384	1,589,449
available for sale	1,498,969	61,096	29,384	1,589,449
Participations	0	0	4,514	4,514
Derivatives - investment book	0	103,352	0	103,352
Total	**1,510,735**	**290,233**	**33,898**	**1,834,866**
Trading liabilities	0	413,543	0	413,543
Derivatives - investment book	0	167,949	0	167,949
Total	**0**	**581,491**	**0**	**581,491**
31 Dec 2015				
Trading assets	0	172,286	0	172,286
Financial investments	1,508,739	97,503	0	1,606,242
available for sale	1,508,739	97,503	0	1,606,242
Participations	0	17,331	5,528	22,859
Derivatives - investment book	0	100,186	0	100,186
Total	**1,508,739**	**387,306**	**5,528**	**1,901,573**
Trading liabilities	0	447,361	0	447,361
Derivatives - investment book	0	171,074	0	171,074
Total	**0**	**618,435**	**0**	**618,435**

Available for sale financial investments totalling euro 4,674 thousand (2015: euro 31,733 thousand) and participations totalling euro 11,267 thousand (2015: euro 8,832 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, VBW only uses prices based on observable market data. If systems deliver price information for inactive traded positions, this is checked based on secondary market data such as transactions in comparable products performed on active markets. The system prices are then adjusted accordingly if necessary. The main level 2 input factors are interest rates including associated interest rate volatilities, foreign exchange swap points, exchange rates, share prices, index rates, including related volatilities and credit spreads obtained from brokers on a daily basis. Market valuation adjustments are made through linear interpolations of the directly obtained broker data. The input factors used undergo daily quality assurance and are archived in the valuation system.

In 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. 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 market trading activity.

Development of Level 3 fair values of financial assets

Euro thousand	Participations	Available for sale	Total
As at 1 Jan 2015	0	5,080	5,080
Changes in the scope of consolidation	6,636	0	6,636
Additions	0	25,633	25,633
Valuation			
through profit and loss	0	-3,594	-3,594
through other comprehensive income	-1,108	-17	-1,125
As at 31 Dec 2015	5,528	27,101	32,629
Changes in the scope of consolidation	0	0	0
Additions	0	2,180	2,180
Valuation			
through profit and loss	0	96	96
through other comprehensive income	-1,014	6	-1,008
As at 31 Dec 2016	**4,514**	**29,384**	**33,898**

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 íncome). The valuations recorded in the income statement include holdings of financial assets to the amount of euro 96 thousand (2015: euro 0 thousand) at the reporting date.

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 29,384 thousand. They are not traded on any active market and only allow for alternative measurement by means of unobservable input parameters. In the course of back-testing of the input factors by VBW, it was found that these participation certificates were previously reported as Level 2 securities. Therefore in the 2016 consolidated financial statements the figure reported in the previous year is adjusted according to IAS 8.

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

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.

The valuation of these financial instruments was performed by the treasury function 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 of VBW.

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	1,752	-1,668
Change in markup +/- 100 bp	466	-459
Change in redemption value - 5 %	0	-1,455

The uncertainty regarding the time of redemption is calculated with parameter changes of +/- one year, resulting in a negative effect of euro 1,668 thousand in case of a maturity extension and a positive effect of euro 1,752 thousand in case of a maturity reduction. This adjustment is considered a reasonable possible alternative by the management of VBW, 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 of VBW.

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 459 thousand, and a reduction of the markup on the base rate would result in an increase of the fair value by euro 466 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 1,455 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.

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

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

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

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

Euro thousand	Level 1	Level 2	Level 3	Fair value total	Carrying amount
31 Dec 2016					
Liquid Funds	0	1,119,252	0	1,119,252	1,119,252
Loans and advances to credit institutions (gross)	0	0	0	0	2,196,042
Loans to credit institutions less individual impairments	0	0	2,197,326	2,197,326	2,196,042
Loans and advances to customers (gross)	0	0	0	0	4,351,134
Individual impairment to customers	0	0	0	0	-55,156
Loans to customers less individual impairments	0	0	4,208,101	4,208,101	4,295,978
Debt investments loans & receivables	0	0	0	0	0
Debt investments held to maturity	260,160	0	0	260,160	261,339
Financial investments	260,160	0	0	260,160	261,339
Financial assets total	**260,160**	**1,119,252**	**6,405,426**	**7,784,839**	**7,872,611**
Amounts owed to credit institutions	0	0	3,332,836	3,332,836	3,338,048
Amounts owed to customers	0	0	4,684,806	4,684,806	4,691,373
Debts evidenced by certificates	0	0	733,260	733,260	725,217
Subordinated liabilities	0	0	26,727	26,727	28,881
Financial liabilities total	**0**	**0**	**8,777,629**	**8,777,629**	**8,783,520**

Euro thousand	Level 1	Level 2	Level 3	Fair value total	Carrying amount
31 Dec 2015					
Liquid Funds	0	1,280,269	0	1,280,269	1,280,269
Loans and advances to credit institutions (gross)	0	0	0	0	2,794,241
Loans to credit institutions less individual impairments	0	0	2,794,594	2,794,594	2,794,241
Loans and advances to customers (gross)	0	0	0	0	3,722,212
Individual impairment to customers	0	0	0	0	-61,954
Loans to customers less individual impairments	0	0	3,515,807	3,515,807	3,660,259
Debt investments loans & receivables	0	414	0	414	414
Debt investments held to maturity	80,115	0	0	80,115	79,518
Financial investments	80,115	414	0	80,529	79,932
Financial assets total	**80,115**	**1,280,683**	**6,310,401**	**7,671,199**	**7,814,701**
Amounts owed to credit institutions	0	0	4,077,102	4,077,102	4,071,299
Amounts owed to customers	0	0	3,981,281	3,981,281	3,992,500
Debts evidenced by certificates	0	0	805,277	805,277	798,362
Subordinated liabilities	0	0	14,284	14,284	17,674
Financial liabilities total	**0**	**0**	**8,877,944**	**8,877,944**	**8,879,835**

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

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

Fair value hierarchy

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

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

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

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

37) Derivatives

Derivative financial instruments

2016 Euro thousand	Face value up to 1 year	1 to 5 years	more than 5 years	Total	Fair value 31 Dec 2016
Interest related transactions	991,520	2,624,021	3,278,787	6,894,328	-244,002
Caps & Floors	91,679	553,261	390,528	1,035,467	-615
Futures - interest related	524,000	427,000	0	951,000	0
Interest rate swaps	375,841	1,643,760	2,888,259	4,907,861	-243,387
Swaptions	0	0	0	0	0
Currency related transactions	1,339,113	1,062,646	266,704	2,668,463	-122,030
Cross currency swaps	530,787	1,055,474	266,704	1,852,965	-122,030
FX Swaps	777,195	5,754	0	782,948	0
Forward exchange transactions	31,132	1,418	0	32,550	0
Credit related transactions	0	0	0	0	0
Other transactions	19,315	16,143	384,765	420,223	1,282
Options	19,315	16,143	384,765	420,223	1,282
Total	**2,349,949**	**3,702,810**	**3,930,255**	**9,983,014**	**-364,750**

2015 Euro thousand	Face value up to 1 year	1 to 5 years	more than 5 years	Total	Fair value 31 Dec 2015
Interest related transactions	523,623	1,424,551	2,994,639	4,942,813	-228,053
Caps & Floors	355,953	431,400	592,735	1,380,088	-644
Futures - interest related	0	0	0	0	0
Interest rate swaps	157,669	932,251	2,381,904	3,471,825	-222,909
Swaptions	10,000	60,900	20,000	90,900	-4,500
Currency related transactions	1,372,766	1,727,545	236,599	3,336,911	-128,879
Cross currency swaps	367,397	1,720,046	236,599	2,324,042	-128,879
FX Swaps	965,422	5,571	0	970,992	0
Forward exchange transactions	39,947	1,929	0	41,876	0
Credit related transactions	20,000	9,185	0	29,185	48
Other transactions	18,463	19,607	472,412	510,483	3,443
Options	18,463	19,607	472,412	510,483	3,443
Total	**1,934,852**	**3,180,889**	**3,703,651**	**8,819,391**	**-353,442**

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 1,211,999 thousand (2015: euro 1,590,738 thousand), whereas liabilities denominated in foreign currencies stood at euro 200,344 thousand (2015: euro 235,296 thousand).

39) Trust transactions

Euro thousand	31 Dec 2016	31 Dec 2015
Assets from trust transactions		
Loans and advances to credit institutions	36,800	0
Loans and advances to customers	113,140	108,777
Liabilities arising from trust transactions		
Amounts owed to credit institutions	36,800	0
Amounts owed to customers	113,140	108,777

40) Subordinated assets

Euro thousand	31 Dec 2016	31 Dec 2015
Loans and advances to customers	0	791
Financial investments	4,138	0

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 credit institutions	0	12,380
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	93,359
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.

VBW provided collateral of euro 0 million (2015: euro 12 million) for IMMO-Bank loans to subsidiaries included in the consolidated financial statements.

Loans and advances to customers of euro 212 million were provided as collateral for OeNB refinancing of VBW 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	389,321	418,216
Others (amount guaranteed)	23,883	60,147
Commitments		
Unutilised loan commitments	4,283,838	4,759,462

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

Euro thousand	Loan commitments	Guarantees as contracted	Guarantees expected
31 Dec 2016			
Carrying amount	4,283,838	389,321	0
Undiscounted cash flows	**4,283,838**	**389,321**	**4,081**
up to 3 months	4,283,838	389,321	408
up to 1 year	0	0	1,632
up to 5 years	0	0	2,040
31 Dec 2015			
Carrying amount	4,759,462	418,216	0
Undiscounted cash flows	**4,759,462**	**451,047**	**6,233**
up to 3 months	4,759,462	451,047	623
up to 1 year	0	0	2,493
up to 5 years	0	0	3,116

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

If the management estimates a cash out flow for financial guarantees, a provision was built for off-balance risks to the amount of the probable cash out flow under consideration of possible available collaterals. Therefore the provision amounts to euro 4,081 thousand (2015: euro 6,233 thousand).

43) Repurchase transactions and other transferred assets

As at 31 December 2016, VBW as pledgor had buy-back commitments under genuine repurchase agreements to euro 103,210 thousand (2015: euro 0 thousand).

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 credit institutions	0	0	72	0
Loans and advances to customers	169	44,001	4,529	0
Risk provisions (-)	0	-75	-24	0
Debt securities	0	0	202	833,288
Amounts owed to credit institutions	0	0	199,971	0
Amounts owed to customers	1,930	4,284	85,448	0
Provisions	0	10	53	0
Transactions	2,636	105,752	627,027	0
31 Dec 2015				
Loans and advances to credit institutions	0	0	300,610	0
Loans and advances to customers	440	9,863	0	0
Risk provisions (-)	0	0	0	0
Debt securities	0	0	6,775	765,655
Amounts owed to credit institutions	0	109,055	333,452	0
Amounts owed to customers	2,387	13,957	0	0
Provisions	0	0	0	0
Transactions	4,054	188,229	450,105	0

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

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

The shareholder Republic of Austria exercises a significant influence on the VBW Group.

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

Euro thousand	31 Dec 2016	31 Dec 2015
Outstanding loans and advances	310	5
Redemptions	31	27
Interest payments	0	0

At the VBW Group, the Management Board members as well as members of the supervisory board of the parent company are classified as management members in key positions. The presentation of the remuneration of key personel is included in note 8) General administrative expenses. No further contracts were closed with members in key positions.

As at 31 December 2016 loans and advances to credit institutions/customers contained transactions with the Volksbank-Sector amounting to euro 1,672,169 thousand (2015: euro 2,307,310 thousand) and amounts owed to credit institutions/customers included transactions with the Volksbank-Sector amounting to euro 3,010,615 thousand (2015: euro 3,742,698 thousand).

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 all outstanding covered bonds.

46) Branches

	31 Dec 2016	31 Dec 2015
Domestic	78	64
Foreign	0	0
Total number of branches	**78**	**64**

47) Events after the balance sheet date

On 17 February 2017, the Managment 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 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.

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-. Accordingly, 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.

The liabilities assumed by VBW through the spin-off from immigon portfolioabbau ag (immigon) - resulting from taking over the CO operations from former ÖVAG - are settled for the most part since immigon has repurchased the bonded loans which were granted by former ÖVAG.

48) Segment reporting

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

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

Retail

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

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

CO

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

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

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

Consolidation

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

Segment reporting by business segments

1-12/2016 Euro thousand	Retail	CO	Consolidation	Total
Net interest income	73,116	31,251	-4,687	99,681
Risk provisions	-23,531	9,886	0	-13,645
Net fee and comission income	42,822	-2,203	501	41,120
Net trading income	463	4,570	-137	4,896
General administrative expenses	-98,341	-109,223	33,169	-174,394
Restructuring cost	-3,994	7,054	0	3,060
Other operating result	-2,507	72,003	-30,500	38,997
Of which impairment of goodwill	*-5,510*	*0*	*0*	*-5,510*
Income from financial investments	702	1,038	0	1,740
Income from companies measured at equity	7,420	2,831	0	10,252
Annual result before taxes	**-3,850**	**17,208**	**-1,653**	**11,705**
Income taxes	2,076	11,242	0	13,319
Annual result after taxes	**-1,774**	**28,450**	**-1,653**	**25,024**
31 Dec 2016				
Total assets	**4,713,257**	**6,189,832**	**-895,397**	**10,007,692**
Loans and advances to customers	3,872,835	534,538	-56,239	4,351,134
Companies measured at equity	20,720	1,325	0	22,046
Amounts owed to customers	4,044,482	703,969	-57,078	4,691,373
Debts evidenced by certificates, including subordinated liabilities	25,250	728,849	0	754,099

1-12/2015 Euro thousand	Retail	CO	Consolidation	Total
Net interest income	60,423	11,111	-1,472	70,062
Risk provisions	14,942	-1,183	0	13,758
Net fee and comission income	32,160	-2,148	48	30,060
Net trading income	922	6,258	-100	7,080
General administrative expenses	-82,521	-57,000	18,004	-121,516
Restructuring cost	0	-321	0	-321
Other operating result	-17,102	34,900	-16,481	1,317
Of which impairment of goodwill	*0*	*0*	*0*	*0*
Income from financial investments	9,770	-1,260	0	8,510
Income from companies measured at equity	0	-6,531	0	-6,531
Annual result before taxes	**18,594**	**-16,173**	**0**	**2,420**
Income taxes	10,438	2,191	0	12,629
Annual result after taxes	**29,031**	**-13,983**	**0**	**15,049**
31 Dec 2015				
Total assets	**3,643,487**	**7,187,291**	**-827,039**	**10,003,739**
Loans and advances to customers	3,025,194	697,018	0	3,722,212
Companies measured at equity	0	19,601	0	19,601
Amounts owed to customers	3,255,742	736,758	0	3,992,500
Debts evidenced by certificates, including subordinated liabilities	25,391	790,645	0	816,036

49) Risk report

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

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

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

In its role as the 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) Austrian Banking Act). The necessary instruction rights are implemented based on the General Instructions.

Current developments

VBW has acted as CO since 4 July 2015 and is responsible for ensuring the Association of Volksbanks complies with regulatory requirements. Risk management and control particularly entails implementation and support of processes and methods, 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 SREP of the ECB. By ECB resolution of 25 November 2016, the result of the Supervisory Review and Evaluation Process (SREP) was transmitted to VBW with effect on 31 December 2015. According to the so-called “SREP resolution” VBW as the 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 is 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 Art. 113 (1) CRR with respect to risk positions (assets and off-balance sheet items to be covered 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 Art. 113 (6) CRR, unless they are items of CET 1 capital, additional core capital or supplementary capital. The approval (limited in time until 31 December 2017) was granted with respect to those counterparties (members of the Association of Volksbanks) with respect to which mergers have yet to be carried out to create the intended target structure in 2017.

Principles of risk policy

The risk policy principles of VBW encompass the standards applicable in 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 and throughout the Group 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.

Risik management structure

VBW has implemented all organisational precautions necessary to meet the requirements of a modern risk management system as formulated, for example, in the minimum standards for lending business and in the credit institutions-risk management regulation. There is clear separation between trading and back office. Risk assessment, measurement and control follow the 4-eyes 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 the different divisions with equity. 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 also within the VBW Group, in order to define risk appetite and/or the level of risk tolerance that the Group 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 bank due the high input required in the form of staff as well as project and IT costs, on the one hand, and due to 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 at VBW.

Pillar 1: minimum capital requirements

The implementation of Pillar 1 at VBW as the CO of the Association of Volksbanks is aimed at meeting minimum regulatory requirements. With respect to both credit risk and market risk, and for 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, VBW 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 banks (EU regulation No. 575 / 2013 Part VIII disclosure), on the Bank's website under Volksbank Wien / Offenlegung Volksbank Wien AG.

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 Group and 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.

For the purpose of performing its steering function, the CO has issued General Instructions for the 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 of Volksbanks. The objective of the General Instructions 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 Instructions 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 Instructions apply 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 Instructions are applied in their respective companies on both a formal and a de facto basis. Any deviations and special regulations concerning the General Instructions shall only be permissible in exceptional cases and must be coordinated with VBW as the CO in advance.

a) Internal capital adequacy process – ICAAP and stress testing

The 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 has set up an internal capital adequacy assessment process (ICAAP) as a revolving control cycle, in line with international best practice.

The ICAAP starts by identifying the key risks of VBW, undergoes a risk quantification and aggregation process, determination of risk-bearing ability, 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 sustainability account, annually for risk inventory and determination of the risk strategy). All activities described within the cycle are reviewed for up-to-dateness and adequacy at least annually and adjusted to the respective current general conditions if necessary; they are approved by the Managing Board of the CO.

Risk strategy

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

Based on the Association of Volksbanks's risk strategy, VBW defines its own risk strategy adjusted to the specific business model. The risk strategy is reviewed for up-to-dateness and adequacy at least annually and adjusted to the respective current general conditions if necessary.

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 in implementing key strategic goals, 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 Act on the Reorganisation and Liquidation of Banks (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; in this context, 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 VBW is ready to accept to achieve its strategic targets. The RAS indicators are provided with a target, a trigger and a limit value and are monitored on a current basis, as are the aggregate bank and partial risk limits. In this way, it can be ensured that deviations from the risk strategy are identified quickly and that counter-measures can 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 risk inventory are summarised and analysed for the Group. The results of the risk inventory process are taken into account in the risk strategy and form a starting point for the risk sustainability account, as significant types of risk must be taken into account within the risk sustainability account.

Stress testing

VBW performs internal stress tests and additional regulatory stress tests in six-month intervals. Internal stress testing consists of scenario analyses, sensitivity analyses and the reverse stress test. Through integration of all significant risks, internal stress testing allows for identification of dangers specific to the respective credit institution. Beyond that, 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. In doing so, 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 sustainability account, the various effects of the crisis scenarios on risk-bearing ability are summarised and analysed.

Risk-sustainability account

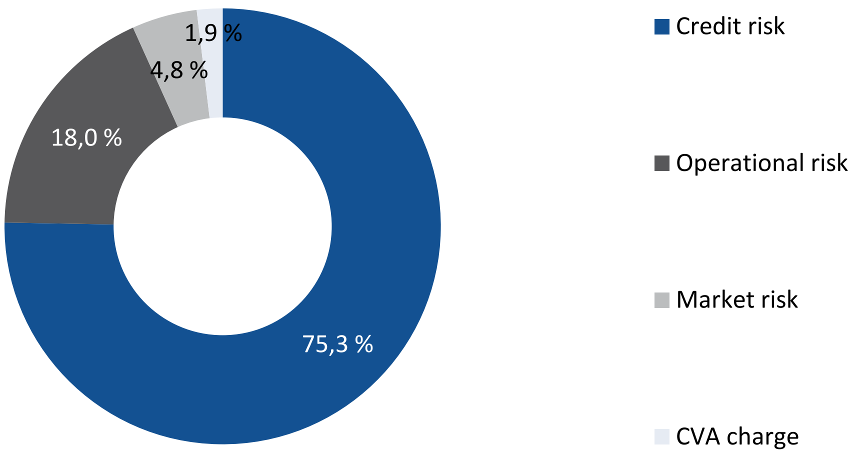
The basis for the quantitative implementation of the ICAAP is the risk sustainability account. It demonstrates that adequate risk-covering capital is in place at all times to provide sufficient cover for risks that have been entered into and which also ensures such cover is available for the future.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

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

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

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

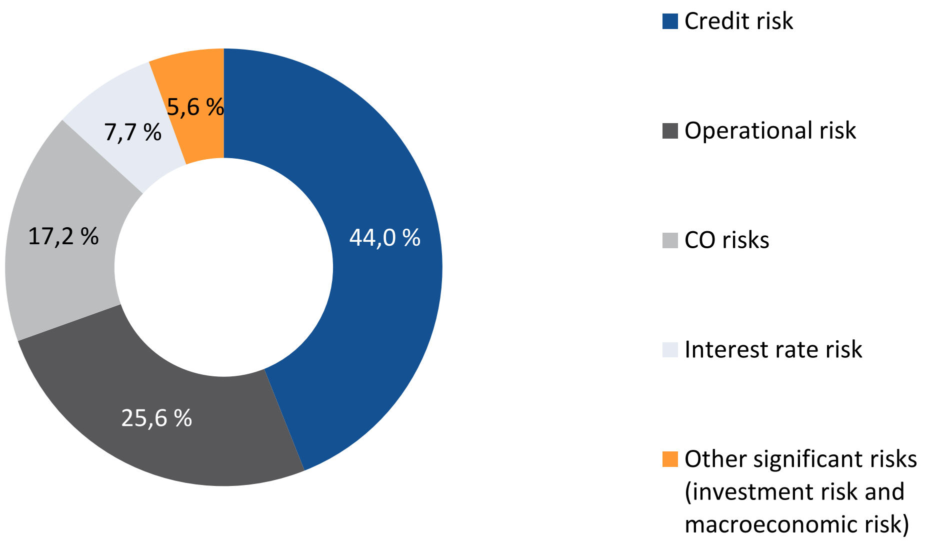
As at 31 December 2016, the regulatory total risk position for the VBW is composed as follows:



The composition of the regulatory total risk position of VBW 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 mergers implemented. In the process, the proportion of the credit risk and operational risk exposures has increased, while the proportion of market risk and CVA charge has reduced.

In the economic liquidation view, the focus is on meeting creditors' claims in the event of liquidation. In this view, the risk-covering capital is defined on the basis of the internal capital. This is based on the regulatory definition, but also includes further components such as 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 the analysis of all quantifiable risks regarded as significant in the context of the risk inventory. A confidence level of 99.9 %, derived from the bank's target rating and a holding period of one year are used to quantify risk in the liquidation view.

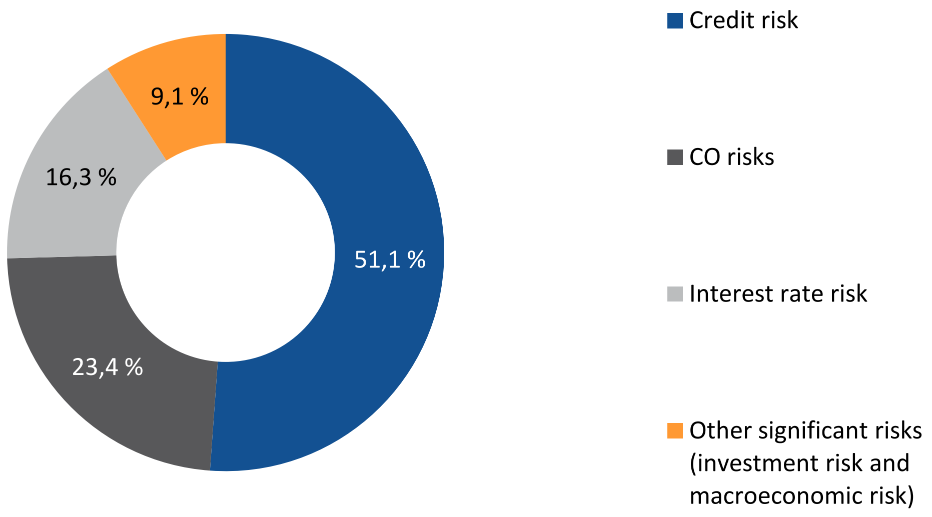
As at 31 December 2016, the total risk position for the VBW in the economic liquidation view was composed as follows:



As compared to the regulatory perspective, the distribution of the total risk positions under the economic liquidation perspective of VBW 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 CO risks, operational risk and interest rate risk exposures. As compared to the previous year, due to the mergers 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 CO risks. The CO risks mainly consist of credit spread risk and credit risk and are distributed among all credit institutions attributed to the Association of Volksbanks. As at 31 December 2016, VBW assumes a share of 17.32 % of CO risks.

The going-concern view seeks to ensure the continuation of normal business operations. It is based on risk coverage through short-term liquid funds in day-to-day business. Minor risks which occur with a certain probability can be covered 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 VBW in the going concern view was composed as follows:



As compared to the economic liquidation perspective, the distribution of the total risk position of VBW 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 credit risk and CO risks positions. As compared to the previous year, the composition of the aggregate risk position has changed, with the highest increases occurring in the credit risk position. The interest rate risk and CO risk positions recorded the largest relative reductions.

Reorganisation and liquidation planning

As VBW is part of the Association of Volksbanks, which was classified as a system-relevant credit institution, VBW has worked out a reorganisation plan and submitted the same to the relevant regulatory authorities (e.g. 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 VBW units 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. For transactions involving large volumes, processes have been set up that ensure the involvement of operational risk management and the 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 VBW made a strong effort to ensuring that all rating systems used in the Group 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. In future, 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 VBW 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 preventing 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 VBW 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.

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							
VBW	122,499	2,196,042	1,741,738	701,031	1,693,511	92,355	6,547,176
Total	**122,499**	**2,196,042**	**1,741,738**	**701,031**	**1,693,511**	**92,355**	**6,547,176**
31 Dec 2015							
VBW	101,796	2,707,011	1,785,505	589,971	1,269,273	62,898	6,516,454
Total	**101,796**	**2,707,011**	**1,785,505**	**589,971**	**1,269,273**	**62,898**	**6,516,454**

Geographic distribution of the credit portfolio

The distribution of the receivables portfolio across the main regions used within the Group 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 significantly 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 countries.

Euro thousand	Austria	EEA incl. Switzerland	EU Central- and Eastern Europe	Non EU Europe	USA and Canada	Others	Total
31 Dec 2016							
VBW	5,839,482	619,935	26,677	614	5,041	55,428	6,547,176
Total	**5,839,482**	**619,935**	**26,677**	**614**	**5,041**	**55,428**	**6,547,176**
31 Dec 2015							
VBW	5,881,252	503,812	31,262	1,118	40,172	58,838	6,516,454
Total	**5,881,252**	**503,812**	**31,262**	**1,118**	**40,172**	**58,838**	**6,516,454**

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	5,375,068	82.10 %	4,969,281	76.26 %
CHF	1,096,598	16.75 %	1,421,327	21.81 %
USD	7,445	0.11 %	43,416	0.67 %
GBP	611	0.01 %	800	0.01 %
Others	67,455	1.03 %	81,630	1.25 %
Total	**6,547,176**	**100.00 %**	**6,516,454**	**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.

Euro thousand	Loans and receivables to credit institutions and customers 31 Dec 2016	31 Dec 2015
Gross carrying amount	6,547,176	6,516,454
Risk provision	69,099	68,782
Net carrying amount	**6,478,077**	**6,447,672**
Receivables impaired		
Risk category 1 (1A - 1E)	0	0
Risk category 2 (2A - 2E)	0	0
Risk category 3 (3A - 3E)	0	52
Risk category 4 (4A - 4E)	5	91
Risk category 5 (5A - 5E)	134,397	138,576
Risk category 6 (NR)	0	0
Gross carrying amount	134,402	138,719
Risk provision	55,156	61,954
Net carrying amount	**79,245**	**76,766**
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)	2,925	2,301
Risk category 6 (NR)	0	0
Gross carrying amount	**2,925**	**2,301**
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)	4,827	4,550
Risk category 6 (NR)	0	0
Gross carrying amount	**4,827**	**4,550**
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)	12,949	14,631
Risk category 6 (NR)	0	0
Gross carrying amount	**12,949**	**14,631**
Receivables neither impaired nor past due		
Risk category 1 (1A - 1E)	311,241	255,104
Risk category 2 (2A - 2E)	1,440,905	726,122
Risk category 3 (3A - 3E)	4,051,505	4,717,463
Risk category 4 (4A - 4E)	554,023	629,765
Risk category 5 (5A - 5E)	32,112	21,758
Risk category 6 (NR)	2,288	6,041
Gross carrying amount	**6,392,074**	**6,356,252**
Portfolio based allowance	13,943	6,828
Total net carrying amount	**6,478,077**	**6,447,672**

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

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

Euro thousand	Loans and receivables to credit institutions and customers 31 Dec 2016 Gross	Net	31 Dec 2015 Gross	Net
Receivables impaired				
Rating 5A	924	639	937	772
Rating 5B	33,100	23,405	23,086	14,480
Rating 5C	59,645	35,383	58,865	32,161
Rating 5D	26,215	12,123	36,798	18,213
Rating 5E	14,513	7,692	18,890	11,019
Total	134,397	79,242	138,576	76,646
Receivables not impaired but more than 90 days past due				
Rating 5A	95	95	1,592	1,592
Rating 5B	3,992	3,992	3,178	3,178
Rating 5C	9,388	9,388	9,905	9,905
Rating 5D	3,701	3,701	2,941	2,941
Rating 5E	3,525	3,525	3,866	3,866
Total	20,700	20,700	21,482	21,482
Receivables neither impaired nor past due				
Rating 5A	96	96	265	265
Rating 5B	15,592	15,592	9,967	9,967
Rating 5C	14,416	14,416	9,318	9,318
Rating 5D	852	852	1,394	1,394
Rating 5E	1,154	1,154	814	814
Total	32,112	32,112	21,758	21,758
Total carrying amount	**187,209**	**132,054**	**181,816**	**119,886**

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.

Euro thousand	Loans and receivables to credit institutions and customers[1)] Gross	Net
31 Dec 2016		
Risk category 1 (1A - 1E)	311,241	311,241
Risk category 2 (2A - 2E)	1,440,905	1,440,905
Risk category 3 (3A - 3E)	4,051,505	4,051,505
Risk category 4 (4A - 4E)	554,027	554,026
Risk category 5 (5A - 5E)	187,209	132,054
Risk category 6 (NR)	2,288	2,288
Total	**6,547,176**	**6,492,020**
31 Dec 2015		
Risk category 1 (1A - 1E)	255,104	255,104
Risk category 2 (2A - 2E)	726,122	726,122
Risk category 3 (3A - 3E)	4,717,514	4,717,501
Risk category 4 (4A - 4E)	629,856	629,846
Risk category 5 (5A - 5E)	181,816	119,886
Risk category 6 (NR)	6,041	6,041
Total	**6,516,454**	**6,454,500**

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

Across the Group, 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 part of total receivables.

	Receivables total		Receivables in loss		Receivables alive	
Euro thousand	Exposure	Unsecured	Unsecured	Risk provision	Unsecured	Expected Loss
31 Dec 2016						
VBW	6,547,176	2,409,403	57,530	55,155	2,351,873	31,938
Total	**6,547,176**	**2,409,403**	**57,530**	**55,155**	**2,351,873**	**31,938**
31 Dec 2015						
VBW	6,516,454	3,175,930	80,463	61,930	3,095,468	36,478
Total	**6,516,454**	**3,175,930**	**80,463**	**61,930**	**3,095,468**	**36,478**

Loan collateral

Use of loan collateral

The use and management of loan collateral are regarded as important components of credit risk management in the VBW Group. 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 VBW Group 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 individually impaired loans and receivables		
Liquid funds	2,626	1,394
Securities	235	712
Mortgages	68,210	57,171
Guarantees	706	1,776
Movable Goods	393	292
Others	6,925	5,588
Collateral for loans and receivables not impaired but more than 90 days past due		
Liquid funds	209	305
Securities	17	8
Mortgages	19,272	13,653
Guarantees	106	107
Movable Goods	9	15
Others	936	688
Collateral for loans and receivables neither impaired nor past due		
Liquid funds	77,570	78,466
Securities	52,160	44,045
Mortgages	3,131,510	2,580,944
Guarantees	189,035	189,301
Movable Goods	13,765	10,275
Others	574,089	355,784
Total value of collaterals	**4,137,773**	**3,340,523**

One key requirement within the Group 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 each loan collateral is examined regularly. Periodicity largely depends on the type of collateral and is regulated on a standard basis.

Valuation of loan collateral

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

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

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

The most important types of collateral

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

Distribution of economic collateral within the VBW Group's portfolio:

Collaterals	Allowable amount	
Euro thousand	31 Dec 2016	31 Dec 2015
Financial collateral	539,830	307,151
Real estate collateral	3,218,993	2,651,768
Other tangible collateral	17,180	12,107
Accounts receivable	2,823	6,858
Life insurance	169,100	171,456
Guarantees	189,847	191,183
Total	**4,137,773**	**3,340,523**

Real estate collateral is by far the most important type of collateral in the VBW Group. 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 VBW Group:

- 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 VBW portfolio:

	Allowable amount	
Euro thousand	31 Dec 2016	31 Dec 2015
Abstract guarantee	189,847	191,183
Total	**189,847**	**191,183**

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 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 Group 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 of a Group view.

Portfolio development by industry:

Euro thousand	31 Dec 2016 Gross	in %	31 Dec 2015 Gross	in %
Commercial finance	7,579,890	80.41 %	8,285,140	86.49 %
Real estate	1,075,173	11.41 %	983,997	10.27 %
Construction industry	432,894	4.59 %	413,548	4.32 %
Agriculture and forestry	105,232	1.12 %	157,586	1.64 %
Tourism	90,740	0.96 %	88,381	0.92 %
Trade and reparis	189,761	2.01 %	174,660	1.82 %
Financial services	3,608,206	38.28 %	4,473,732	46.70 %
Economic services	119,110	1.26 %	148,676	1.55 %
Physicians/healthcare	71,676	0.76 %	81,127	0.85 %
Manufacturing sector	95,171	1.01 %	75,226	0.79 %
Public authorities	1,585,237	16.82 %	1,457,706	15.22 %
Gastronomy	57,269	0,61 %	52,447	0.55 %
Transport and traffic	32,931	0,35 %	35,591	0.37 %
Providers	39,458	0.42 %	43,296	0.45 %
Technology and communication	31,441	0.33 %	39,484	0.41 %
Others	45,591	0.48 %	59,683	0.62 %
Private households	1,846,334	19.59 %	1,294,641	13.51 %
Total	**9,426,224**	**100.00 %**	**9,579,780**	**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 essentially 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 thereby to be treated as companies for the purpose of credit risk limits.

The limits for the maximum gross total exposure are calculated based on percentages of the relevant eligible own funds in line with rating classes. The maximum unsecured exposure is calculated as the percentage of the maximum total exposure (likewise in accordance with rating 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 central organisation.

At present, when setting limits for portfolios, the VBW Group 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 Group to determine credit ratings (the VB rating family) and to determine the loss amount in the event of default. The expected likelihood of each customer defaulting is estimated across the VB rating family and expressed via the VB master scale. The concept behind the VB master scale allows for the comparison of borrower credit ratings across regions and customer groups.

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

Forbearance

Based on the EBA final draft ITS on supervisory reporting on forbearance and non-performing exposures as well as Commission Implementing Regulation (EU) 2015/227 of 9 January 2015 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013, all loans and bonds as well as revocable and irrevocable loan commitments, balances held with central banks and other demand deposits in all valuation categories, with the exception of items held for trading, fall within the scope of application of supervisory reporting on forbearance and non-performing exposures. Non-current assets held for sale and disposal groups also fall within the scope of application pursuant to IFRS 5. Forbearance refers to concessions made by the lender to a debtor linked to financial difficulties or impending financial difficulties experienced by the debtor, which the lender would not 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 72,125 thousand (2015: euro 49,398 thousand). This amount relates to performing forborne credit exposures amounting to euro 22,560 thousand (2015: euro 16,856 thousand) and non-performing forborne credit exposures amounting to euro 49,565 thousand (2015: euro 32,543 thousand); value adjustments of euro 13,066 thousand (2015: euro 8,762 thousand) have been made for the non-performing forborne credit exposures.

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

Counterparty default risk

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

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

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

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

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

The Group Market 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.

Netting positions as part of the portfolio within the Group

Euro thousand		**31 Dec 2016**	
Derivates	**Receivables**	**Liabilities**	**Net values**
Investment book	85,715	-144,233	-58,518
Trading book	93,584	-405,493	-311,909
Cash collateral	**Pledged**	**Received**	**Net values**
Investment book	413,608	-44,176	369,431
Total			-996

Euro thousand		**31 Dec 2015 *)**	
Derivates	**Receivables**	**Liabilities**	**Net values**
Investment book	79,812	-144,824	-65,013
Trading book	129,006	-368,775	-239,769
Cash collateral	**Pledged**	**Received**	**Net values**
Investment book	236,338	-23,636	212,702
Total			-92,080

*) At the end of 2015, the portfolio spin-off to immigon was not yet completed in operational terms by all counterparties, since some banks had not yet consented to the spin-off at that time. Accordingly, the complete cash collateral had not yet been posted at VBW, but part of it was still held by immigon.

Collateral Management - Derivative trading

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

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

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 prevailing credit risk within the VBW Group as at the reporting date, and within the banking association in accordance with section 30a of the Austrian Banking Act. Corresponding reports are produced for the Group, major Group units and key business areas. This information is also included in the credit risk sections of the Group´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 form part of the monthly report:

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

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 that the value of an asset item will change as a result of changes to the price of value-determinant market risk factors (e.g. interest rates, exchange rates, interest and foreign exchange volatilities). VBW Group draws a distinction between the following market risk sub-groups:

- 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.

The interest rate risk in the investment book comprises all interest-bearing transactions reported and not reported in the balance sheet, except for transactions in the trading book. The interest rate risk position associated with the client business of VBW 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 side and the liabilities side. Additional decisive factors are bond positions of the bank's own portfolio, own issues and the interest-rate swaps used to control the interest rate position. At the end of 2016, the VBW Group 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) amounted to 7 % 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) is within the low double-digit range.

The Asset-Liability-Committee (ALCO) is responsible for controlling the interest rate position of VBW 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 the interest rate risks. It is convened monthly or ad hoc if required. The Asset Liability Management (ALM) function, as part of the organisational unit Treasury, is responsible for the management of the ALCO. Proposed measures to control the interest rate position are worked out by the ALM in cooperation with Risk 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 taken care of by the Market and Liquidity Risk Department.

Monitoring of the interest rate risk in the investment book is carried out in the Market and Liquidity Risk Controlling Department of the Risk Controlling division, which is separate, in organisational terms, from the Treasury division on the level of the Managing Board. 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 process 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 validated in a group that is independent of 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, the effects on the interest result of the next years are calculated for four unfavourable scenarios. In the unfavourable scenario, the interest result decreases by some 5 % as compared to the target scenario for 2017, and by some 10 % for 2018. The results of the interest result simulation are presented within ALCO and will also inform the calculation of risk-bearing 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-bearing 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 risk appetite statement of the bank as a whole.

Credit spread risk

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

The transactions relevant to credit spread risk are investments in the bank's own portfolio, and not loans and advances to customers. This essentially comprises bonds, funds, credit default swaps (CDS), as well as 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-sustainability account and total bank risk stress testing.

In line with the investment strategy, the bank's own portfolio includes highly liquid assets 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 13 % 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 biggest concentration exists within the Sovereign Austria risk cluster (45 % of the carrying amount of the bank's own portfolio). There are 17 % in covered bonds and 8 % in Sovereign 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	1,174,990	1,090,485
1B-1C	206,428	182,344
1D-2A	75,587	60,258
2B-3A	392,543	418,729
3B-4E (NIG)	337	2,437
5A-5E (Default)	0	835
No rating	0	0
Total	**1,849,885**	**1,755,088**

Portfolio structure by sectors:

Euro thousand	31 Dec 2016	31 Dec 2015
Financial sector	349,439	307,249
Public sector	1,457,005	1,387,208
Corporates	15,952	40,673
No classification	27,489	19,958
Total	**1,849,885**	**1,755,088**

Top 10 exposures in the public sector:

Euro thousand	Available for sale	Held to maturity and loans & receivables	Loans and receivables	Total
31 Dec 2016				
Austria	794,658	10,343	0	805,001
Italy	119,867	20,000	0	139,867
Poland	98,015	4,310	0	102,325
Switzerland	0	0	74,495	74,495
Belgium	49,698	15,766	0	65,464
Czech Republic	52,978	0	0	52,978
Spain	43,860	0	0	43,860
Portugal	40,128	0	0	40,128
Hungary	31,183	0	0	31,183
France	0	30,190	0	30,190
Total	**1,230,388**	**80,608**	**74,495**	**1,385,492**
31 Dec 2015				
Austria	776,569	0	0	776,569
Italy	123,281	20,000	0	143,281
Poland	100,180	4,462	0	104,642
Switzerland	0	0	74,596	74,596
Czech Republic	54,212	0	0	54,212
Belgium	45,958	4,983	0	50,942
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	**1,243,763**	**29,445**	**74,596**	**1,347,804**

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

	Collateral sold		Collateral bought		Total net	
Euro thousand	Face value	Fair value	Face value	Fair value	Face value	Fair value
31 Dec 2016						
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’ (afs). In line with the investment strategy, new investments are allocated to the ‘held to maturity’ (htm) category for the major part.

Portfolio structure according to IAS 39 categories:

Euro thousand	Bond	Syndicated & bonded loans	Fund & Equity	Total
31 Dec 2016				
At fair value through profit or loss	0	0	0	0
Available for sale	1,495,933	0	27,489	1,523,422
Held to maturity and loans & receivables	251,968	74,495	0	326,463
Total	**1,747,901**	**74,495**	**27,489**	**1,849,885**
31 Dec 2015				
At fair value through profit or loss	0	0	0	0
Available for sale	1,570,073	0	40,673	1,610,745
Held to maturity and loans & receivables	69,747	74,596	0	144,343
Total	**1,639,819**	**74,596**	**40,673**	**1,755,088**

Credit spread VaR is calculated based on a 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 approach.

Following risk ratios result for the Group:

Euro thousand 31 Dec 2016	Credit Spread Value at Risk	10 basis point-shift
	140,711	-14,198
31 Dec 2015		
	197,874	-13,369

Market risk in the trading book

Market risk in the trading book is of minor significance for the VBW Group. Monitoring market risks is carried out in the Market and Liquidity Risk Controlling Department of the Risk Controlling division, which is separate, in organisational terms, from the Treasury division on the level of the Managing Board. 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 the development of the systems and models. The regulatory capital adequacy requirements of the trading book are calculated using the standard approach. Currently, the VBW Group 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-sustainability account and total bank risk stress testing. The Market and Liquidity Risk Controlling Department reports daily to Treasury and monthly to ALCO.

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 approach on a recurring basis.

The following table shows the VaR in the trading book (for 99 % confidentiality niveau, 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	74	**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 VBW guideline.

Foreign currency risk (open foreign exchange positions)

Foreign currency risk is of minor importance in the VBW Group. It arises if the values of outstanding receivables/liabilities in a foreign currency change unfavourably due to exchange-rate fluctuations.

Currency Euro thousand	31 Dec 2016	31 Dec 2016
CZK	4,268	4,723
CHF	1,597	2,545
USD	135	9
JPY	116	4
GBP	29	1
Other	901	1,094
Total	**7,046**	**8,376**

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, investing their excess liquidity. Both operational, short-term liquidity management and medium- to long-term liquidity management are performed in a centralised manner at VBW, in the Treasury division through the Liquidity Management Department. 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.

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

Within liquidity risk, VBW distinguishes between illiquidity risk and funding cost increase risk.

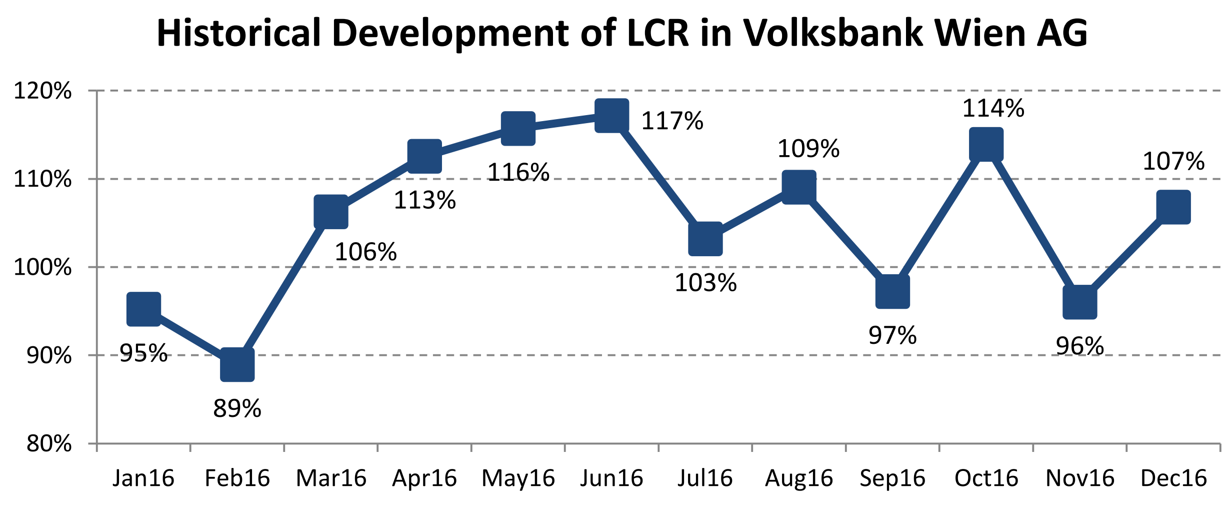
Illiquidity risk is the risk to be unable to settle payment obligations on their due date. In case of illiquidity risk, additional subcategories, e.g. refinancing risk (roll-over risk), call risk and market liquidity risk are distinguished, which are of relevance especially in the context of liquidity stress testing. For VBW as a retail bank, illiquidity risk typically exist 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 of the Association of Volksbanks. The liquidity buffer mainly consists of highly liquid bonds that are LCR-eligible for the major part, of deposits with the national bank, of ECB tender potential, and covered bond issue potential. The liquidity of the liquidity buffer is tested regularly. The Liquidity Management Department within the Treasury division is responsible for the current management of the liquidity buffer.

At VBW, 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 sphere. This risk is taken into account in the risk-bearing capacity calculation within the scope of the ICAAP. Said risk is of minor importance at VBW, as the company is hardly dependent on the capital market, and little price sensitivity is observed in the sphere of customer deposits.

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

The 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, VBW is obliged to hold a liquidity buffer from highly liquid assets as liquidity provision, that covers the cumulated net liquidity outflows resulting from regulatory stress assumptions over a period of 30 calendar days. The calculation of the LCR takes place weekly and at the end of the month in the Market and Liquidity Risk Controlling Department. For the major part of 2016, the LCR amounted to more than 100 %, which is 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 takes place in the Market and Liquidity Risk Controlling Department at VBW 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 VBW, the survival period is the period during which, under a given stress scenario, the liquidity buffer held is sufficient to cover cumulated net liquidity outflows. Currently, 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. No other risk clusters with similar characteristics exist.

Operational liquidity management

The Liquidity Management Department in the Treasury division is responsible for operational liquidity management. The department is the central unit at VBW and within the Association of Volksbanks for matters regarding the pricing of liquidity (transfer pricing), the central management of 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 of Volksbanks as well as disposition of the banking connections maintained by VBW)
- Collateral management: ECB-eligible collateral of the Association of Volksbanks (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 of Volksbanks – a.o. 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

Definition

The VBW Group 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 VBW Group, 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, 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 the 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, business continuity plans 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 at the Group:

- 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 Group are recorded in a standardised fashion. The resulting transparency with regard to the events that have occurred makes it possible to produce a risk assessment derived from historical data.
- The methods, systems and processes in OpRisk management must be adapted to the respective institution in observance of Group requirements in line with the proportionality principle.
- The adequacy of risk management and monitoring measures and of additional measures aimed at minimising risk is assessed on a continual basis and at least once a year and is reported to the 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.

VBW Group 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 internal control system ensures appropriate consideration of operational risks within the Association of Volksbanks.

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 VBW Group 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-bearing capacity calculation.

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

The Group 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 are not of key significance to the Group, they are intrinsic to its operations. Mainly organisational 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
Gärtnerbank Immobilien GmbH; Wien	HD	100.00 %	100.00 %	35
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Wien	HD	100.00 %	100.00 %	35
VB Rückzahlungsgesellschaft mbH; Wien	HO	100.00 %	100.00 %	35
VB Services für Banken Ges.m.b.H.; Wien	HD	98.89 %	98.89 %	327
VB Verbund-Beteiligung Region Wien eG; Wien	HO	90.14 %	90.14 %	3,869
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	HD	99.00 %	99.00 %	36
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Wien	FI	100.00 %	100.00 %	872

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

51) Companies measured at equity

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
VB Verbund-Beteiligung eG; Wien	HO	21.16 %	21.16 %	51,961
Volksbank Kärnten eG; Klagenfurt	KI	25.17 %	25.17 %	34,796

52) Unconsolidated affiliated companies

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
ARZ-Volksbanken Holding GmbH; Wien	HO	73.65 %	73.65 %	256
Immo-Contract Baden Maklergesellschaft m.b.H.; Baden	SO	100.00 %	100.00 %	175
Immo-Contract Weinviertel GmbH; Mistelbach an der Zaya	SO	53.62 %	53.62 %	35
UVB-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
VB ManagementBeratung GmbH; Wien	SO	100.00 %	100.00 %	36
VBKA-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
VOME Holding GmbH; Wien	HO	100.00 %	100.00 %	35

*Abbreviations Type

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

AUDITOR'S REPORT

Report on the Consolidated Financial Statements

Audit Opinion

We have audited the consolidated financial statements of

VOLKSBANK WIEN AG,
Vienna, Austria,

and its subsidiaries (the Group), which comprise the consolidated 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 present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2016, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) and Section 59a BWG (Austrian Banking Act).

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 entity 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.

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. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the consolidated financial statements 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 4,351 million, i.e. 43 % of assets. The credit risk provisions for loans and advances to customers amount to Euro 69 million.

The Managing Board of VB Wien 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.

AUDITOR'S REPORT

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, rating levels with higher default risk were particularly taken into account. In case of identified impairment triggers we assessed the banks 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 within the group amount to Euro 385 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 96 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 20 million.

The Managing Board of VB Wien 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.

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 the key input parameters for the forecasts of future fiscal results with internal budgeting and with an externally prepared appraisal report of VB Wien as at 31 December 2016 and checked them for plausibility. Moreover, we have assessed the adequacy of the assumptions made, using externally available data, such as macroeconomic forecasts, and the company's past results.

AUDITOR'S REPORT

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

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

Management is also responsible for assessing the Group's ability to continue as a going concern, and, where appropriate, to disclose matters that are relevant to the Group'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 Group or closure of operations is planned or cases in which such measures appear unavoidable.

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

Auditors' Responsibility

Our aim is to obtain reasonable assurance about whether the consolidated financial statements 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.

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.

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 and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity'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 financial statements 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 Company departing from the going concern assumption.

AUDITOR'S REPORT

- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with the audit committee regarding, 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 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

Group Management Report

In accordance with Austrian Generally Accepted Accounting Principles the group management report is to be audited as to whether it is consistent with the consolidated financial statements 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 group management report in accordance with Austrian Generally Accepted Accounting Principles.

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

Opinion

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

Statement

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

Other Information

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

Our opinion on the consolidated financial statements 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 and our knowledge gained during our audit, or any apparent material misstatement of fact.

AUDITOR'S REPORT

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

Vienna, 22 March 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.

STATEMENT OF ALL LEGAL REPRESENTATIVES

VOLKSBANK WIEN AG
Statement of all Legal Representatives

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

Vienna, 22 March 2017

Gerald Fleischmann
Chairman of the Managing Board

Corporates, Digitalisation, General Secretariat, Front Office Service Center / Customer Service Center, Organisation & IT, HR Management, PR & Communication, Private Banking / Treasury, Real Estate, Retail, Banking Association Strategy, Sales Management / Marketing

Josef Preissl
Deputy Chairman of the Managing Board

Operation / Wind-down, Property Subsidiaries, Audit, Risk Retail / SME, Risk Management Real Estate and Corporates, Association Risk Management, Reorganisation Management, VB Services for Banks

Rainer Borns
Member of the Managing Board

Control, Finance,
Legal and Compliance, Risk Contro

INDIVIDUAL ANNUAL FINANCIAL STATEMENTS VOLKSBANK WIEN AG

STATEMENT OF FINANCIAL POSITION

Assets	Euro	31 Dec 2016 Euro	Euro Thousand	31 Dec 2015 Euro Thousand
1. Cash in hand, balances with central banks		1,119,252,447.00		1,280,269
2. Debt instruments issued by public bodies and similar securities		1,092,087,343.13		983,273
3. Loans and advances to credit institutions				
a) Due on demand	300,441,204.71		423,054	
b) Other receivables	1,904,804,182.12	2,205,245,386.83	2,358,442	2,781,496
4. Loans and advances to customers		4,426,192,415.12		3,753,773
5. Bonds and other fixed-income securities				
a) From public issuers	44,022,582.32		6,950	
b) From other issuers	1,185,320,134.81	1,229,342,717.13	1,158,742	1,165,692
Of which: In-house issues Euro 855,056,721.66 (2015: Euro thousand 807,590)				
6. Shares and other variable-yield securities		62,639,960.71		52,369
7. Participations		26,388,667.54		20,292
Of which: in credit institutions Euro 6,901,390.16 (2015: Euro thousand 10,717)				
8. Investments in affiliates		25,991,210.98		25,720
Of which: in credit institutions Euro 0.00 (2015: Euro thousand 0)				
9. Intangible non-current assets		272,390.58		4,436
10. Fixed assets		75,451,750.96		64,056
Of which: Land and buildings used by the credit institution within the scope of its own activities Euro 41,975,018.95 (2015: Euro thousand 29,912)				
11. Other assets		464,746,381.13		482,524
12. Deferred items		2,371,836.95		1,703
13. Deferred tax assets		26,220,455.53		3,550
Total assets		**10,756,202,963.59**		**10,619,153**

Off-balance sheet items				
1. Foreign assets		1,435,893,103.73		1,274,048

Liabilities	Euro	31 Dec 2016 Euro	Euro Thousand	31 Dec 2015 Euro Thousand
1. Amounts owed to credit institutions				
a) Due on demand	2,711,680,137.71		3,548,941	
b) With agreed term or period of notice	627,517,749.91	3,339,197,887.62	509,399	4,058,340
2. Amounts owed to customers				
a) Saving deposits				
aa) Due on demand	990,056,751.33		527,284	
bb) With agreed term or period of notice	1,029,342,834.66		1,095,394	
	2,019,399,585.99		1,622,678	
b) Other liabilities				
aa) Due on demand	2,164,766,946.82		2,223,219	
bb) With agreed term or period of notice	564,165,274.26		167,281	
	2,728,932,221.08	4,748,331,807.07	2,390,500	4,013,178
3. Debts evidenced by certificates				
a) Issued debt securities	953,445,142.54		908,000	
b) Other debts evidenced by certificates	524,413,029.68	1,477,858,172.22	549,975	1,457,975
4. Other liabilities		611,063,271.29		620,137
5. Deferred items		8,010,812.12		9,589
6. Provisions				
a) Provisions for severance payments	19,987,630.00		14,960	
b) Provisions for pensions	9,299,607.71		6,584	
c) Provisions for taxes	4,891,712.52		200	
d) Other	95,787,849.73	129,966,799.96	92,774	114,518
7. Supplementary capital pursuant to Part Two, Title 1, Chapter 4 of Regulation (EU) No 575/2013		23,174,835.10		20,131
8. Subscribed capital		126,937,593.75		107,477
9. Capital reserves				
a) Appropriated	204,084,954.45			
b) not appropriated	10,290,285.17	214,375,239.62		155,088
10. Retained earnings				
Other reserves		26,637,405.08		26,384
11. Liability reserve pursuant to section 57 (5) BWG		35,877,671.37		35,878
12. Net profit		14,771,468.39		458
Total liabilities and equity		**10,756,202,963.59**		**10,619,153**

Off-balance sheet items	31 Dec 2016 Euro	31 Dec 2015 Euro Thousand
1. Contingent liabilities and liabilities from sureties, guarantees and provision of collateral	412,935,120.46	479,991
2. Credit risks Of which: Liabilities from repurchase agreements Euro 0.00 (2015: Euro thousand 0)	4,331,388,151.72	4,759,962
3. Liabilities from fiduciary transactions	149,940,265.96	109,152
4. Eligible capital pursuant to Part Two of Regulation (EU) No 575/2013 Of which: Supplementary capital pursuant to Part Two, Title 1, Chapter 4 of Regulation (EU) No 575/2013 Euro 35,578,949.69 (2015: Euro thousand 23,493)	450,269,957.20	353,989
5. Capital requirement pursuant to Article 92 of Regulation (EU) No 575/2013	3,171,322,395.17	2,755,248
Of which: Capital requirement pursuant to Article 92 (1)		
(a) of Regulation (EU) No 575/2013 (Common Equity Tier 1 capital ratio in %)	13.03%	11.90%
(b) of Regulation (EU) No 575/2013 (Tier 1 capital ratio in %)	13.03%	11.90%
(c) of Regulation (EU) No 575/2013 (Total capital ratio in %)	14.20%	12.85%
6. Foreign liabilities	148,580,675.31	178,218

INCOME STATEMENT

	Euro	1-12 2016 Euro	Euro Thousand	1-12 2015 Euro Thousand
1. Interest and similar income		141,228,272.70		143,776
Of which: From fixed-income securities	8,848,525.52		13,974	
2. Interest and similar expenses		-34,121,801.00		-50,973
I. NET INTEREST INCOME		107,106,471.70		92,803
3. Income from securities and investments				
a) Income from shares, other ownership interests and variable-yield securities	914,841.83		3,429	
b) Income from investments	1,867,875.05		1,322	
c) Income from shares in affiliates	1,852,501.13	4,635,218.01	1,612	6,363
4. Fee and commission income		79,859,625.81		65,298
5. Fee and commission expenses		-29,987,194.37		-25,998
6. Net trading income/expenses		4,714,640.76		8,471
7. Other operating income		122,241,051.91		113,292
II. OPERATING INCOME		288,569,813.82		260,229
8. General administrative expenses				
a) Staff expenses				
aa) Wages and salaries	-63,302,981.49		-67,365	
bb) Expenses for statutory social contributions and remuneration-related charges and compulsory contributions	-18,595,290.49		-16,075	
cc) Other social expenses	-1,431,352.70		-1,617	
dd) Expenses for retirement benefits and support	-2,327,891.56		-1,837	
ee) Allocation to provision for pensions	1,080,385.00		-749	
ff) Allocation to provision for severance payments and employee welfare funds	-2,966,335.29		1,487	
	-87,543,466.53		-86,156	
b) Other administrative expenses (administrative expenses)	-79,747,379.15	-167,290,845.68	-77,249	-163,405
9. Value adjustments on assets within items 9 and 10		-10,719,059.37		-11,270
10. Other operating expenses		-52,126,741.93		-71,418
III. OPERATING EXPENSES = AMOUNT CARRIED FORWARD		-230,136,646.98		-246,093

	Euro	1-12 2016 Euro	Euro Thousand	1-12 2015 Euro Thousand
III. OPERATING EXPENSES = AMOUNT CARRIED FORWARD		-230,136,646.98		-246,093
IV. OPERATING PROFIT		58,433,166.84		14,136
11. Balance from impairments on receivables and allocations to provisions for contingent liabilities and for credit risks as well as from securities held within the liquidity reserve as well as income from the reversal of impairments on receivables and from provisions for contingent liabilities and for credit risks as well as from securities held within the liquidity reserve		6,187,213.48		-754
12. Balance from impairments on securities measured as financial assets, as well as on participations and shares in affiliates and income from impairments on securities measured as financial assets, as well as on participations		-34,192,109.20		-13,861
V. RESULT FROM ORDINARY OPERATIONS		30,428,271.12		-479
13. Extraordinary income = extraordinary result		0.00		9,500
Of which: Withdrawals from the fund for general bank risks	0.00		9,500	
14. Income taxes		22,132,089.53		-2,344
15. Other taxes not shown under item 14		-26,127,694.63		-2,182
VI. ANNUAL RESULT AFTER TAXES		26,432,666.02		4,495
16. Reduction in net assets through reorganisation		-12,018,879.38		-4,311
17. Movement in reserves		0.00		206
Of which: Other retained earnings	0.00		0	
Release of retained earnings	0.00		0	
VII. ANNUAL RESULT		14,413,786.64		390
18. Profit carried forward		357,681.75		68
VIII. NET PROFIT		14,771,468.39		458

NOTES FOR THE 2016 BUSINESS YEAR

Due to the merger of the banking operations of Volksbank Weinviertel e.Gen., Volksbank Südburgenland eG and Volksbank Niederösterreich Süd eG, the previous year's figures are of limited significance only.

1. Accounting and valuation principles

General information

Since the 2015 business year, apart from its retail business, VOLKSBANK WIEN AG (hereinafter also referred to as VBW or the "Company") has been performing the function of a central organisation of the Austrian Association of Volksbanks according to section 30a of the Austrian Banking Act (BWG), which is associated with far-reaching management and steering functions (in particular within the sphere of risk and liquidity management). The members of the Association of Volksbanks have unlimited liability among themselves, the pro-rata assumption of the costs and risks of the central organisation has been contractually agreed between the members. On 29 June 2016, VBW received final, unlimited regulatory approval from the ECB for the structure of the new Association of Volksbanks, due to fulfilment of all requirements.

In the General Meeting held on 17 March 2016, apart from amendments to the association agreement 2014, the conclusion of a trust agreement on the establishment, funding and utilisation of a trust fund (Leistungsfonds) was resolved upon. The amendments of the association agreement are aimed at further sustainably strengthening the existence and efficiency of the Association of Volksbanks within the meaning of section 30a BWG. Since the Leistungsfonds is organised as a trust fund, it is not permissible to mingle assets attributable to the central organisation with those of the Leistungsfonds. The assets in the Leistungsfonds are attributed to the individual banks of the Association according to their shares in the trust fund and must not be invested by the central organisation except within the latter's dutiful discretion and taking account of the earmarking of the Leistungsfonds.

The regulatory provisions of Parts 2 to 8 of Regulation (EU) no. 575/2013 as well as section 39a BWG must be met by the Association of Volksbanks on the basis of the consolidated financial situation (section 30a (7) BWG). Furthermore, VBW must meet all regulatory provisions on single-entity and consolidated levels.

The individual annual financial statements of VBW as at 31 December 2016 were prepared by the Managing Board in accordance with Austrian Commercial Code (UGB) and Austrian Banking Act (BWG). The annual financial statements have been prepared in accordance with the principles of proper accounting, as well as in compliance with the general standard to present a true and fair view of the net worth, financial and earning position of the company.

According to section 221 (3) UGB, the company is classified as large corporation.

The principle of completeness was observed during preparation of the annual financial statements, and the principle of individual valuation and the going-concern principle were observed during valuation of assets and debts.

The principle of prudence was taken into account, in particular, in that only profits which had been realised on the balance sheet date are included. All identifiable risks and imminent losses that have arisen in the 2016 business year or in any of the previous business years were taken into account, if known.

The previous form of presentation was basically retained during preparation of the present annual financial statements; as regards the amendments by RÄG 2014 (Accounting Amendment Act) please refer to the following explanations.

In terms of the structure of the balance sheet and of the income statement, the previous year's amounts have been adjusted to the amended requirements under RÄG 2014 and to the amended Annex 2 to Art. 1 section 43 part 1 and part 2 BWG. Untaxed reserves were reclassified under equity after deduction of the deferred taxes applicable to them. In that context, the presentation of the movement of reserves was adapted accordingly at the end of the income statement for the business year. The presentation of the fixed asset movement schedule was adjusted in line with RÄG 2014 (see Annex 1).

The previously applied valuation methods were retained except for the amendments due to first-time application of RÄG 2014; said amendments concern the following in particular:

- Write-ups are now generally effected in the event that the reasons for unscheduled depreciation/amortisation lapse and/or in case of any recovery in value, with the maximum amount of the write-up being the amount that would result as residual carrying amount in case of ordinary depreciation.

- Long-term provisions (provisions with a remaining time to maturity of more than one year) – this includes, in particular, the provisions for legal disputes as well as reorganisation provisions – are recognised at the future amount repayable and discounted using an average interest rate of 2.0% as at 31 December 2016 (as at 1 January 2016: 2.2%).
- A seven-year average interest rate (as published by Deutsche Bundesbank) in the amount of 3.37% is used as the discount rate for social capital commitments (i.e. pensions, severance pay, long-term service bonuses) – in accordance with AFRAC statement 27 "Personnel provisions UGB". Basically, future salary increases are considered.
- No use is made of the option of capitalising deferred taxes from loss carry-forwards.

In the course of revaluations at the beginning of the business year, the following significant effects on the annual financial statements for the current business year (before deferred taxes) were derived:
- From discounting long-term provisions, an interest-rate effect in the amount of euro 1,369,131.23 derived. Euro 666,610.85 of that amount were recorded in the item Other operating income, including Income from the release of provisions, and euro 702,520.38 were posted as a reduction of staff costs.
- In the course of implementing RÄG 2014 with effect from 1 January 2016, the credit risk provision was adjusted to the calculation method of the consolidated financial statements according to IFRS. This resulted in an overall effect in the amount of euro 30,095,347.88, consisting of reversals of specific risk provisions (euro 38,748,446.15) and additions to portfolio risk provisions (euro 8,653,098.27). As regards the accounting and valuation methods applied, please refer to the following information contained in this chapter.
- As for securities held as financial assets, where impairment charges were effected acc. to section 204 (2) UGB in the past and where no recovery in value has taken place, a write-up in the amount of euro 1,729,516.73 was effected.

The company has not made any use of the option to recognise deferred items from the above-mentioned effects.

In the course of transition of the determination of deferred taxes to the so-called "temporary concept", taking into account AFRAC statement 30 "Deferred taxes in the annual financial statements", temporary differences as at 1 January 2016, which were not recognised previously, were capitalised in the amount of euro 10,650,000.00 with effect on profit or loss. (Instead of the tax rate of 6.25% applied in the previous year, a tax rate of 25% was applied; see also explanatory notes on the balance sheet item Deferred tax assets)

Loans and advances to credit institutions and to customers were reported at their nominal value.

In the course of implementing the new legal provisions of RÄG 2014, the determination and calculation of credit risk provisions was changed in line with the impairment method applied in the consolidated financial statements prepared in accordance with IFRS. 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 and 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 (e.g. unlikeliness to pay).

In case of loan receivables that meet any default criteria and exceed the defined amount of exposure ("significant" receivables), determination of the risk provision is effected using the discounted cash flow method (specific loan loss 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 loan loss provision). For credit exposures that do not show any default criteria, a portfolio risk provision is set up. The flat-rate specific loan loss 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 computer-aided, using an impairment tool specifically developed for the purpose.

In previous years, the unsecured parts of loan receivables were essentially impaired in full. In previous years, no use was made of the optional write-up under section 208 (2) UGB in the version prior to RÄG 2014.

As in the previous year, use was made of the option under section 57 (1) BWG.

The main currencies were evaluated at the average rates of the European Central Bank (ECB) as published on 31 December 2016. Other currencies were converted at the average rate of exchange of the balance sheet date. The currency portfolios were converted at the average foreign exchange rate.

The criterion for any security to be classified under financial assets is the intention for it to be held in the portfolio in the long term. Securities permanently earmarked for operations were measured as non-current assets, while current assets were measured strictly according to the lower of cost or market. No use was made of the option under section 204 (2) UGB to effect write-downs even if the impairment is not expected to be permanent.

For all significant participations of VBW, an annual impairement testing is performed. In case of negative developments with respect to any company or of participations of a holding, this assessment is carried out on an ad hoc basis. In this context, the value of a participation is basically determined according to the budgeted figures of the participation, by means of the discounted cash flow method or the discounted earnings method and compared to the current carrying amount. The discount rate is determined on the basis of current comparative information. If the information available is insufficient for a discounted cash flow valuation, other methods may also be used to check the values reported.

The valuation of tangible fixed assets (land, buildings, equipment and fixtures) was performed at the cost of acquisition or production less scheduled depreciation. Intangible assets are capitalised at the cost of acquisition, if they were acquired for money. Scheduled depreciation/amortisation is effected on a straight-line basis. The depreciation/amortisation period ranges between 10 and 66 years for buildings, between 3 and 20 years for equipment and fixtures, and between 2 and 5 years for intangible assets. Non-scheduled write-downs to a fair value that is lower on the reporting date are performed where the impairments are likely to be permanent. Write-ups are performed if the reasons for the unscheduled write-up have lapsed. The write-up is effected to not more than the net carrying amount derived after taking account of the ordinary depreciation/amortisation that would have had to be effected in the meantime. Low-value assets of an individual acquisition value of up to euro 400.00 are written down in full in the year of addition and shown in the fixed asset movement schedule as additions and disposals.

Liabilities from banking business are measured at the amount repayable on the balance sheet date.

As at the balance sheet date, charge money savings deposits amount to euro 11,657,330.08 (31 December 2015: euro 8,556k). The underlying stock earmarked for this purpose consists of investment grade securities and amounts to euro 15,000,000.00 (31 December 2015: euro 11,353k).

Issuing costs, commissions for additional contributions, as well as premiums and discounts for debts evidenced by certificates are accrued over the term of the liabilities.

Provisions for pensions and severance payments are determined according to generally recognised actuarial principles using the entry age normal method based on a discount rate of 3.37% (previous year: 2%), planned salary increases of 3% (previous year: 0%) and a retirement age of 60 years (previous year: 60 years) for women and 65 years (previous year: 65 years) for men. The measurement of retirement pension obligations includes legitimate claims of employees that were in active service at the measurement date, as well as the entitlements of current pension recipients. The accrual period extends until retirement age is reached. As regards expected mortality, the calculation tables "AVÖ 2008 P-Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler, Angestelltenbestand" are applied. Termination of employment due to reaching the age limit and also due to invalidity or death, as well as the vested rights of surviving dependents are taken into account, but no fluctuation discount.

As at 31 December 2016, the discount rate was derived from the 7-year average interest rate (for 15-year maturities), as published by Deutsche Bundesbank (cf. AFRAC statement 27 "Provisions for staff costs (UGB)"). Interest expenses as well as the effects from a change of interest rate are reported in the item Staff costs together with allocations and reversals.

Other provisions were recorded in the expected amount repayable; they take account of all identifiable risks and liabilities of yet uncertain amount. Long-term provisions were discounted at an average interest rate of 2%.

Other provisions include obligations to pay long-term service bonuses under the collective bargaining agreement. Said provisions are determined according to the accounting and valuation methods applied to provisions for severance payments.

The nominal values of off-balance sheet transactions are reported in the off-balance sheet items. Provisions are established for the latter in case of imminent use.

The comparative values of the previous year are rounded to the nearest thousand euros and added in brackets in the Notes; accordingly rounding differences cannot be excluded in the totals stated.

Measurement and accounting of derivative financial instruments

Derivative financial instruments of the investment book

In case of interest rate swaps, interest is accrued pro rata up to the balance sheet date.

Currency futures and currency swaps are measured at the average exchange rates published by the ECB. Accrual/deferral of the swap rate is effected pro rata over the term to maturity.

The provisions regarding commercial-law accounting acc. to AFRAC statement 15 "Derivatives and hedging instruments (UGB)" of December 2015, as well as the FMA Circular on accounting issues relating to derivatives (December 2012) are applied. The hedging of interest rate risks is exclusively effected through micro-hedges. For negative fair values of derivatives, provisions are basically established if there were open positions or no effective hedging relationships.

As at 31 December 2016, only margins were provided by way of hedging in connection with derivatives. The option to pledge other financial instruments was not made use of.

As for the positions in the investment book, VBW is exposed to the risk of fair value fluctuations due to changes of interest rates and exchange rates.

One key instrument used by VBW to hedge these risks in economic terms and to control the balance sheet structure are derivative financial instruments. Interest rate swaps are used as primary hedging instruments for own fix-interest issues and for hedging against fair value fluctuations of investments in fixed-interest securities as well as loans and advances to customers.

Moreover, cross currency swaps, currency futures, currency swaps and, in exceptional cases, currency options serve to hedge against interest rate and foreign exchange risks from loans and advances as well as amounts owed to banks and customers, as well as from issues denominated in foreign currencies.

As standard, hedging instruments are directly concluded with the counterparty. External and internal derivatives are used for the accounting of valuation units. No new internal derivatives are concluded for hedging relationships.

The valuation units established according to AFRAC statement 15 "Derivatives and hedging instruments (UGB)" comprise own fixed-interest issues as well as loans and advances, and amounts owed, to banks and customers. The hedging instruments exclusively used in that connection are interest rate swaps, caps and floors, as well as cross currency swaps. The hedging relationship is based on the full term of the underlying transaction.

The dollar offset method is exclusively used to measure the retrospective effectiveness of the accounting groups. Under the dollar offset method, the value changes of underlying and hedging transaction that are due to the risk hedged are set in relation to each other.

Derivatives contained in the investment book that serve for hedging purposes are measured at cost. Any premiums are recognised on the asset or liabilities side and derecognised in profit or loss at the end of the term. Interest is accrued pro rata temporis.

Negative fair values from derivatives in the investment book that cannot be allocated to any accounting group and ineffective parts from valuation units are recorded at their negative fair value, less premiums reported as accrued liabilities.

Derivative financial instruments of the trading book

Derivative financial instruments of the trading book comprise trading positions of stock exchange traded futures, options, interest rate swaps, swaptions, caps/floors/collars, and currency options. Measurement is effected at fair value and the measurement result is reported in the income statement in profit or loss.

The business strategy for the trading book is based on the product and customer requirements of the Association of Volksbanks. The focus is on servicing the primary level, on the transformation and hedging of risk positions, as well as on generating profits.

The monitoring of market risks in trading is performed by a market-independent unit within Risk Management.

The measurement and accounting of the financial instruments in the trading book takes place at fair value. The fair value corresponds to the stock exchange price or market value.

Determination of fair value

The fair value is the amount at which an asset can be exchanged between knowledgeable arm's length business partners willing to conclude a contract, or at which an obligation can be settled between such partners. In case of quoted/listed instruments, the fair value is equal to the market price. If no market price is available, the future cash flows of a financial instrument are discounted to the measurement date according to the respective interest rate curve. In doing so, internationally common mathematical calculation methods are used for the calculation.

VBW has administrated all trading book positions of derivatives in the MUREX front-office and risk management system, which is directly connected to various price information systems. That means that the market prices of different products are updated in real time. Products for which no direct price is available are measured by way of valuation models using market data (market risk factors) within this standard software. Structured or exotic products whose model prices cannot be determined using the standard software are measured in external price calculators that are regularly re-calibrated using liquid tradeable products in the market.

2. Explanations concerning the balance sheet

2.1 Explanatory notes on assets

Breakdown of loans and advances to and credit balances with banks, and loans and advances to customers – not repayable on demand:

Remaining time to maturity	31 Dec 2016 Euro	31 Dec 2015 Euro Thousand
up to 3 months	1,019,892,668.03	955,663
more than 3 months up to 1 year	854,247,923.44	577,841
more than 1 year up to 5 years	1,118,395,843.22	2,515,507
more than 5 years	3,245,681,335.25	1,959,515

Loans and advances to affiliates and participating interests:

	31 Dec 2016 towards affiliates Euro	31 Dec 2016 towards participating interests Euro	31 Dec 2015 towards affiliates Euro Thousand	31 Dec 2015 towards participating interests Euro Thousand
Claims against credit institutions	0.00	960,549,255.71	0	764,570
Loans and advances to customers	56,283,327.45	43,531,712.72	45,816	54,470
Shares and other non-fixed income securities	0.00	1,500,000.00	0	1,925
	56,283,327.45	1,005,580,968.43	45,816	820,965

Composition of risk provisions:

	31 Dec 2016 Risk provision Euro	31 Dec 2016 general allowance for credit risks section 57 (1) BWG Euro	31 Dec 2015 Risk provision Euro Thousand	31 Dec 2015 general allowance for credit risks section 57 (1) BWG Euro Thousand
Loans and advances to credit institutions	1,044,548.81	0.00	0	0
Loans and advances to customers	68,833,341.82	32,770,754.88	100,872	16,071
Provisions for off-balance sheet transactions	5,251,867.22	0.00	5,237	0
	75,129,757.85	32,770,754.88	106,109	16,071

Breakdown of securities, participations and shares in affiliates admitted for stock exchange trading of the balance sheet items 2, 5, 6, 7 and 8 into listed and unlisted securities:

31 Dec 2016:	Listed Euro	Not listed Euro
Debt instruments issued by public bodies and similar securities	1,063,979,826.86	0.00
Bonds and other fixed-income securities	1,225,422,133.52	0.00
Shares and other non-fixed income securities	778,885.18	61,861,024.58

31 Dec 2015:	Listed Euro Thousand	Not listed Euro Thousand
Debt instruments issued by public bodies and similar securities	956,058	0
Bonds and other fixed-income securities	1,160,491	0
Shares and other non-fixed income securities	9,923	42,446

As at 31 December 2016, VBW holds own supplementary capital within assets with a carrying amount of euro 287,910.97 (31 December 2015: euro 275k), own subordinate capital with a carrying amount of euro 97,000.04 (31 December 2015: euro 157k), as well as own bonds with a carrying amount of euro 855,000,000.00 (31 December 2015: euro 807,112k).

Breakdown of securities admitted to stock exchange trading
of balance sheet items 2, 5 and 6 in fixed and current assets:

31 Dec 2016:	Fixed assets Euro	Current assets (incl. trading book) Euro
Debt instruments issued by public bodies and similar securities	932,558,151.26	131,421,675.60
Bonds and other fixed-income securities	370,422,133.52	855,000,000.00
Shares and other non-fixed income securities	724,917.25	53,967.93

31 Dec 2015:	Fixed assets Euro Thousand	Current assets (incl. trading book) Euro Thousand
Debt instruments issued by public bodies and similar securities	836,217	119,842
Bonds and other fixed-income securities	352,799	807,692
Shares and other non-fixed income securities	9,825	98

The classification into non-current or current assets is based on the determination of the Asset Liability Committee (ALCO).

The difference between acquisition cost and the fair value, if higher, of securities not classified as non-current assets (current assets without trading book) and admitted to stock exchange trading amounts to euro 14,233,745.98 as at 31 December 2016 (31 December 2015: euro 17,966k).

Other information on securities

The difference, to be accrued and to be written down pro rata temporis over the remaining term to maturity, between historical cost and redemption amount in case of securities held as fixed assets amounts to euro 18,731,165.37 in total. As at 31 December 2016, euro 15,618,126.78 of that amount (31 December 2015: euro 10,662k) need to be written down over the remaining term to maturity yet.

The difference, to be written up pro rata temporis over the remaining term to maturity, between historical cost and redemption amount in case of securities held as fixed assets amounts to euro 24,404,708.75 in total. As at 31 December 2016, euro 17,288,740.60 of that amount (31 December 2015: euro 18,952k) need to be written up over the remaining term to maturity yet.

With respect to the below-mentioned securities held as fixed assets that were reported above fair value, unscheduled depreciation was omitted, as an intention to hold them and service them in full – accordingly its full recoverability – is assumed. In the 2016 business year, as in the 2015 business year, no contractual violations and no delays in payment were found due to substantial financial difficulties of the issuers.

31 Dec 2016	Market value Euro	Carrying amount Euro	Difference Euro
Debt instruments issued by public bodies and similar securities	120,538,800.00	123,596,202.89	-3,057,402.89
Loans and advances to banks	3,945,042.65	4,154,980.70	-209,938.05
Bonds and other fixed-income securities	110,253,761.05	113,171,037.45	-2,917,276.40
Shares and other non-fixed income securities	866,077.44	915,917.26	-49,839.82
	235,603,681.14	241,838,138.30	-6,234,457.16

31 Dec 2015	Market value Euro Thousand	Carrying amount Euro Thousand	Difference Euro Thousand
Debt instruments issued by public bodies and similar securities	6,739	6,760	-20
Loans and advances to banks	2,150	2,413	-263
Bonds and other fixed-income securities	78,980	79,684	-704
Shares and other non-fixed income securities	828	921	-93
	88,698	89,778	-1,080

Securities with market prices from inactive markets are primarily classified as non-current assets and are periodically reviewed with a view to any required unscheduled write-downs.

An inactive market exists if due to a decline in trading volume and/or trading activity, there is no market liquidity any more.

Externally provided fair values are reviewed for plausibility according to available market data on an ongoing basis. In case of deviating estimates, the fair value measurement is adopted by considering previous transactions, by comparison with current fair values of another essentially identical financial instrument or by means of the discounted cash flow method. Overall, such adjusted fair values are of subordinate importance.

In 2017, receivables from bonds and other fixed-income securities in the amount of euro 15,735,669.06 are due (in 2015 for 2016: euro 53,618k).

In the 2016 business year, there were genuine repurchase transactions with a carrying amount of euro 95,937,410.50 (PY: 0).

The credit institution has been keeping a trading book since 2015. As at 31 December 2016, securities with a market value of euro 23,797,527.05 (31 December 2015: euro 14,467k) and other financial instruments with a market value including accrued/deferred interest in the amount of euro 15,514,333.47 (31 December 2015: euro 9,138k) have been earmarked for this trading book, of which an amount of euro -299,699,606.51 (31 December 2015: euro -284,530) with external counterparties.

In 2016, no securities were reclassified from non-current assets to current assets.

By resolution of the Managing Board, the following security was classified from current assets into financial assets: VB Regio Invest (ISIN AT0000A015R4) with a carrying amount of euro 1,253,656.00.

Subordinated assets:

	31 Dec 2016 Euro	31 Dec 2015 Euro Thousand
Loans and advances to credit institutions	4,452,656.99	4,444
Loans and advances to customers	0.00	791
Bonds and other fixed-income securities	342,498.37	252
	4,795,155.36	5,487

Participations and shares in affiliates

Composition of the major participations and shares in affiliates:

Name of the company	Share %	Annual accounts	Total equity Euro Thousand	Annual result Euro Thousand
Immo-Contract Baden Maklergesellschaft m.b.H. 2500 Baden, Hauptplatz 9-12	100.00%	31 Dec 2015	383	120
VOME Holding GmbH 1090 Vienna, Kolingasse 14-16	100.00%	31 Dec 2015	424	-3
VB ManagementBeratung GmbH 1090 Vienna, Kolingasse 14-16	100.00%	31 Dec 2015	551	88
VBKA-Holding GmbH 1090 Vienna, Kolingasse 14-16	100.00%	31 Dec 2015	33	-3
UVB-Holding GmbH 1090 Vienna, Kolingasse 14-16	100.00%	31 Dec 2015	16	-3
VB Rückzahlungsgesellschaft mbH (business year 17 Jun 2015 – 31 Mar 2016) 1010 Vienna, Schottengasse 10	100.00%	31 Mar 2016	376	293
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H. 1010 Vienna, Schottengasse 10	99.50%	31 Dec 2015	1,620	12
VOBA Vermietungs- und Verpachtungsges.m.b.H. 2500 Baden, Hauptplatz 9-13	99.00%	31 Dec 2015	6,055	293
3V-Immobilien Errichtungs-GmbH 1090 Vienna, Kolingasse 14-16	99.00%	31 Dec 2015	8,297	-113
Gärtnerbank Immobilien GmbH 1220 Vienna, Kagraner Platz 48	99.00%	31 Dec 2015	174	35
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH 1220 Vienna, Kagraner Platz 48	99.00%	31 Dec 2015	4,211	4,236
VB Services für Banken Ges.m.b.H. 1090 Vienna, Kolingasse 14-16	98.89%	31 Dec 2015	4,401	1,966
VB Verbund-Beteiligung Region Wien eG (formerly: Verwaltungsgenossenschaft der IMMO-BANK eG) 1090 Vienna, Kolingasse 14-16	90.35%	30 Jun 2015	6,747	-461
ARZ-Volksbanken Holding GmbH 1090 Vienna, Kolingasse 14-16	73.56%	30 Jun 2015	237	0
Immo-Contract Weinviertel GmbH 2130 Mistelbach an der Zaya, Hauptplatz 11-12	51.00%	31 Dec 2015	69	2
Volksbank Vertriebs- und Marketing eG 1090 Vienna, Kolingasse 14-16	34.78%	31 Dec 2015	261	-16
Wiener Landwirtschaftliche Siedlungsgesellschaft mit beschränkter Haftung 1220 Vienna, Kagraner Pl. 48	33.33%	31 Dec 2015	215	-1
VB Beteiligungsgenossenschaft Obersdorf-Wolkersdorf-Deutsch-Wagram e.Gen. 2120 Obersdorf, Hauptstraße 57	30.25%	31 Dec 2015	9,301	-18
ARZ Allgemeines Rechenzentrum GmbH 6020 Innsbruck, Tschamlerstraße 2	25.99%	31 Dec 2015	8,629	9
Volksbank Kärnten eG 9020 Klagenfurt, Pernhartgasse 7	25.17%	31 Dec 2015	24,440	-3,889
Volksbanken - Versicherungsdienst - Gesellschaft m.b.H. 1071 Vienna, Lindengasse 5	24.86%	31 Dec 2015	3,822	291
VB Südburgenland Verwaltung eG 7423 Pinkafeld, Marktplatz 3	21.29%	31 Dec 2015	18,269	84
VB Verbund-Beteiligung eG (formerly: Verwaltungsgenossenschaft der start:gruppe e.Gen.) 1090 Vienna, Kolingasse 14-16	21.15%	31 Dec 2015	98,582	-3,294
VB-Beteiligungsgenossenschaft der Obersteiermark eG 8700 Leoben, Hauptplatz 4	20.06%	31 Dec 2015	28,116	38

Information on mutual participations:

Share of VBW	Beteiligungen	Share in VBW
32.2%	VB Beteiligungsgenossenschaft Obersdorf-Wolkersdorf-Deutsch-Wagram eG	1.4%
25.2%	Volksbank Kärnten eG	2.1%
21.3%	VB Südburgenland Verwaltung eG (formerly: Volksbank Südburgenland eG)	3.4%
21.2%	VB Verbund-Beteiligung eG (formerly: Verwaltungsgenossenschaft der start:gruppe e.Gen.)	4.1%
13.0%	Volksbanken Holding eGen	0.7%
8.1%	VB Ost Verwaltung eG	7.0%
4.7%	VB Baden Beteiligung e.Gen.	8.8%
4.0%	Volksbank Steiermark AG	5.1%
0.4%	Waldviertler Volksbank Horn registrierte Genossenschaft mit beschränkter Haftung	0.2%
0.014%	Volksbank Bad Goisern eingetragene Genossenschaft	0.1%
0.01%	Volksbank Bad Hall e.Gen.	0.1%
0.006%	Volksbank Steirisches Salzkammergut, registrierte Genossenschaft mit beschränkter Haftung	0.3%
0.003%	Österreichische Apothekerbank eG	0.4%
0.003%	SPARDA-BANK AUSTRIA eGen	0.7%
0.002%	Volksbank Salzburg eG	3.9%

Relationships with affiliates

Since 2010, VBW has been the top-tier company of a group of companies acc. to section 9 KStG (Corporate Income Tax Act). The stand-alone method is applied, which starts from the assumption of fiscal independence of the individual group member when calculating the distribution of the tax burden. Furthermore, the tax liability of the group members must be paid to VBW on 30 September of the following year, tax receivables will either be carried forward by VBW in years when the group makes a profit, or the group member may offset its tax liabilities against tax liabilities in subsequent years. Any final settlement of tax receivables is compensated with the present value of the (notional) future tax saving from the respective member's as yet unused loss carry-forwards. Discounting of loss carry-forwards is effected based on an adequate interest rate linked to the 12-month EURIBOR or, if this is not available any more, any comparable reference interest rate. As of the 2015 business year, almost all group charge arrangements provide for an allocation rate of 6.25% based on existing loss carry-forwards.

As at 31 December 2016, the number of group members amounts to 9 (31 December 2015: 8). In the 2016 business year, a new member was added to the group of companies acc. to section 9 KStG.

Fixed assets

The value of developed and undeveloped land amounts to euro (12,192,199.18 (31 December 2015: euro 12,136k). As for the development of fixed assets, please refer to Annex 1 to these Notes.

Breakdown of other assets:

	31 Dec 2016 Euro	31 Dec 2015 Euro Thousand
Receivables from derivative financial instruments	433,448,240.76	458,453
Auxiliary accounts of banking business	3,206,921.61	2,200
Receivables from taxes and charges	1,275,783.33	0
Land and buildings acquired to secure receivables	849,898.88	897
Sundry other receivables	25,965,536.54	20,974
	464,746,381.13	482,525

Income in the amount of euro 31,379,889.75 (31 December 2015: euro 37,751k) is included in the item Other assets, which will be received only after the balance sheet date. For the major part, this concerns accrued interest.

Other assets include items with a remaining term to maturity of more than one year in the amount of euro 951,064.61 (31 December 2015: euro 1,930k).

Other assets include credit balances with VB Salzburg in the amount of euro 7,575,675.00 (PY: 0) (of which assets designated to the trust fund (Leistungsfonds) in the amount of euro 3,534,225.00).

Deferred tax assets

As at the balance sheet date, deferred tax assets were established for temporary differences between the tax base and the book value under company law:

	31 Dec 2016 Euro	31 Dec 2015 Euro Thousand
Flat-rate provisions acc. to section 9 (3) EStG (Income Tax Act)	33,661,943.37	3,900
Flat-rate individual impairment	32,770,754.88	16,314
Participations	19,551,344.39	17,038
Provision for severance payments	8,368,837.99	7,670
Provision for pensions	2,704,829.71	1,842
Provision for long-term service bonuses	2,401,487.07	2,560
Long-term provisions	1,254,824.59	4,224
LIVEBank	490,476.19	414
Tangible fixed assets and intangible assets	442,924.78	1,893
Transfer of pensions	72,485.80	109
Other differences	0.00	836
	101,719,908.77	56,800
Deferred tax assets 31 Dec 2015 (6.25%), rounded		3.550
Revaluations		10,650
Deferred tax assets 1 Jan 2016 (25%)		14,200
Deferred tax assets as at 31 Dec 2016 from difference amounts determined (25%)	25,429,977.19	
Deferred tax assets of group members from (contractual) tax rate differences	790,478.64	
Total deferred tax assets as at 31 Dec 2016 (25%)	26,220,455.53	

As regards the income-statement effects of movements in deferred taxes as well as the valuation effect included therein, please refer to explanatory notes under “Income taxes”.

2.2 Explanatory notes on liabilities

Breakdown of amounts owed to banks and customers – not repayable on demand:

Remaining time to maturity	31 Dec 2016 Euro	31 Dec 2015 Euro Thousand
up to 3 months	306,150,902.16	578,933
more than 3 months up to 1 year	924,222,879.46	649,288
more than 1 year up to 5 years	485,893,609.72	462,744
more than 5 years	504,758,467.49	81,109

Amounts owed to affiliates and participating interests:

	towards affiliates Euro	31 Dec 2016 towards participating interests Euro	towards affiliates Euro Thousand	31 Dec 2015 towards participating interests Euro Thousand
Amounts owed to banks	0.00	1,454,315,756.71	0	2,221,910
Amounts due to customers	58,799,153.92	107,747,730.54	19,320	19,413
Debts evidenced by certificates	0.00	233,000.00	0	233
Supplementary capital acc. to Part 2 Title 1 Chapter 4 of Regulation (EU) no. 575/2016	0.00	942,000.00	0	942
	58,799,153.92	1,563,238,487.25	19,320	2,242,498

Debts evidenced by certificates

No issued bonds will mature in the 2017 business year (in 2015 for 2016: euro 0k).

Other liabilities

	31 Dec 2016 Euro	31 Dec 2015 Euro Thousand
Liabilities from derivative financial instruments	539,578,036.99	570,753
Liabilities from taxes and charges	21,273,122.10	5,495
Accrued interest	6,736,049.44	36,881
Sundry other liabilities	43,441,846.27	7,008
	611,029,054.80	620,137

Expenses in the amount of euro 46,873,232.74 (31 December 2015: euro 79,091k) are included in the item Other liabilities, which will be cash effective after the balance sheet date. They mainly consist of accrued interest.

Other liabilities (except for fair values of derivative financial instruments) include items with a remaining term to maturity of less than one year in the amount of euro 108,729,362.75 (31 December 2015: euro 90,593k).

The decrease in accrued interest results from the reclassification of the accounts for interest accruals of own issues to the pertaining securities position. In the previous year, this was reported in Other liabilities in full.

Other provisions

Other provisions break down as follows:

	31 Dec 2016 Euro	31 Dec 2015 Euro Thousand
Shareholder contributions VB RZG	35,998,516.73	10,040
for losses and risks due to loans granted and credit guarantees	11,229,660.07	13,395
for imminent losses from derivative financial instruments	16,626,862.45	26,513
for restructuring (redundancy programme, transformation, restoration of leased property to its original condition)	8,605,047.97	12,108
for outstanding purchase invoices	7,349,930.45	7,159
for long-term service bonuses	4,657,279.02	4,336
for annual leave not yet taken	4,217,459.63	4,292
effect from AFRAC transition	0.00	3,900
for other obligations	7,103,093.41	1,657
	95,787,849.73	92,775

The item Shareholder contributions VB RZG includes provisions in the amount of euro 23,058,743.09 (31 December 2015: euro 10,040k) in the retail segment as well as euro 12,939,773.64 (31 December 2015: euro 0k) in the CO segment for future shareholder contributions to VB RZG on the basis of the reorganisation agreement concluded with the federal government in 2015.

Equity

As at 31 December 2015, the share capital of VBW amounted to euro 107,477,250.00 and consists of 1,146,424 no-par shares.

By way of the transfer and contribution in kind agreement dated 18 May 2016, the banking operations of Volksbank Weinviertel eG (FN 57445 d) were taken over into VBW acc. to section 92 BWG by way of universal succession. By resolution of the General Meeting of 18 May 2016, a capital increase by euro 4,849,781.25 was resolved upon in this context and implemented.

By way of the transfer and contribution in kind agreement dated 7 September 2016, the banking operations of Volksbank Niederösterreich eG (FN 108505 t) were taken over into VBW acc. to section 92 BWG by way of universal succession. By resolution of the General Meeting of 7 September 2016, a capital increase by euro 9,263,812.50 was resolved upon in this context and implemented.

By way of the transfer and contribution in kind agreement dated 7 September 2016, the banking operations of Volksbank Südburgenland eG (FN 127315 d) were taken over into VBW acc. to section 92 BWG by way of universal succession. By resolution of the General Meeting of 7 September 2016, a further capital increase by euro 5,346,750.00 was resolved upon in this context and implemented.

As at 31 December 2016, the share capital of VBW amounted to euro 126,937,593.75 and consisted of 1,354,001 no-par shares.

The following shareholders participate in the share capital as at 31 December 2016:

	Euro Thousand	%
Volksbanks	33,289	26%
Republic of Austria	31,735	25%
VB Wien Beteiligung eG	14,425	11%
VB Baden Beteiligung e.Gen.	11,177	9%
VB Ost Verwaltung eG	8,845	7%
VB Niederösterreich Süd eG	7,271	6%
VB Verbund-Beteiligung eG (formerly: Verwaltungsgenossenschaft der start:gruppe e.Gen.)	5,236	4%
VB Südburgenland Verwaltung eG	4,283	3%
VB Weinviertel Verwaltung eG	3,860	3%
VB Beteiligungsgen. Obersdorf-Wolkersdorf-Deutsch-Wagram eG	1,779	1%
Verwaltungsgenossenschaft Gärtnerbank e.Gen.	1,299	1%
Bank für Ärzte und Freie Berufe Aktiengesellschaft	1,093	1%
SPARDA-BANK AUSTRIA eGen	939	1%
Österreichische Apothekerbank eG	515	1%
Free float	1,192	1%
	126,938	100%

Issued subordinated liabilities and supplementary capital

As at 31 December 2016, the terms of the subordinated liabilities and supplementary capital issued are as follows:

ISIN	Name	Nominal value	Currency	Interest rate (Dec 31)	Redemption	Continuous issue	Right of termination	Conversion into equity
QOXDBA000383	ERG.KAP.SCHV. 2007-2022	4,000,000	euro	4.000%	1 Dec 2022	yes	issuer	no
AT0000A09SS0	FRN ERGÄNZUNGSKAPITALANL. 2008-2018	2,735,000	euro	0.199%	16 June 2018	yes	imposible	no
AT0000A05QZ7	VAR. ERG.KAP. SCHULDV. 2007-2019	792,000	euro	0.165%	16 July 2019	yes	imposible	no
QOXDB4408833	PS 2006	6,744	qty		perpetual	no	imposible	no
QOXDB4449050	4,25% Nachrangkapital-Bank-schuldverschreibung 2002-2017 mit variabler Verzinsung	5,000,000	euro	3.000%	27 Feb 2017	yes	issuer	no
QOXDBA032238	3,50% Volksbank Wien-Baden AG Nachrangige Tier 2 Anleihe 2014-2022	600,000	euro	3.500%	1 Dec 2022	no	imposible	no
QOXDB9961364	3% Variable Nachrangkapital - Bankschuldverschreibung 2003-2018	5,000,000	euro	3.000%	25 Aug 2018	yes	issuer	no
QOXDB4409005	PS 2006	260	qty		perpetual	no	imposible	no
QOXDB4408908	PS 2006	1370	qty		perpetual	no	imposible	no
QOXDB4409039	PS 2006	341	qty		perpetual	no	imposible	no
QOXDB4409195	PS 2006	962	qty		perpetual	no	imposible	no
QOXDB4409120	PS 2006	230	qty		perpetual	no	imposible	no

The supplementary capital is subordinated acc. to section 45 (4) BWG and accordingly, in case of liquidation or bankruptcy, must only be paid back after satisfying or securing the claims of the other – not subordinated – creditors.

The subordinated bond with identification number ISIN QOXDBA032238 includes a clause regarding early redemption for regulatory or fiscal reasons. In case of a change of the regulatory classification of the bond which is likely to result in the latter's exclusion from own funds or its reclassification as own funds of low quality, or in case of a change of the applicable tax treatment of the bond, the issuer is entitled at any time to prematurely terminate the bond.

Participation capital

The participation capital was paid up in full and is available to the issuer for the duration of the company, waiving ordinary and extraordinary termination. Just like the share capital, the participation capital participates in loss up to the full amount (section 23 (4) (4) BWG). There is no additional payment liability. The participants participate in the liquidation proceeds and/or the company value. The participants will only be satisfied after satisfaction or securing of all other creditors (incl. holders of subordinated capital and supplementary capital). The participation capital includes a right of information and participation in shareholders' meetings.

Liability reserve under section 57 (5) BWG

As at 31 December 2016, the liability reserve amounts to euro 35,877,671.37 (31 December 2015: euro 35,878k).

2.3 Explanatory notes on contingencient liabilities

Composition of contingent liabilities:

	31 Dec 2016 Euro	31 Dec 2015 Euro Thousand
Sureties and guarantees	389,533,646.84	408,321
Provision of collateral	0	13,280
Haftsummenzuschläge (guaranteed amounts)	26,902,603.76	61,936
Letters of credit	467,349 31	1,690
less: provisions	-3,968,479.45	-5,237
	412,935,120.46	479,991

Composition of credit risks:

	31 Dec 2016 Euro	31 Dec 2015 Euro Thousand
Loan commitments	4,331,388,151.72	4,759,962

2.4 Other financial obligations

Composition of liabilities from trust transactions

	31 Dec 2016 Euro	31 Dec 2015 Euro Thousand
Loans on a trust basis/deposits	105,679,392.86	108,777
Other trust assets	36,808,215.10	0
Export fund loans	7,452,658.00	375
	149,940,265.96	109,152

Reorganisation agreement

The reorganisation agreement 2015 between a.o. the Republic of Austria ("federal government") and VBW, which was supplemented by an implementation agreement between (among others) VBW, the Volksbanks and other shareholders of VBW, regulated, among others, a participation rights issue (the "federal government's participation right") through VB Rückzahlungsgesellschaft mbH ("VB RZG"), a direct subsidiary of VBW. The federal government's participation right was issued for the purpose of meeting those commitments that were made by the EU Commission to the federal government for the purpose of obtaining approval of the reorganisation under the funding guidelines.

Distributions of VB RZG on the federal government's participation right are effected at the discretion of VBW as the sole shareholder of VB RZG. No claim for profit shares exists under the federal government's participation right. In that context, shareholders of VBW have transferred VBW stocks (at a rate of 25% of the share capital plus 1 share) to the federal government without consideration. The shares were transferred to the federal government on 28 January 2016. The federal government is obliged to transfer said shares back to the respective shareholders without consideration, as soon as the sum of the dividends, on the federal government's participation right, received from the federal government and other creditable amounts, as defined, reaches a certain amount. Should the dividends received by the federal government in respect of the federal government's participation right not reach certain minimum amounts defined, taking into account certain creditable amounts (such as any dividends on the shares held by the federal government in VBW) on certain contractually agreed effective dates (a "control event"), the federal government shall be entitled to freely dispose of such shares without any further consideration and to claim additional ordinary shares of VBW at a rate of 8% of the share capital of VBW without further consideration from the VBW shareholders. Overall, accordingly, in case the control event occurs, up to 33% plus 1 share of the shares in VBW may pass into the (legal and beneficial) ownership of the federal government and the federal government is entitled to freely dispose of said shares (subject to the pre-emptive right granted). In case that the pre-emptive right granted by the federal government is exercised by a purchaser nominated by VBW and that a minimum threshold for the sum of the dividends in respect of the federal government's participation right and of the creditable amounts is missed again, the shareholders of VBW have undertaken to transfer to the federal government additional ordinary shares of VBW in the amount of the VBW shares previously transferred to the federal government and acquired by the purchaser nominated by VBW, with immediate unrestricted power of disposition of the federal government.

According to its contractual obligations towards the federal government, VBW shall submit to the Volksbanks, by 30 November of each year, a proposal regarding the total amount to be distributed by VB RZG in respect of the federal government's participation right in the following calendar year and for the total amount of the primary banks' contributions required in this respect (indirect contributions of Volksbanks and direct contribution of VBW to VB RZG). VBW is charged according to the share of its retail segment in the Association of Volksbanks (total assets UGB/BWG).

In the 2016 business year, further payments were effected to the federal government under the reorganisation agreement. In this way, the first threshold determined for eligible amounts and dividends for the business year ending on 31 December 2017 has already been exceeded. The next threshold must be reached with the distribution in respect of the business year ending on 31 December 2019.

Legal risks from the spin-off of CO operations into VBW

According to the spin-off agreement dated 1 June 2015 ("Spin-off Agreement"), VBW has assumed the "central organisation and central institution function" operations from Österreichische Volksbanken-Aktiengesellschaft (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 amount to the net assets assumed through the spin-off (within the meaning of section 15 (1) SpaltG). The total amounts in dispute from pending complaints under section 15 (1) SpaltG are euro 6,883,587.80.

Moreover, complaints for provision of collateral (section 15 (2) SpaltG) were filed against immigon and VBW, in total for liabilities in the amount of euro 7,000,000.00 still pending. The prerequisite for the claim for provision of collateral is endangerment of the performance of the respective claim due to the spin-off. Based, among others, on expert opinions prepared in the course of the spin-off, for instance by a judicially appointed expert auditor, VBW does not see any such endangerment. VBW has unrestricted liability (in terms of amount) as joint and several debtor for said liabilities as of the time of the respective judicial demand for provision of collateral, until either the collateral has been provided or the complaint has been dismissed finally and absolutely (section 15 (3) SpaltG).

The obligations underlying the claims for damages and provision of collateral, respectively, are attributed to immigon in the Spin-off Agreement. VBW has indemnification claims towards immigon, especially as agreed in the Spin-off Agreement, if VBW is itself subject to any such claims. Based on the semi-annual result of immigon published as at 30 June 2016, VBW expects immigon to be in a position to service its liabilities. Should any economic stress of VBW occur nevertheless, it would not have to cope with this on its own, but – according to agreements made within the Association of Volksbanks – only pro rata together with the other members of the Association of Volksbanks.

2.5 Additional disclosures

Breakdown of assets pledged as collateral for liabilities:

	31 Dec 2016 Euro	31 Dec 2015 Euro Thousand
Assets pledged as collateral		
Loans and advances to credit institutions	0.00	13,280
Loans and advances to customers	2,445,897,029.64	1,745,551
Debt instruments issued by public bodies, bonds and other fixed-income securities	17,500,000.00	55,203
	2,463,397,029.64	1,814,034
Assets were pledged as collateral for the following obligations		
Amounts owed to banks	282,652,378.14	80,979
Debts evidenced by certificates	2,165,744,651.50	1,708,421
Amounts owed to customers (savings deposits)	15,000,000.00	11,353
Guarantees	0.00	13,280
	2,463,397,029.64	1,814,034

Assets pledged as collateral include the underlying stock for covered bonds in the amount of euro 2,165,744,651.50 (31 December 2015: euro 1,708,421k).

The total amount of obligations from using tangible fixed assets not reported in the balance sheet is (for the following business year) euro 9,029,697.00 (31 December 2015: euro 8,734k), of which affiliates euro 3,805,047.00 (31 December 2015: euro 3,805k) and for the following five business years euro 40,544,318.00 (31 December 2015: euro 42,283k), of which affiliates euro 19,025,234.00 (31 December 2015: euro 19,025k).

Total amount of assets and liabilities denominated in foreign currencies:

	31 Dec 2016 Euro	31 Dec 2015 Euro Thousand
Foreign currency assets	1,215,404,685.94	1,590,738
Foreign currency liabilities	200,345,703.27	235,296

An amount of euro 5,665,775.00 (PY: 0) is included in the liquid funds which is restricted for the purposes of the trust fund (Leistungsfonds).

This table contains information on derivative financial instruments (fair values including accrued/deferred interest):

TOTAL **31 Dec 2016**

Euro thousand	up to 1 year	1-5 years	more than 5 years	Nominal value Total	Market value 31 Dec 2016
INTEREST RATE RELATED TRANSACTIONS	**991,520**	**2,624,021**	**3,278,787**	**6,894,328**	**-236,354**
Caps&Floors	91,679	553,261	390,528	1,035,467	-572
FRA's	0	0	0	0	0
Interest Futures	524,000	427,000	0	951,000	41
IRS	375,841	1,643,760	2,888,259	4,907,861	-235,824
Swaptions	0	0	0	0	0
EXCHANGE RATE RELATED TRANSACTIONS	**1,339,113**	**1,062,646**	**266,704**	**2,668,463**	**-122,004**
Cross Currency Swaps	530,787	1,055,474	266,704	1,852,965	-128,636
Foreign exchange options	0	0	0	0	0
Foreign exchange transactions/FX SWAPS	808,327	7,172	0	815,499	6,632
CREDIT RELATED TRANSACTIONS	**0**	**0**	**0**	**0**	**0**
Credit Default Swaps long positions	0	0	0	0	0
Credit Default Swaps short positions	0	0	0	0	0
OTHER TRANSACTIONS	**19,315**	**16,143**	**384,765**	**420,223**	**1,281**
Pension and annuity product/ guarantee savings fund	0	0	375,041	375,041	-3,589
Options	19,315	16,143	9,724	45,182	4,870
TOTAL	**2,349,949**	**3,702,810**	**3,930,255**	**9,983,014**	**-357,077**
of which internal	90,909	822,722	1,454,207	2,367,838	0

TRADING BOOK **31 Dec 2016**

Euro thousand	up to 1 year	1-5 years	more than 5 years	Nominal value Total	Market value 31 Dec 2016
INTEREST RATE RELATED TRANSACTIONS	**785,698**	**2,155,567**	**2,180,520**	**5,121,785**	**15,501**
Caps&Floors	91,224	525,555	382,561	999,341	-119
FRA's	0	0	0	0	0
Interest Futures	524,000	427,000	0	951,000	41
IRS	170,474	1,203,012	1,797,959	3,171,445	15,579
Swaptions	0	0	0	0	0
EXCHANGE RATE RELATED TRANSACTIONS	**0**	**38,575**	**29,673**	**68,248**	**13**
Cross Currency Swaps	0	38,575	29,673	68,248	13
Foreign exchange options	0	0	0	0	0
Foreign exchange transactions/FX SWAPS	0	0	0	0	0
OTHER TRANSACTIONS	**0**	**0**	**0**	**0**	**0**
Market price guarantees	0	0	0	0	0
Options	0	0	0	0	0
TOTAL	**785,698**	**2,194,142**	**2,210,193**	**5,190,033**	**15,514**
of which internal	45,454	415,353	727,070	1,187,878	315,214

INVESTMENT BOOK **31 Dec 2016**

Euro thousand	up to 1 year	1-5 years	more than 5 years	Nominal value Total	Market value 31 Dec 2016
INTEREST RATE RELATED TRANSACTIONS	**205,822**	**468,454**	**1,098,267**	**1,772,543**	**-251,856**
Caps&Floors	454	27,706	7,966	36,126	-453
FRA's	0	0	0	0	0
Interest Futures	0	0	0	0	0
IRS	205,368	440,748	1,090,300	1,736,416	-251,403
Swaptions	0	0	0	0	0
EXCHANGE RATE RELATED TRANSACTIONS	**1,339,113**	**1,024,071**	**237,031**	**2,600,215**	**-122,017**
Cross Currency Swaps	530,787	1,016,899	237,031	1,784,716	-128,649
Foreign exchange options	0	0	0	0	0
Foreign exchange transactions/FX SWAPS	808,327	7,172	0	815,499	6,632
CREDIT RELATED TRANSACTIONS	**0**	**0**	**0**	**0**	**0**
Credit Default Swaps long positions	0	0	0	0	0
Credit Default Swaps short positions	0	0	0	0	0
OTHER TRANSACTIONS	**19,315**	**16,143**	**384,765**	**420,223**	**1,281**
Market price guarantees Pension and annuity product/ guarantee savings fund	0	0	375,041	375,041	-3,589
Options	19,315	16,143	9,724	45,182	4,870
TOTAL	**1,564,251**	**1,508,668**	**1,720,062**	**4,792,981**	**-372,592**
of which internal	45,454	407,369	727,137	1,179,960	-315,214

				31 Dec 2015				
thereof hedge 31 Dec 2016	Other receiveables 31 Dec 2016	Other liabilities 31 Dec 2016	Provisions 31 Dec 2016	Market value 31 Dec 2015	thereof hedge 31 Dec 2015	Other receiveables 31 Dec 2015	Other liabilities 31 Dec 2015	Provisions 31 Dec 2015
-252,056	**404,313**	**400,774**	**11,022**	**-220,820**	**-231,385**	**434,828**	**436,723**	**7,308**
-532	2,229	2,346	23	-599	-558	2,953	3,110	48
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
-251,524	402,084	398,428	11,000	-215,721	-230,827	431,875	428,740	7,261
0	0	0	0	-4,500	0	0	4,873	0
-44,511	**24,852**	**138,804**	**1,515**	**-129,173**	**-47,285**	**18,589**	**133,995**	**3,002**
-44,511	16,774	138,633	393	-127,791	-47,285	18,290	132,552	2,290
0	0	0	0	0	0	0	0	0
0	8,077	171	1,123	-1,381	0	299	1,442	711
0	**0**	**0**	**0**	**12**	**0**	**0**	**36**	**5**
0	0	0	0	12	0	0	36	5
0	0	0	0	0	0	0	0	0
0	**4,272**	**0**	**4,089**	**3,443**	**0**	**5,023**	**0**	**16,198**
0	0	0	4,089	-2,368	0	0	0	16,198
0	4,272	0	0	5,811	0	5,023	0	0
-296,567	**433,437**	**539,578**	**16,627**	**-346,537**	**-278,670**	**458,440**	**570,753**	**26,513**
-315,293	295,188	306		0	-295,171	273,924	469	

				31 Dec 2015				
thereof hedge 31 Dec 2016	Other receiveables 31 Dec 2016	Other liabilities 31 Dec 2016	Provisions 31 Dec 2016	Market value 31 Dec 2015	thereof hedge 31 Dec 2015	Other receiveables 31 Dec 2015	Other liabilities 31 Dec 2015	Provisions 31 Dec 2015
0	**394,773**	**398,739**	**532**	**9,123**	**0**	**423,384**	**433,463**	**640**
0	2,225	2,346	0	-159	0	2,948	3,110	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	392,548	396,393	532	13,781	0	420,437	425,853	640
0	0	0	0	-4,500	0	0	4,500	0
0	**14,350**	**15,022**	**0**	**15**	**0**	**15,264**	**15,932**	**0**
0	14,350	15,022	0	15	0	15,264	15,932	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	**409,123**	**413,761**	**532**	**9,138**	**0**	**438,649**	**449,394**	**640**
0	295,101	0		293,668	0	273,792	0	

				31 Dec 2015				
thereof hedge 31 Dec 2016	Other receiveables 31 Dec 2016	Other liabilities 31 Dec 2016	Provisions 31 Dec 2016	Market value 31 Dec 2015	thereof hedge 31 Dec 2015	Other receiveables 31 Dec 2015	Other liabilities 31 Dec 2015	Provisions 31 Dec 2015
-252,056	**9,541**	**2,035**	**10,490**	**-229,943**	**-231,385**	**11,444**	**3,260**	**6,668**
-532	4	0	23	-440	-558	5	0	48
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
-251,524	9,537	2,035	10,467	-229,502	-230,827	11,439	2,887	6,621
0	0	0	0	0	0	0	373	0
-44,511	**10,502**	**123,783**	**1,515**	**-129,188**	**-47,285**	**3,325**	**118,063**	**3,002**
-44,511	2,424	123,612	393	-127,806	-47,285	3,025	116,621	2,290
0	0	0	0	0	0	0	0	0
0	8,077	171	1,123	-1,381	0	299	1,442	711
0	**0**	**0**	**0**	**12**	**0**	**0**	**36**	**5**
0	0	0	0	12	0	0	36	5
0	0	0	0	0	0	0	0	0
0	**4,272**	**0**	**4,089**	**3,443**	**0**	**5,023**	**0**	**16,198**
0	0	0	4,089	-2,368	0	0	0	16,198
0	4,272	0	0	5,811	0	5,023	0	0
-296,567	**24,314**	**125,817**	**16,095**	**-355,676**	**-278,670**	**19,792**	**121,359**	**25,874**
-315,293	87	306		-293,668	-295,171	132	469	

3. Explanatory notes on the income statement

Net interest income

	2016 Euro	2015 Euro Thousand
Interest and similar income		
from loan and investment transactions		
from loans and advances to credit institutions	16,580,043.74	17,319
from loans and advances to customers	99,337,554.70	85,097
from bills of exchange	281.10	0
Fees and commissions equivalent to interest	5,874,428.97	13,876
from bonds and other fixed-income securities	8,848,525.52	13,975
from other assets – total	10,587,438.67	13,510
Interest and similar expenses		
from refinancing transactions		
from amounts owed to credit institutions	-14,820,113.57	-20,471
from amounts owed to customers	-11,981,304.03	-19,833
from debts evidenced by certificates	-7,320,383.40	-10,670
	107,106,471.70	92,803

Negative interest

Due to the interest rate development on the money market with negative benchmark interest rates, interest income (negative interest expenses) in the amount of euro 4,130,065.98 (2015: euro 18,880k) and interest expenses (negative interest income) in the amount of euro 6,931,866.15 (2015: euro 3,896k) were realised in the 2016 business year. The negative interest expenses were reported within Interest and similar income from other assets and the negative interest income in Interest and similar expenses from amounts owed to credit institutions.

Income from securities and participations

	2016 Euro	2015 Euro Thousand
Income from securities and participations		
a) Income from stocks, other share rights and variable-income securities	914,841.83	3,429
b) Income from participations	1,867,875.05	1,322
c) Income from shares in affiliates	1,852,501.13	1,612
	4,635,218.01	6,363

Net fee and commission income

	2016 Euro	2015 Euro Thousand
Fee and commission income		
from payment transactions	26,406,905.73	21,418
from securities business	33,297,867.71	27,755
from credit business	13,447,872.90	10,801
from other service business	6,593,883.09	4,333
from foreign exchange, foreign notes and coins, precious metals business	113,096.38	991
Fee and commission expenses		
for payment transactions	-2,702,041.19	-2,316
for securities business	-12,524,019.13	-8,793
for credit business	-14,718,762.15	-14,546
for other service business	-42,371.90	-298
for foreign exchange, foreign notes and coins, precious metals business	0.00	-45
	49,872,431.44	39.300

Income/expenses from financial transactions

	2016 Euro	2015 Euro Thousand
Result from financial transactions		
Stock-related transactions	-30,197.62	58
Interest-related transactions	2,643,683.08	3,435
Foreign exchange business	2,479,614.74	1,700
Foreign notes and coins, and precious metals business	1,325,349.02	1,420
Other financial transactions	-1,703,808.46	1,858
	4,714,640.76	8,471

Other operating income breaks down as follows:

	2016 Euro	2015 Euro Thousand
Charged-out staff costs and administrative expenses	81,130,932.45	66,376
Income from the reversal of provisions	13,306,585.36	7,140
Charged-out structural cost contributions	10,560,417.28	0
Charged-out contr. to Single Resolution Fund (SRF)	8,346,073.27	6,569
Income from the disposal of assets	3,411,432.32	1,542
Income from letting and leasing	2,382,854.32	2,110
Income from derivative financial instruments	561,176.64	25,190
From other transactions	2,541,580.27	4,365
	122,241,051.91	113,293

Charged-out staff costs and administrative expenses essentially include the expenses incurred by VBW in its capacity as the central organisation of the Association of Volksbanks and charged out to the primary banks of the Volksbank-Sector according to the agreement on the assumption of the Association's costs.

Income from the reversal of provisions includes effects from first-time application of RÄG 2014 in the amount of euro 666,610.85 (see explanation above "first-time application of RÄG 2014").

The decline in income from derivative financial instruments results from a one-time effect in connection with the cancellation of a large issue and a corresponding loss in the hedging business (cf. decline in losses on redemption – issues in the item Other operating expenses) in the 2015 business year.

Other operating expenses break down as follows:

	2016 Euro	2015 Euro Thousand
Charged-out expenses	35,967,528.45	13,821
Charged-out contr. to Single Resolution Fund (SRF)	8,346,073.28	6,177
Losses on redemption – issues	92,875.08	13,987
Expenses – derivative financial instruments	65,723.42	1,911
Contributions to sectoral support facilities	0.01	3,698
Expenses – financial guarantee and redemption of securities	0.00	20,091
Other expenses	7,654,541.71	11,733
	52,126,741.93	71,418

The charged-out expenses primarily include amounts charged out for IT projects and joint advertising. Other expenses mainly concern an allocation to a provision from the lapse of a hedging relationship for negative market values of derivatives in the amount of euro 5,600,000.00, as well as expenses for fund liabilities of euro 1,204,936.04.

Result from valuations and disposals:

	2016 Euro	2015 Euro Thousand
Result from valuations and disposals	**-28,004,895.72**	**-14,615**
Impairments on receivables, and allocations to provisions for contingent liabilities and for credit risks	-58,266,917.21	-37,807
Credit business	-58,168,576.06	-37,773
Securities held as current assets	-98,341.15	-34
Income from the reversal of impairments on receivables and from provisions for contingent liabilities and for credit risks	64,454,130.69	37,053
Credit business	64,433,752.90	36,983
Securities held as current assets	20,377.79	70
Balance Item 11 of the income statement	6,187,213.48	-754
Impairments on securities valued as financial assets, as well as on participations and shares in affiliates	-40,676,623.54	-18,441
Securities held as fixed assets	-1,215,809.35	-5,306
Participations, shares in affiliates	-39,460,814.19	-13,135
Income from reversal of impairments on securities valued as financial assets, as well as participations and shares in affiliates	6,484,514.34	4,580
Securities held as fixed assets	3,090,726.61	4,378
Participations, shares in affiliates	3,393,787.73	202
Balance Item 12 of the income statement	-34,192,109.20	-13,861

Income taxes

Income taxes concern the result from ordinary operations. The tax income in the amount of euro 22,132,089.53 (2015: euro -2,422k) essentially comprises a tax expense from current corporate income tax in the amount of euro 4,889,670.74 (2015: euro -525k), tax income from capitalisation of deferred taxes in the amount of euro 22,670,455.53 (of which from transition to the "temporary concept" as of 1 January 2016: euro 10,650,000.00), as well as corporate income tax income from current offsetting within the Austrian tax group of euro 3,919,818.49 (2015: euro 396k).

Other taxes, unless they must be reported in item 15

Other taxes in the amount of euro 26,127,694.63 (2015: euro 2,182k) essentially include the bank levy acc. to the Stability Levy Act (Stabilitätsabgabegesetz) in the amount of euro 9,042,590.05 (2015: euro 760k) and the accrued liability for the special payment in the first quarter of 2017 acc. to section 5 (1) (4) StabAbG as amended by AbgÄG 2016 in the amount of euro 16,600,657.62.

Expenses for subordinated liabilities and supplementary capital amount to euro 497,061.08 (2015: euro 499k).

Expenses for severance payments and contributions to employee pension funds include expenses from severance payments in the amount of euro 2,379,610.28 (income 2015: euro 2,058k).

No transaction occurred in the 2016 business year that affected the extraordinary result. (2015: euro 9,500k).

The differences resulting from contribution of the banking operations of Volksbank Weinviertel eG (FN 57445 d), of Volksbank Niederösterreich Süd eG (FN 108505 t) and of Volksbank Südburgenland eG (FN 127315 d) to VBW between capital increase and contribution capital in the amount of euro 12,018,879.38 are reported in the income statement in a special item under the heading "Reduction in net assets through reorganisation" directly after the item Annual surplus/deficit, acc. to KFS/RL 25 no. 97b).

4. Other disclosures

As the central organisation, VBW prepares the consolidated financial statements acc. to section 59 BWG and financial statements of the Association of Volksbanks acc. to section 59a BWG. Disclosure of the annual financial statements of the Association is effected by VBW domiciled in Vienna, with Vienna Commercial Court.

The company is the parent company of the VBW group and prepares the consolidated financial statements for the largest and the smallest group of companies. The consolidated financial statements are available at Vienna Commercial Court.

In 2016, the average headcount was 1,101.8 (2015: 989.9), with 1,091.8 (2015: 981.70) white-collar employees and 10.0 (2015: 8.20) blue-collar employees.

Return on total capital employed
According to section 64 (1) (19) BWG as amended by Fed. Law Gazette (BGBl) I 2014/184, the return on total capital employed is 0.25% (2015: 0.04%). Return on total capital employed under the BWG is the quotient of annual result after taxes divided by total assets at the balance sheet date.

Capital requirements acc. to Art. 92 (1) lit. a to c of Regulation (EU) No. 575/2013
By assuming the function of central organisation acc. to section 30a BWG, VBW is subject to the external capital requirements based on CRD IV and CRR of the European Union (Basel III) at the level of the individual institution.

According to Art 92 CRR, VBW must meet the following capital requirements at all times:
a) a CET 1 capital ratio of 4.5%,
b) a core capital ratio of 6.0% and
c) a total capital ratio of 8.0%.

The aggregate risk amount acc. to Art. 92 (3) CRR is euro 3,171,322,395.18 (PY: euro 2,755,248k).

The capital ratios are calculated as follows:
a) the CET 1 capital ratio derives from the CET 1 capital of the bank, expressed as a percentage of the aggregate risk amount; accordingly, the CET 1 capital ratio of VBW amounts to 13.03% (PY: 11.90%).
b) the core capital ratio derives from the core capital of the bank, expressed as a percentage of the aggregate risk amount; accordingly, the core capital ratio of VBW amounts to 13.03% (PY: 11.90%), and
c) the total capital ratio derives from the own funds of the bank, expressed as a percentage of the aggregate risk amount; accordingly, the total capital ratio of VBW amounts to 14.20% (PY: 12.85%).

As at 31 December 2016, the eligible own funds of VBW according to Part 2 of Regulation (EU) No. 575/2013 (CRR) amount to euro 450,269,957.20 (PY: euro 353,989k) and break down as follows:

	31 Dec 2016 Euro	31 Dec 2015 Euro Thousand
Core capital (Tier 1)		
CET 1 capital (Common Equity Tier 1)		
Share capital	126,937,593.75	107,477
Participation capital Art. 484, 486 CRR	9,907,000.00	7,004
Open reserves	276,890,316.06	217,781
Fund for general banking risks section 57 (3)	0.00	0
Profit brought forward	357,681.75	68
	414,092,591.56	332,330
less:		
Deduction		
Value adjustment (Art. 35 and Art. 105 CRR)	-750,470.18	0
Intangible assets (Art. 36 (1) lit b CRR)	-272,390.58	-4,436
	-1,022,860.76	-4,436
	413,069,730.80	327,894
Supplementary capital (Tier 2)		
Supplementary capital (Pos. 2.7)	23,174,835.10	20,131
Supplementary capital (Pos. 2.3)	1,621,276.71	2,602
General credit risk adjustment (hidden reserves section 57 (1) BWG)	29,839,822.97	16,071
Participation certificates eligible as equity	0.00	0
	54,635,934.78	38,803
less:		
Own supplementary capital instruments	-219,578.48	-247
Correction for ineligible equity	-17,216,129.90	-12,462
	-17,435,708.38	-12,709
	37,200,226.40	26,094
Eligible own funds acc. to Part 2 CRR	450,269,957.20	353,989

As regards the breakdown of consolidated eligible own funds, please refer to the consolidated financial statements of VBW.

The European Central Bank (ECB) carries out a Supervisory Review and Evaluation Process (SREP) each year. Based on that, the holding of additional CET 1 capital is prescribed in order to cover any risks not – or not sufficiently – accounted for in pillar 1. Apart from the minimum capital ratio under the CRR, the minimum core capital ratio resulting from that official notice must also comprise the capital conservation buffer and the supplement according to the SREP notice, which must be observed within the Association of Volksbanks at the level of the group of companies to be consolidated. Moreover, some Austrian banks were ordered to hold a systemic risk buffer, among others. No systemic risk buffer was determined for the Association of Volksbanks.

Disclosures regarding transactions with related parties

Expenses for severance payments and pensions amount to euro 840,007.77 (2015: euro 900k) for both active and former members of the Managing Board. Expenses for severance payments and pensions amount to euro 3,373,834.08 (2015: euro 199k).

Pension expenses for commitments for which provisions are established amount to euro 1,139,207.83 (PY: euro 816k) in the business year. Changes in provisions for long-term service bonuses are included in the item Wages and salaries in the amount of euro 1,049,681.28 (PY: euro 1,104k).

The total remuneration of Supervisory Board members active in the business year amounts to euro 403,354.81 (2015: euro 57k), and that of former Supervisory Board members amounts to euro 0.00 (2015: 112k). The total remuneration of the Managing Board (without incidental wage costs) amounted to euro 1,948,986.50 (2015: euro 1,244k).

The total remuneration of former Managing Board members and their surviving dependents amounted to euro 676,468.01 (2015: euro 240k) in the business year.

In the business year, loans were granted to the Managing Board in the amount of euro 41,779.26 (2015: euro 2k) and to the Supervisory Board in the amount of euro 268,564.04 (2015: euro 3k). Loan repayments by the Managing Board were effected in the amount of euro 3,558.52 (2015: euro 11k) and by the Supervisory Board in the amount of euro 27,654.00 (2015: euro 15k). The terms regarding maturity and collateral correspond to market conditions.

Other significant transactions with related parties did not occur in the business year. All transactions with related parties were carried out on arm's length terms.

Significant events after the balance sheet date

In the previous year, SPARDA Bank Austria AG held merger talks with the German Sparda Hessen. These negotiations were abandoned in December. Now, SPARDA is going to remain within the Association of Austrian Volksbanks. Various options are currently being evaluated, among others also a merger with VBW.

Appropriation of net incom

The recommendation is for the net profit for the year of euro 14,771,468.39 to be appropriated as follows: according to the terms of the issued participation capital, an amount of euro 114,691.32 shall be distributed to the holders of participation certificates. The remaining amount of EUR 14,656,777.07 will be carried forward to new account.

Boards

Managing Board

Gerald Fleischmann
Chairman of the Managing Board

Josef Preissl
Deputy Chairman
of the Managing Board

Rainer Borns
Member of the Managing Board

Wolfgang Schauer
Member of the Managing Board
until 31 January 2017

Supervisory Board

Heribert Donnerbauer
Donnerbauer & Hübner
Rechtsanwälte GmbH
Chairman

Martin Holzer
Member of the Managing Board
Volksbank Tirol AG
First Deputy Chairman

Rainer Kuhnle
Member of the Managing Board
Volksbank Niederösterreich-AG
Second Deputy Chairman

Susanne Althaler
DONAU Wirtschaftsprüfungs- und
Steuerberatungsgesellschaft mbH

Franz Gartner
Muncipiality of Traiskirchen

Markus Hörmann
Member of the Managing Board
Volksbank Tirol AG

Johannes Linhart
Self-employed consultant
capital markets and finance

Harald Nograsek
Österreichisches Verkehrsbüro AG

Monika Wildner
Self-employed attorney-at-law

Otto Zeller
Director Volksbank Salzburg eG

Works council delegates:

Manfred Worschischek
Chairman of the Works Council

Hermann Ehinger
Hans Lang
Rainer Obermayer
Michaela Pokorny

State Commissoners

Dietmar Mitteregger
State Commissioner

Helga Ruhdorfer
Deputy State Commissioner

The Managing Board

Vienna, 15 February 2017

Gerald Fleischmann
Chairman of the Managing Board

Josef Preissl
Deputy Chairman of the Managing Board

Rainer Borns
Member of the Managing Board

Disclosure acc. to Article 431 CRR is effected on the internet on the website of VBW at www.volksbankwien.at

Movement in non-current assets 2016
(section 226 (1) Austrian Commercial Code (UGB) in conjunction with section 43 (1) Austrian Banking Act (BWG); all figures are in euro)

		ACQUISITION					
Non-current assets		1 January 2016	Additions	Additions through reorganisation	Disposals	Transfer	31 December 2016
Appreciation							
2.a)	Debt instruments issued by public bodies and similar securities	836,299,068.98	75,564,508.38	6,470,250.00	15,762,993.89	30,000,000.00	932,570,833.47
3.	Loans and advances to credit institutions (securities)	4,346,963.99	68,016.92	0.00	60,000.21	40,000.00	4,394,980.70
4.	Loans and advances to customers (securities)	18,371,478.80	786,881.32	0.00	1,239,130.44	0.00	17,919,229.68
5.	Bonds and other fixed-income securities	353,241,076.25	109,929,210.22	3,197,189.39	65,710,920.85	-30,040,000.00	370,616,555.01
6.	Shares and other variable-yield securities	57,874,681.75	1,263,490.82	8,376,179.97	918,116.31	0.00	66,596,236.23
Total		**1,270,133,269.77**	**187,612,107.66**	**18,043,619.36**	**83,691,161.70**	**0.00**	**1,392,097,835.09**
Participations							
7.	Participations	103,801,187.87	4,515,471.70	55,027,720.36	555,297.47	-186,668.35	162,602,414.11
Total		**103,801,187.87**	**4,515,471.70**	**55,027,720.36**	**555,297.47**	**-186,668.35**	**162,602,414.11**
Investments in affiliates							
8.	Investments in affiliates	111,773,570.95	13,106,295.72	25,205.36	0.00	186,668.35	125,091,740.38
Total		**111,773,570.95**	**13,106,295.72**	**25,205.36**	**0.00**	**186,668.35**	**125,091,740.38**
Intangible fixed assets							
9.	Intangible fixed assets	25,004,711.10	7,560.00	405,710.01	0.00	0.00	25,417,981.11
10.	Fixed assets	144,797,322.36	1,690,389.70	41,666,324.48	7,442,555.86	0.00	180,711,480.68
Total		**169,802,033.46**	**1,697,949.70**	**42,072,034.49**	**7,442,555.86**	**0.00**	**206,129,461.79**
Total		**1,655,510,062.05**	**206,931,824.78**	**115,168,579.57**	**91,689,015.03**	**0.00**	**1,885,921,451.37**

DEPRECIATION							CARRYING AMOUNT	
Cumulated depreciation 1 January 2016	Depreciation in fiscal year	Additions through reorganisation	Appreciation	Disposals	Transfer	Cumulated depreciation 31 December 2016	31 December 2016	2015 housand Euro
82,282.21	0.00	470,250.00	539,850.00	0.00	0.00	12,682.21	932,558,151.26	836,217
0.00	40,000.00	0.00	0.00	0.00	0.00	40,000.00	4,354,980.70	4,347
0.00	0.00	0.00	0.00	0.00	0.00	0.00	17,919,229.68	18,371
442,378.10	0.00	221,044.01	469,000.62	0.00	0.00	194,421.49	370,422,133.52	352,799
7,045,863.73	1,165,556.11	431,097.88	2,003,822.80	595,527.14	0.00	6,043,167.78	60,553,068.45	50,829
7,570,524.04	**1,205,556.11**	**1,122,391.89**	**3,012,673.42**	**595,527.14**	**0.00**	**6,290,271.48**	**1,385,807,563.61**	**1,262,563**
83,509,089.68	3,396,998.70	52,609,700.56	3,301,881.63	0.00	-160.74	136,213,746.57	26,388,667.54	20,292
83,509,089.68	**3,396,998.70**	**52,609,700.56**	**3,301,881.63**	**0.00**	**-160.74**	**136,213,746.57**	**26,388,667.54**	**20,292**
86,053,560.43	13,041,298.76	5,509.47	0.00	0.00	160.74	99,100,529.40	25,991,210.98	25,720
86,053,560.43	**13,041,298.76**	**5,509.47**	**0.00**	**0.00**	**160.74**	**99,100,529.40**	**25,991,210.98**	**25,720**
20,569,060.80	4,184,528.72	392.001,01	0.00	0,00	0.00	25,145,590.53	272,390.58	4,436
80,741,285.64	6,534,530.65	22.365.566,59	184,160.01	4,197,493.15	0.00	105,259,729.72	75,451,750.96	64,056
101,310,346.44	**10,719,059.37**	**22.757.567,60**	**184,160.01**	**4,197,493.15**	**0.00**	**130,405,320.25**	**75,724,141.54**	**68,492**
278,443,520.59	28,362,912.94	76.495.169,52	6,498,715.06	4,793,020.29	0.00	372,009,867.70	1,513,911,583.67	1,377,067

MANAGEMENT REPORT

MANAGEMENT REPORT

1 Report on the business development and economic situation

1.1 Business development

1.1.1 Business development and milestones of the past business year

For VOLKSBANK WIEN AG (VB Wien), the year 2016 was characterised by an extension of its market territory and of its retail and corporate customers through the merger with the Weinviertel, NÖ Süd and Südburgenland Volksbanks, and the first full year after reorganisation of the Association of Volksbanks where VB Wien has performed the function of central organisation (CO) of the Association of Volksbanks, apart from its own retail business. As the CO of the Austrian Association of Volksbanks acc. to section 30a Austrian Banking Act (BWG), VB Wien performs a wide range of management and steering functions and is also responsible, among others, for risk and liquidity management throughout the Association. The members of the Association of Volksbanks have unlimited liability among each other. The pro rata allocation of the costs and risks of the central organisation has been contractually agreed between the members.

Volksbank Weinviertel e.Gen. was contributed to VB Wien in July 2016, while the banking operations of Volksbank Niederösterreich Süd eG and of Volksbank Südburgenland eG were contributed in November 2016. Accordingly, VB Wien continues to take the position as a strong regional bank focusing on Retail and Corporates in eastern Austria – from Laa an der Thaya to Jennersdorf. To intensify the securities business, the cooperation with Union Investment Austria GmbH was expanded in 2016, by way of a new marketing agreement, and the reorientation of the branches was started with a view to bundling consultancy business.

Apart from the mergers completed in the business year, the focus was bank on the 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, VB Wien 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 demerger in 2015. In particular, the conclusion of the new association agreement as arranged, the strengthening of equity and the improvement of the risk situation within the Association have been important milestones 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 at Association level.

By selling start:bausparkasse and IMMO-BANK, the Volksbanks achieved another important milestone with a view to developing into a strong and efficient Association of Volksbanks on 1 December 2016. The sale of start:gruppe, due to a change of strategy, not only made the structure of the Association more efficient, but has also sustainably strengthened the core capital of the Volksbanks, thus allowing for the forceful continuation of the growth offensive in the sphere of SME financing as well as in consultancy-oriented retail business. Within the scope of the transaction, VB Wien 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 past business year, the NPL ratio was reduced to approx. 4.5% – with more stringent regulatory requirements already taken account of.

In 2016, the issuer rating of the Association of Volksbanks awarded by Fitch Ratings remained unchanged: BB+ with positive outlook. The rating for covered bonds of VB Wien allocated 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. VB Wien decided to pay the non-recurring special payment in the amount of EUR 16.6 million in the first quarter of 2017 and to set up a provision in this respect, in order to avoid a burden on future results due to the levy. Nevertheless, the low two-digit result in the euro million range was achieved as planned.

1.1.2 Economic environment

According to an estimate by the Austrian Institute of Economic Research (WIFO), Austria's gross domestic product in December 2016 has grown by 1.5% year on year. This constitutes a noticeable increase of the growth dynamics as compared to 2015. The growth gap as compared to the euro zone, which had amounted to one percentage point in 2015, should accordingly have decreased to 0.1 to 0.2 percentage points.

On the one hand, the main drivers of this development were marked increases in private consumption, which is expected to have grown by 1.5% as compared to the previous year. Another strong development in the past year was seen in the sphere of investments, which are estimated to have increased by 3.7%, thus providing a noticeable contribution to growth, which was increasingly reflected in the demand for loans towards the end of the year. Foreign trade has been picking up further. At an estimated 3.7%, the growth in imports was markedly higher than in exports (2.8%). Nevertheless, a current account surplus was achieved also in 2016.

In spite of accelerated growth, the unemployment rate in Austria slightly increased over the past year. According to a Eurostat calculation (adjusted for seasonal fluctuations), it varied between 5.8% and 6.2% in the first eleven months of the year. Overall, the rate of unemployment in the euro zone improved moderately but continuously – starting out from much higher figures – decreasing from 10.4% at the beginning of the year to 9.8% in November.

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. Within the common currency zone, the rate of price increases was still partly 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 from 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 launch a second tranche of its targeted long-term refinancing operations (TLTRO2). Three of the total of four transactions offered, which have a maturity of four years, were carried out already in 2016.

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

In the first half of 2016, the economic development within Austria reflected the West-East gradient 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. 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 still suffered from a decline in material goods production (-2.6% in the second quarter). In the retail sector, too, sales were declining. On the other hand, the service sector – especially tourism – has shown a very positive development, and the construction sector recovered. The employment rate increased in parallel with the trend throughout Austria. However, the increasing number of labour resulted in a situation where Vienna recorded the highest seasonally adjusted unemployment rate also in the third quarter (13.6%).

In Lower Austria, material goods production, which is very important for this federal province, developed feebly, as in the previous year, recording the poorest development among all federal provinces. However, growth in the construction sector ranked second behind Tyrol. In the first half of the year, Lower Austria also came in second in terms of the increase of overnight stays, but the summer season was relatively disappointing overall. As in Vienna, the service sector was going strong overall, recording marked employment growth. Nevertheless, the rate of unemployment increased on an above-average level in the second and third quarters (to 10.2%), essentially due to demographic factors.

In Burgenland, material goods production and tourism contributed significantly to the above-average development, while the building activity curve flattened. While the labour market performed better than the region of eastern Austria in general, it slackened considerably in the second and third quarters. The unemployment rate remained almost the same and amounted to 9.6% in the third quarter.

Styria recorded above-average growth in the construction sector and the highest increase in overnight stays of all federal provinces in the summer season of 2016. The retail sector also recorded a real-term sales increase, while material goods production declined somewhat. After the labour market had moved within the Austrian average in the first half of the year, the unemployment rate increased disproportionately to 9.7% in the third quarter.

In the second 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. Due to the below-average development of available labour, the unemployment rate declined in the second quarter. At 11.3%, however, seasonally adjusted unemployment was the second highest within Austria also in the third 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 half of 2016. On the other hand, the retail sector saw the highest growth in sales within Austria. The service sector, too, registered above-average growth. Material goods production and tourism registered moderate growth rates. The unemployment rate increased in the second and third quarters, but at 6.3% was still the third lowest among the nine federal provinces in the third quarter.

Salzburg ranked second among the federal provinces in the first half of 2016, both in terms of growth in materials goods production (esp. in car production and drinks manufacture) and in terms of the tourist summer season. Construction and retail also performed slightly above average. The rate of unemployment declined in the third quarter, remaining far below the Austrian average at 5.7%. For three consecutive years already, Salzburg has been recording the lowest unemployment rate of all Austrian federal provinces.

Once more, a favourable development in material goods production helped Tyrol to achieve an above-average increase in gross value added. Moreover, Tyrol was the only federal province 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. In the summer season, Tyrolean tourism saw a growth in overnight stays within the federal average. Until the third quarter, the unemployment rate decreased to 6.5%, with youth unemployment – fortunately – registering a particularly marked decrease.

While the construction growth curve was flattening, the economy in Vorarlberg once again benefited from an above-average development in material goods production in the first half of the year. The retail sector, too, recorded real-term sales growth, and the tourist summer season brought above-average increases in overnight stays. The situation on the labour market brightened. In the third quarter, Vorarlberg registered an unemployment rate of 6.0% and, accordingly, the second lowest behind Salzburg.

The prices of Austrian residential properties continued to increase in the first three quarters of 2016. Just as in the previous year, the price dynamics in Vienna, which had been characterised by particularly high growth rates until 2014, were not more than below-average. In the third quarter, the Vienna Residential Property Price Index was above its previous year's value by 2.5%, while that for the other federal provinces exceeded the same by 9.5%. However, the price increase in the sphere of new freehold flats (+13.8%) was very high in Vienna, while building plots in Vienna turned cheaper in 2016. Outside Vienna, the development of different types of property was more balanced, with freehold flats again recording the highest price increases at +13.9%.

Tourism performed very well in 2016. In the first eleven months, both overnight stays and arrivals reached new peaks. In the 2015/2016 winter season, overnight stays increased by 4% as compared to 2014/2015, accordingly reaching a record level both among domestic and foreign guests. The highest increase was registered for holiday flats. Hotels recorded increases, too, while overnight stays in private accommodation declined. This growth was distributed fairly evenly throughout the federal provinces. 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 (26.7 million), followed by Salzburg (15.1 million), Vienna (6.3 million), Styria (5.4 million), Vorarlberg (5.1 million), Carinthia (3.6 million), and Upper Austria (2.7 million). With an increase of 5.1% in overnight stays, also the summer season was very encouraging. Here, too, all federal provinces recorded positive growth rates. Also in the summer season, growth dynamics were strongest in Burgenland (+9%), which – however – came in last in terms of absolute figures. Otherwise, too, the ranking was the same as in the preceding winter season.

1.1.3 Explanatory notes on the income statement

Due to the retroactive contributions of the banking operations of Volksbank Weinviertel e.Gen., Volksbank Niederösterreich Süd eG and of Volksbank Südburgenland eG according to section 92 BWG, with effect from 1 January 2016, a comparison with the previous year's financial indicators year on year is of limited significance only.

Net interest income in the business year amounts to euro 107.1 million (2015: euro 92.8 million). This item includes interest income from loans and advances to customers in the amount of euro 99.3 million (2015: euro 85.1 million). Interest income from swaps in the amount of euro 10.6 million (2015: euro 13.5 million) primarily includes current interest payments from interest rate swaps for own issues and savings certificates. Interest and similar expenses to customers decreased from euro 19.8 million to euro 12.0 million; the decrease in interest expenditure is mainly due to the generally declining interest rate level.

Income from shares, other share rights and variable-interest securities decreased from euro 3.4 million to euro 0.9 million due to the winding up of restricted funds, while the income from participations and shares in affiliates increased by approx. euro 0.8 million to a total of euro 3.7 million as compared to the previous year.

Fee and commission income amounts to euro 79.9 million (2015: euro 65.3 million). Of this amount, euro 33.3 million (2015: euro 27.8 million) are due to securities business, euro 26.4 million (2015: euro 21.4 million) to payment transactions, and euro 13.4 million (2015: euro 10.8 million) to credit business.

Fee and commission expenses amount to euro 30.0 million (2015: euro 26.0 million), of which euro 12.5 million (2015: euro 19.0 million) are due to securities business, euro 14.7 million (2015: euro 4.4 million) to credit business, and euro 2.7 million (2015: euro 2.3 million) to payment transactions. Commissions for covered bonds provided by banks of the association in the amount of euro 6.6 million were reported in the current income statement under commissions for credit business (in the previous year, this amounted to euro 6.4 million, reported in commissions for securities business). Net fee and commission income accordingly increased from euro 39.3 million to euro 49.9 million.

The result from financial transactions was a positive balance of euro 4.7 million, but decreased by euro 3.8 million as compared to the previous year. With a contribution to operating income of euro 2.6 million (2015: euro 3.4 million), the major part is accounted for by the net trading and valuation income from fixed-interest securities. The result from financial transactions also contains the negative result from interest rate derivatives in the amount of euro 1.7 million (2015: euro 1.9 million), the valuation result from foreign currencies in the amount of euro 2.5 million (2015: euro 1.7 million), and the valuation result from foreign notes and coins as well as precious metals in the amount of euro 1.3 million (2015: euro 1.1 million).

Other operating income in the amount of euro 122.2 million (2015: euro 113.3 million) primarily includes costs charged out to banks within the Association of Volksbanks in the total amount of euro 100.0 million (2015: euro 75.0 million). The proceeds from the release of provisions amount to euro 13.3 million (2015: euro 7.1 million) and primarily result from provisions no longer required for imminent losses from legal risks and negative market values from FX and interest rate derivatives. Moreover, this item also includes non-recurring effects from the first-time discounting, with effect from 1 January 2016, of long-term provisions in the amount of euro 0.7 million (applying the RÄG 2014, total discounting effect euro 1.4 million).

Other operating expenses in the amount of euro 52.1 million (2015: euro 71.4 million) include charged-out costs in the amount of euro 44.3 million (2015: euro 31.1 million). Allocations to a provision from the lapse of a hedging relationship are contained in the amount of euro 5.6 million.

General administrative expenses amount to euro 167.3 million (2015: euro 163.4 million) in total and consist of staff costs in the amount of euro 87.5 million (2015: euro 86.2 million) and the administrative expenses in the amount of euro 79.7 million (2015: euro 77.2 million). Administrative expenses include the cost of electronic data processing in the amount of euro 25.9 million (2015: euro 21.9 million).

The 2016 result from ordinary operations of euro 58.4 million clearly exceeds the previous year's figure of euro 14.1 million.

The result from valuations and disposals shows a negative balance of euro 28.0 million (2015: euro -14.6 million) for the 2016 business year. This result contains an impairment under section 57 (1) BWG in the amount of euro 16.7 million (2015: euro 9.9 million).

Write-downs of participations and shares in affiliates and/or risk provisions for future write-downs of participations detracted from the result at a rate of euro 40.7 million (2015: euro 13.1 million), of which impairments on the participation in VB Rückzahlungsgesellschaft mbH in the amount of euro 13.0 million (2015: euro 0.0 million) as well as allocations to provisions for future allowances and corporate actions for this company in the amount of euro 23.0 million (2015: euro 10.0 million). The positive valuation balance from allocations to and reversals of impairments and provisions for credit business amounts to euro 6.2 million (2015: euro 0.8 million), with the calculation being based on the impairment principles under IAS 37 and IAS 39, applying the RÄG 2014, since the 2016 business year.

As at 31 December 2016, the result from ordinary operations amounts to euro 30.4 million and accordingly clearly exceeds the previous year's negative value of euro 0.5 million.

Income taxes (corporate income taxes) show a positive balance of euro 22.1 million (2015: tax expense euro 2.4 million). This is primarily due to the capitalisation of deferred taxes from temporary differences in the amount of euro 22.7 million (of which non-recurring effect in the amount of euro 10.7 million from transition to the so-called temporary concept in applying the RÄG 2014).

Other taxes in the amount of euro 26.1 million (2015: euro 2.2 million) essentially result from the bank levy according to the Stability Levy Act (Stabilitätsabgabegesetz, StabAbG) (euro 9.0 million) and the (non-recurring) special payment under section 5 (1) (4) StabAbG in the version acc. to AbgÄG (Tax Amendment Act) 2016 in the amount of euro 16.6 million.

As in the previous year, the item Reduction in net assets through reorganisation includes the write-down of difference amounts from the contributions of banking operations performed (see above). Said difference amounts were written down with effect on profit or loss immediately, exercising an option.

1.1.4 Explanatory notes on the balance sheet and own funds

Due to the retroactive contribution of the banking operations of Volksbank Weinviertel e.Gen., Volksbank Niederösterreich Süd eG and of Volksbank Südburgenland eG according to section 92 BWG, with effect from 1 January 2016, a comparison with the financial indicators as at 31 December 2015 is of limited significance only.

Total assets have increased by approx. euro 137.1 million to euro 10.8 billion as compared to the previous year.

As compared to the previous year, loans and advances to credit institutions have decreased from euro 2.8 billion to euro 2.2 billion due to the lower refinancing volume of the banks of the Association.

Amounts owed to banks decreased from euro 4.1 billion in the previous year to euro 3.3 billion, essentially due to start:gruppe withdrawing from the Association of Volksbanks.

Loans and advances to customers have increased, as compared to the previous year, from euro 3.8 billion to euro 4.4 billion; for the major part, this increase is due to the contribution of banking operations of the three retail banks.

Debt instruments issued by public bodies have increased only marginally, year on year, from euro 983.3 million to euro 1,092.1 million and largely consist of domestic debt instruments denominated in euro.

Other assets, which have decreased from euro 482.5 million by euro 17.8 million to euro 464.7 million during the year, primarily contain positive market values of interest rate hedging transactions in the trading book.

Amounts owed to customers have increased, as compared to the previous year, by euro 0.7 billion and amount to euro 4.7 billion at the end of the year; a considerable part of this increase is due to the contribution of banking operations of the three retail banks. This includes euro amounts repayable on demand of euro 3.2 billion.

Other liabilities in the amount of euro 611.1 million primarily include negative market values from interest rate swaps and other interest rate hedging transactions.

In connection with the mergers effected in the business year, two regular capital increases were carried out. The share capital increased from euro 107.5 million to euro 126.9 million; apart from that, the capital reserves increased from euro 155.1 million to euro 214.4 million due to the agio from said capital increases.

According to Art 92 CRR, VB Wien must meet the following capital requirements at all times:
a) a CET 1 capital ratio of 4.5%,
b) a core capital ratio of 6% and
c) a total capital ratio of 8.0%.

The assessment base for capital requirements is the aggregate risk amount, which is euro 3.2 billion at the end of the year. The minimum requirements for VB Wien in absolute amounts are a CET 1 capital ratio of euro 142.7 million, a core capital of euro 190.3 million, and a total capital of euro 253.7 million. The actual CET 1 capital ratio amounts to 13.0%, meaning that the capital requirements were overaccomplished by euro 270.4 million. The core capital ratio corresponds to the CET 1 capital ratio and was overaccomplished by euro 222.8 million. The total capital ratio amounted to 14.2%. Accordingly, the statutory capital requirements were overaccomplished by euro 196.6 million.

1.2 Report on branch establishments

VB Wien does not have any branch establishments.

1.3 Financial and non-financial performance indicators

1.3.1 Financial performance indicators

VB Wien's own funds under banking law amount to euro 450.3 million as at 31 December 2016 (31 December 2015: euro 354.0 million). At the end of 2016, the risk-weighted assets amounted to euro 3.2 billion, having increased as compared to the end of 2015 (euro 2.8 billion) by euro 0.4 billion primarily due to contribution of the three banking operations.

Available own funds exceed the regulatory requirement by euro 196.6 million.
- The CET 1 capital ratio as well as the core capital ratio, in relation to aggregate risk, amount to 13.0% in each case (31 December 2015: 11.9%).
- The total capital ratio is 14.2 % (31 December 2015: 12.9 %)

Due to the function as central organisation performed by VB Wien for the Association of Volksbanks, the following indicators are only comparable to those of other retail banks with certain limitations.

In the year under report, the loan-to-deposit ratio I amounts to 219.18% (2015: 231.33%); the loan-to-deposit ratio I is calculated as the quotient between loans and advances to customers and savings deposits.

In the year under report, the loan-to-deposit ratio II amounts to 71.09 % (2015: 68.61 %). The loan-to-deposit ratio II is calculated as the quotient between loans and advances to customers and the sum of amounts owed to customers and debts evidenced by certificates.

In the business year, the commission margin amounts to 0.45 % (2015: 0.37 %). The commission margin is calculated as the quotient between the balance of fee and commission income and fee and commission expenses, and total assets.

In the business year, the operating income margin amounts to 2.68 % (2015: 2.45 %). The operating income margin is calculated as the quotient between operating income and total assets.

In the business year, the operating expenses margin amounts to 2.14 % (2015: 2.32 %). The operating expenses margin is calculated as the quotient between operating expenses and total assets.

1.3.2 Non-financial performance indicators

Human Resources

In 2016, the Human Resources department was concentrating on the implementation of the mergers. In this context, apart from technical and legal preparatory activities, the integration of new employees and the assumption of payroll accounting responsibilities constituted one main focus of activities. Moreover, important milestones with a view to harmonising the various service provisions were negotiated with the works council. In the field of human resources and organisational development, several measures (e.g. new development of the performance review, employee survey etc.) were implemented successfully. In cooperation with Volksbank Akademie as well as the banks of the Association, the training of account representatives was revised completely and adjusted to the changed setting. Cooperation among the banks of the Association on HR management matters was equally intensified.

Significant organisational and IT projects

In July 2016, a merger with the Volksbank Weinviertel e.Gen. retail bank and in November 2016 a dual merger with the Volksbank Niederösterreich Süd eG and Volksbank Südburgenland eG retail banks were carried out successfully. The lead time of the project extended over 11 months. The mergers managed by the Sales Support and Organisation / IT units comprised the amalgamation of technical clients in the Association's computing centre "Allgemeines Rechenzentrum GmbH" (ARZ) and harmonisation of business processes. The mergers were carried out successfully, and all systems, such as Internet Banking, self-service equipment, cash desks in the branches, were put into operation according to schedule and without any difficulties.

In the MSC (Market Service Center) project, uniform processes (throughout the Association) for handling customer, account and portfolio processes have been worked out. Said processes were technically implemented in the ARZ application arctis MSC; data quality tests were developed and implemented. For the purpose of technical service to be centralised in 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. VB Wien has started pilot operation based on the settings of the service client and additionally set up MSC support processes specifically for VB Wien (e.g. for property valuations). The roll-out throughout the bank is planned to take place by May 2017.

Implementation of the branch concept was started in 2016, by consolidating a total of 11 branches as well as dual support (one team takes care of two sites). By consolidating nearby branches into larger units, the skills and competencies available at one branch can be increased and staff costs and administrative expenses reduced. Investments are made to enhance the look of and infrastructure available in the absorbing branches.

Under the heading "Digital Volksbank Banking", the roll-out was launched 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.

In order to strategically advance the harmonisation commenced in the context of the sample client throughout the Association, also on the sales level, the "50 Products" project was initiated in 2016. A decision was made through the Managing Board of Volksbank Vertriebs- und Marketing eG, coordinating with the regional Volksbanks, as to which business areas would continue to be offered for the Association. The harmonisation of product handling was also discussed in the course of "make or buy" decisions. After these strategic decisions, some product versions have specifically been restricted already across the Association: requirement of uniform fixed interest rates in lending, restriction of third-party funds, abolition of foreign currency savings books, transition to uniform securities accounts etc. In the technical monitoring and requirements provided by the sample client, we have come full circle in our striving for continuous harmonisation. And for the coming year, too, further standardisation is planned in the product catalogue.

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.

The core objective of the cost project started in June 2016 was to ensure realisation of the savings contained in the 2015 strategic planning and identification of new structural measures beyond the 2015 strategic planning document. Within the scope of the project, benchmarking, based on a detailed analysis, of administrative expenses and HR capacities for the Retail and Central Organisation segments was effected. Benchmarking was based on external reference values regarding process lead times and productivity indicators. Reference models served the purpose of validation and the development of additional structural measures. In both segments, considerable potential savings were identified, in order to be able to compensate the major part of shortfalls (below target) resulting from the lower level of interest rates on the expense side. The cost savings identified and resolved upon within the scope of the cost project were integrated into the 2016 strategic planning.

Within a project to optimise the credit management of VB Wien, a systematic survey and analysis of credit management processes was carried out, and potential optimisations were derived therefrom. The processes were compared to the processes of VB Niederösterreich, and the findings were delivered to the project at Association level for the purpose of definition and optimisation of the credit process within the Association.

The Early Warning System (EWS) & NPL Management (non-performing loans) 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 with the Association of Volksbanks and rolled out.

With effect from 1 January 2018, the IFRS 9 accounting standard will come into force. This standard contains regulations on the valuation and classification of financial instruments, risk provision and also hedge accounting. In order to meet the relevant requirements, a programme including various projects for reconciliation of systems and processes has been launched across the Association.

VB Wien is permanently striving to improve cost efficiency. Therefore, in project portfolio planning, special attention was given to the aspect of increasing synergies in the ARZ joint data processing centre in case of implementations on system level.

2 Report on the Company‘s future development and risks

2.1 Expected development of the Company

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. Accordingly, the growth rate in Austria is expected to essentially correspond to that in the euro zone, which WIFO assumes to be 1.6%, while the ECB forecasts 1.7%.

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, too, price increases are expected to be higher in Austria than in the euro zone overall. The European Central Bank's forecast for the average inflation rate in 2017 is 1.3% (mean value). Accordingly, the rate of price increases in 2017 is expected to not quite reach the target inflation rate of the European Central Bank of a little under 2%.

The still moderate inflation outlook and the corresponding monetary easing by the European Central Bank 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 will decrease from euro 80 billion to euro 60 billion. As of April, no targeted long-term refinancing transactions are likely to be offered any more either. Nevertheless, the ECB's securities purchases limit the potential upward movement of capital market interest rates.

The risks for 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 (expected to start in the second quarter) 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 still 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.

Future development of the Company

After completion of the reorganisation of the Association of Volksbanks, the focus on retail banking is meant to be continued, 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, VB Wien intends to achieve a low annual result in the two-digit million euro range. Despite planned growth, the CET 1 capital ratio is intended to remain at around 12%.

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. As, in the previous year, merger negotiations of SPARDA-Bank Austria eGen ("SPARDA") were called off by the German Sparda-Bank Hessen eG, SPARDA is going to remain within the Association of Volksbanks, one of the various options evaluated being a merger with VB Wien.

2.2 Essential risks and uncertainties

2.2.1 Current developments

Since 4 July 2015, VB Wien has been acting as the central organisation of the Association of Volksbanks and is responsible for compliance with regulatory requirements by the Association. In the sphere of risk management and risk controlling, this includes, in particular, the implementation and management of the processes and methods for the identification, steering, measurement and monitoring of all banking risks, which have been set up in a uniform manner throughout the Association.

In 2015, the Association of Volksbanks was integrated again into the SREP process of the ECB. By ECB resolution of 25 November 2016, the result of the Supervisory Review and Evaluation Process (SREP) was transmitted to VB Wien with effect on 31 December 2015. It says in this so-called "SREP resolution" that VB Wien as the 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 is largely sufficient to cover the type and level of risk that the Association of Volksbanks is exposed to.

2.2.2 Regulatory requirements

At present, the European and national regulatory authorities are stipulating the fulfilment of increasingly comprehensive requirements, and they are going to do so in future. This constitutes a burden on the bank due the high input required in the form of staff as well as project and IT costs, on the one hand, and due to increased capital requirements that exceed the statutory minimum requirement under Basel III by far, on the other hand.

In accordance with the logic of Basel II/III, regulatory requirements are divided into three pillars at VB Wien.

Pillar 1: Minimum capital requirements

The implementation of pillar 1 at VB Wien as the CO of the Association is aimed at meeting regulatory minimum requirements. With respect to both credit risk and market risk, and for operational risk, the respective regulatory standard approaches for determination of the minimum capital requirements apply.

Pillar 2: Internal capital adequacy assessment

Pillar 2, its regulatory control and minimum requirements are implemented within the scope of the so-called ICAAP (internal capital adequacy assessment process). In this context, VB Wien implements all measures required to ensure sufficient capitalisation, at all times, for current business activities and also for those planned in future, as well as the associated risks.

Pillar 3: Disclosure within VB Wien

The requirements of pillar 3 are met by publishing the qualitative and quantitative disclosure regulations acc. to the FMA (Austrian financial market supervisory authority) ordinance on implementation of the banking act regarding disclosure obligations of credit institutions (EU Regulation no. 575 / 2013 Part VIII Disclosure) on the bank's own website at http://www.volksbankwien.at/ihre-regionalbank/offenlegung.

2.2.3 Risk and capital management throughout the Association

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

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

The objective of GW RM is to comprehensively and verifiably document general conditions and principles, consistently throughout the Association, for the assessment and management of risks, and for the organisation of processes and organisational structures. GW RM forms the basis of operationalising the risk strategy, defining the fundamental risk targets and limits that business decisions have to be aligned to, based on the respective business focus. GW RM applies to all members of the Association of Volksbanks under section 30a BWG.

Within the scope of their general duty of care, the members of the Managing Board and the managing directors of all members of the Association must ensure, without exception and restriction, in the interest of the respective companies, that GW RM is put into effect formally and de facto. Any deviations and special regulations concerning the GW RM shall only be permissible in exceptional cases and must be coordinated with VB Wien as the CO in advance.

2.2.4 Risk strategy and internal capital adequacy assessment process

The business activities resulting from the business model call for appropriate identification, quantification, aggregation and control of risks, and for an adequate capital base.

To ensure a sustainable, risk-adequate capital base, VB Wien has set up an internal capital adequacy assessment process (ICAAP) as a revolving control cycle, in line with international best practice.

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

The individual elements of the cycle are performed at varying intervals (e.g. daily for the market risk / trading book risk measurement, quarterly for preparing the risk-bearing capacity statement, annually for self-assessment and determination of the risk strategy). All the activities described within the cycle are reviewed for up-to-dateness and adequacy at least annually and adjusted to the respective current general conditions if necessary.

Risk strategy

The risk strategy of VB Wien is based on the risk and business strategy of the Association and provides for consistent general conditions and principles for uniform risk management. It provides the framework for the consistent, authoritative handling of risks and for ensuring risk-bearing capacity at all times. Detailed regulations for the management of individual risks are contained in the General Instruction on Risk Management (GW RM) as well as in the risk manuals.

Based on the Association's risk strategy, VB Wien defines its own risk strategy adjusted to the respective business model. The risk strategy is reviewed for up-to-dateness and adequacy at least annually and adjusted to the respective current general conditions if necessary.

Risk Appetite Statement and limit system

The core elements of the risk strategy is 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 in implementing key strategic goals, such as maintenance of independence, achievement of 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 RAS are derived from the BaSAG (Act on the Reorganisation and Liquidation of Banks) on the one hand and from the risk profile, risk capacity and revenue expectations and/or the strategic planning process on the other hand. In this context, special attention is paid to consistency with respect to the business plan, the business strategy as well as to the risk strategy and/or the partial risk strategies.

The limit system broken down by risk subtypes, and the RAS provide the framework for the maximum risk that VB Wien is ready to accept to achieve its strategic targets. The RAS indicators are provided with a target, a trigger and a limit value and are monitored on a current basis, as are the aggregate bank and partial risk limits. In this way, it can be ensured that deviations from the risk strategy are identified swiftly and that counter-measures can be initiated in a timely manner.

Self-assessment

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

Stress testing

VB Wien performs internal stress tests as well as other regulatory stress tests in six-month intervals. Internal stress testing consists of scenario analyses, sensitivity analyses and the reverse stress test. Through integration of all significant risks, internal stress testing allows for identification of dangers specific to the respective credit institution. Accordingly, a regulatory (ECB/EBA) stress test is performed upon corresponding request by the authority.

Credit, market and liquidity risks regularly undergo risk type-specific stress tests, with crisis scenarios being conceived in such a way that the occurrence of events that are highly unlikely, but not impossible is simulated. By way of this approach, huge losses – among others – 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. In doing so, 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-bearing capacity analysis, the various effects of the crisis scenarios on risk-bearing capacity are summarised and analysed. Additionally, portfolio-specific reverse stress tests are also performed.

Risk-bearing capacity statement

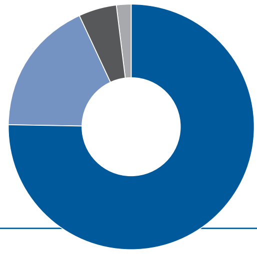
The risk-bearing capacity statement forms the basis of the quantitative implementation of the ICAAP. It is used to provide evidence of the fact that the risks assumed are sufficiently covered by adequate risk covering potentials at all times. For this purpose, all relevant individual risks are aggregated on the one hand. This overall risk or exposure is then aligned with the existing and previously defined risk covering potentials, and compliance with the applicable aggregate bank risk limits adopted by the Managing Board is monitored and reported on quarterly. In determining risk-bearing capacity, different objectives are pursued that are reflected in three perspectives:

- Regulatory perspective (compliance with regulatory own funds ratios)
- Economic liquidation perspective
- Economic going-concern perspective

The regulatory perspective compares the sum of all risks to be covered by capital under regulatory provisions, according to the risk assessment methods provided for, with defined risk covering potentials (based on regulatory definitions). Ensuring regulatory risk-bearing capacity is a minimum requirement, as it is mandatory under the law.

The economic liquidation perspective puts the securing of creditors' claims in case of liquidation in the foreground. Under that perspective, the risk covering potentials are defined on the basis of "internal" capital. The latter is based on the regulatory definition, but comprises additional components, such as hidden burdens/reserves. Also during determination of the aggregate risk position, internal procedures – normally "value at risk" – are used. In doing so, not only the risks to be covered by own funds under regulatory provisions are considered, but all quantifiable risks considered significant within the scope of self-assessment are included in the consideration. During quantification of risk under a liquidation perspective, a 99.9% confidence level derived from the bank's target rating, with a holding period of one year, is applied.

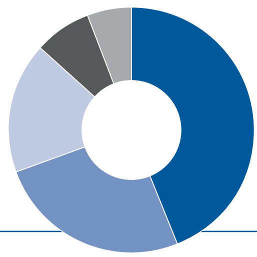
As at 31 December 2016, the regulatory aggregate risk position of VB Wien is composed of the following:



The composition of the regulatory aggregate risk position of VB Wien corresponds to that of any typical retail bank. As compared to the previous year, the composition of the regulatory aggregate risk position has slightly chanced due to the mergers implemented. In the process, the proportion of the Credit risk and Operational risk exposures has increased, while the proportion of Market risk and CVA charge has reduced.

The economic liquidation perspective puts the securing of creditors' claims in case of liquidation in the foreground. Under that perspective, the risk covering potentials are defined on the basis of "internal" capital. The latter is based on the regulatory definition, but comprises additional components, such as hidden burdens/reserves. Also during determination of the aggregate risk position, internal procedures – normally "value at risk" – are used. In doing so, not only the risks to be covered by own funds under regulatory provisions are considered, but all quantifiable risks considered significant within the scope of self-assessment are included in the consideration. During quantification of risk under a liquidation perspective, a 99.9% confidence level derived from the bank's target rating, with a holding period of one year, is applied.

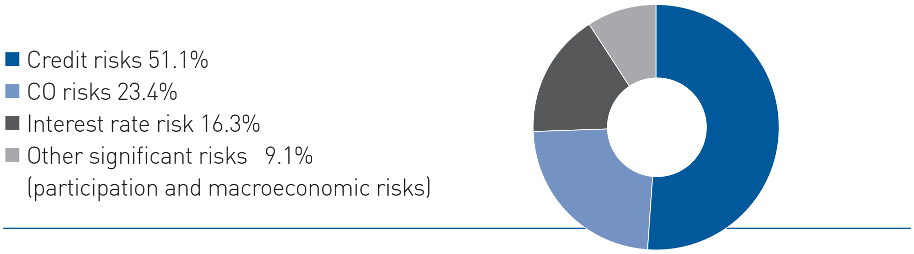
As at 31 December 2016, the aggregate risk position of VB Wien under an economic liquidation perspective is composed of the following:



As compared to the regulatory perspective, the distribution of the aggregate risk positions under the economic liquidation perspective of VB Wien displays a more diversified composition of risk and shift of proportions away from credit risk towards risk types measured using internal procedures. In particular, this leads to a shift of proportions towards CO risks, Operational risk and Interest rate risk exposures. As compared to the previous year, due to the mergers and portfolio changes implemented, a change has occurred with respect to the composition of the aggregate 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 CO risks. The CO risks mainly consist of Credit spread risk and Credit risks and are distributed among the credit institutions attributed to the Association. As at 31 December 2016, VB Wien assumes a share of 17.32% of CO risks.

Under the going-concern perspective, the continued existence of orderly operations is meant to be ensured. The going-concern view is based on covering risks through capital on short call within the scope of daily operations. Smaller risks that may occur with a certain probability should be absorbed without jeopardising current operations. Accordingly, risk covering potentials essentially are hidden reserves/burdens, the annual surplus/deficit achieved in the current business year, the target profit/loss for the coming 12 months, as well as the capital that exceeds the capital ratio defined in the risk strategy. During risk quantification, a moderate confidence level of 95% and a holding period of one year are applied.

As at 31 December 2016, the aggregate risk position of VB Wien under a going-concern perspective is composed of the following:



As compared to the economic liquidation perspective, the distribution of the aggregate risk position of Volksbank Wien 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 Credit risk and CO risks positions. As compared to the previous year, the composition of the aggregate risk position has changed, with the highest increases occurring in the Credit risk position. The Interest rate risk and CO risks positions recorded the largest relative reductions within the distribution.

Risk Committee

The Risk Committee set up in the CO, which convenes monthly and consists of the Managing Board of the CO as well as of selected CO representatives, is primarily responsible for risk control. The Risk Committee monitors integrated planning as well as the control of risk profile and capital adequacy. In doing so, it will take care that risk tolerance, capital requirements as well as refinancing and liquidity requirements are aligned with the strategy of the Association and of the divisions. The Risk Committee monitors the risk profile with a view to early warning indicators and recovery triggers and – if necessary – will suggest processes and measures defined in the reorganisation plan to the Managing Board.

2.2.5 Credit risk

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

In all units of VB Wien that generate credit risks, there is a strict separation of sales and risk management functions. All decisions in individual instances are taken strictly observing the dual-control principle. For transactions involving large volumes, processes have been set up that ensure the involvement of operational risk management and of the 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.

Sophisticated models as well as systems and processes tailored to the bank-specific portfolio are developed for the measurement and control of credit risk. In this way, the credit decision is meant to be structured and improved on the one hand, on the other hand these instruments and/or their results also form the basis of portfolio management. In the course of implementing these systems, special care was taken at VB Wien that all rating systems used display a comparable probability of default (PD) and are linked to the VB master scale, which comprises a total of 25 rating levels. The concept of the VB master scale allows the creditworthiness of borrowers to be compared across regions and customer groups. The PD range used not only allows for a comparison of internal ratings with classifications by external rating agencies, but especially a comparison of credit ratings across customer segments. Moreover, the amount of financial loss that occurs in case of a customer's default (loss given default, LGD) is also determined internally. The concept has already been implemented and will be refined successively (e.g. separation between secured and unsecured LGD will be completed shortly).

Loan portfolio and credit value at risk

The term 'economic capital' designates the risk capital required under a business-management perspective as the result of a risk assessment process. Just like regulatory capital, it is held to cover any unexpected loss exceeding the expected loss. The calculation of the economic capital requirement necessary for the credit risk is effected by means of the credit value at risk (CVaR) method. For this purpose, VB Wien has decided to use an analytical calculation method, based on an actuarial approach. A refined CreditRisk+ model, adjusted to internal requirements, is used for modelling the credit exposures in the loan portfolio in detail.

The results serve to obtain additional information for portfolio analysis and management. A corresponding report is prepared monthly. The most important objective of the use of the credit risk methods and tools is to avoid losses through early identification of risks. The management of this risk mitigation takes place via early warning systems.

Concentrations

The quantification and assessment of concentrations takes place by way of the risk parameters determined monthly, on the one hand, and quarterly in the course of preparing the risk report, on the other hand; including, by way of example, concentrations on individual customer level for companies, banks and the public sector. Additionally, concentration risk also considers the effects on the bank as a whole.

Limits

The monitoring, control and limitation of the risk of individual exposures and of risk clusters is effected according to the following limits:

- Credit limits for groups of affiliated customers (GaC)
- Portfolio limits

Within the Association of Volksbanks, the group of affiliated customers (GaC) is used as the basis for limits in case of new lending and for monitoring. As regards the limits, the requirements on the level of the Association of Volksbanks differ from those applicable to the merger groups and/or individual banks. Credit limits for GaC are basically limits with respect to

- sovereign and similar risks, including countries, national banks, supranational organisations (e.g. EU), and state-guaranteed risks
- banks and similar risks: these primarily relate to the CO's treasury business and investment book investments
- companies, and all borrowers not classified as countries or banks; accordingly, retail customers and municipalities must be treated like companies for the purpose of credit risk limits

The limits for the maximum total gross exposure are calculated on the basis of percentages of the respective creditable own funds, taking into account the rating categories. The maximum unsecured exposure is calculated as a percentage of the maximum total exposure (again arranged acc. to rating categories), deducting the collateral eligible under Basel III. Should it be necessary, in individual areas of business, to exceed the limits due to the specific characteristics, this must be justified and submitted for approval. A review of the limits on individual transaction level takes place continuously within operational risk management of the individual banks and is monitored by VB Wien in its function as CO, using centralised analyses.

In connection with portfolio limits, within the Association, country risk limits and materiality limits for regions are being defined at present. The target portfolio of the Association of Volksbanks is the Austrian business. Therefore, foreign business in the target countries is limited to 5%. Moreover, there are materiality limits for regions that are meant to ensure diversification within Austria.

Rating systems

Across the Association, standardised models are applied to determine credit ratings (the VB rating family) and to determine the amount of loss in case of default. The expected probability of default of each customer is assessed via the so-called VB rating family and expressed through the VB master scale.

The rating classes in rating category 5 cover the reasons for defaulting on loans as applied across the Association and are also used for reporting non-performing loans (NPL). Loans from parts of rating category 4, as well as loans that have been overdue for more than 60 days are defined as problematic loans. A detailed description of the rating methods is included in the regulatory disclosure on the bank's own website.

Counterparty default risk

The counterparty risk for market values from unsecured derivatives is taken into account by way of credit value adjustments (CVA) – as approximation function of the potential future loss regarding counterparty default risk. The expected future exposure (EFE) is determined by means of the Monte Carlo method. The probabilities of default for counterparties for which no credit spreads are observable on the market are based on internal ratings of the Association of Volksbanks.

Legally secure netting arrangements exist with the most important counterparties of the Association, with said arrangements being considered both within internal risk controlling and for calculating capital adequacy requirements. VB Wien does not use any internal model for calculating the counterparty default risk.

Credit risk reporting

Credit risk reporting takes place monthly with the objective to provide a detailed presentation of the existing credit risk of VB Wien and also of the Association of Volksbanks according to section 30a BWG on the reference date. Relevant reports are prepared for VB Wien and for the key areas of business. The information is also included in the credit risk portions of the risk report. The reports comprise a quantitative presentation of credit risk information relevant for risk control that is supplemented by a brief assessment of the situation and additional qualitative information, if applicable.

The following analyses are part of the monthly report:
- Portfolio distribution
- Development of new business
- Credit rating distribution
- Non-performing loans
- Credit risk concentrations
- Country group analysis
- Customer segments (customer segment split)
- Industry distribution (corporate)

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

Risk provisions

In the course of implementing the new legal provisions of RÄG 2014, determination of risk provisions was adopted in line with the impairment method applied in the IFRS consolidated financial statements. 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 and 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 (e.g. unlikeliness to pay).

In case of receivables that meet any default criteria and exceed the defined amount of exposure ("significant" receivables), determination of the risk provision is effected using the discounted cash flow method (specific loan loss 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 loan loss provision). For credit exposures that do not show any default criteria a portfolio risk provision is set up. The flat-rate specific loan loss 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 computer-aided, using an impairment tool specifically developed for the purpose.

In previous years, the unsecured parts of loan receivables were essentially impaired in full. In previous years, no use was made of optional appreciation under section 208 (2) UGB in the version prior to RÄG 2014.

2.2.6 Market risk

Market risk is the risk of changing prices or rates of value-determinant market risk factors (e.g. interest rates, exchange rates, interest and foreign exchange volatilities). VB Wien distinguishes the following types of market risk:

Interest rate risk in the investment book
- Credit spread risk
- Market risk in the trading book
- Foreign exchange risk (open FX 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.

The interest rate risk in the investment book comprises all interest-bearing transactions reported and not reported in the balance sheet, except for transactions in the trading book. The interest rate risk position associated with the retail business of VB Wien mainly arises from variable index-linked credit business and variable-interest deposits (in the form of sight and savings deposits), as well as from implicit floors, in both the asset side and the liabilities side retail business. Additional decisive factors are bond positions of the bank's own portfolio, own issues and the interest-rate swaps used to control the interest rate position.

The Asset-Liability-Committee (ALCO) is responsible for controlling the interest rate position of VB Wien within the scope of risk limits defined by Risk Controlling and by the Managing Board within ALCO.

The ALCO is the central body for the management of interest rate risks. It is convened monthly or ad hoc as required. The Asset Liability Management (ALM) function, which belongs to the Treasury function in organisational terms, is responsible for the management of the ALCO. Proposals for measures to manage the interest rate position are worked out by ALM in coordination with Risk Controlling, with the aim of generating 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 taken care of by the market and liquidity risk department.

Monitoring of the interest rate risk in the investment book is carried out in the market and liquidity risk controlling department in the Risk Controlling division, which is separate, in organisational terms, from the Treasury division on the level of the Managing Board. The main tasks of Risk Controlling include risk modelling and its permanent development, determination of the limit structure on the basis of the economic capital attributed and review of limits, parametrisation of systems, and risk reporting. Within ALCO, the reports prepared serve as a decision-making basis for control measures.

Risk measurement takes place at VB Wien, mainly on the basis of 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). In the process, positions with indefinite interest rates (e.g. in the form of sight and savings deposits, current account facilities) are included in the risk measurement process by assuming replication and/or rolling. The assumptions are determined on the basis of statistical analyses, supplemented by expert opinions. They are regularly reviewed for validity and validated in a group that is independent of 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 (present value of a basis point). Period-based risk measurement was implemented in 2016, in the form of an interest result simulation. The results of the interest result simulation are presented within ALCO and will also inform the calculation of risk-bearing 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-bearing capacity calculation, a limit is determined for the interest-rate book VaR; 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 200 bp parallel shift of the interest rate curve in relation to equity, is a component of the risk appetite statement of the bank as a whole.

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

The transactions relevant to credit spread risk are investments in the bank's own portfolio, and not loans and advances to customers. This essentially comprises bonds, funds as well as bonded loans. For these positions, a credit spread value-at-risk and credit spread sensitivities are calculated. Within the scope of the ICAAP, credit spread risk is considered within calculation of the risk-bearing capacity and aggregate bank risk stress testing.

In line with the investment strategy, the bank's own portfolio includes highly liquid assets 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, Ireland, Greece, and Spain) account for some 10% of the total exposure of the bank's own portfolio. There is no exposure to Greece.

The calculation of the credit spread VaR is based on a historical simulation, where the portfolio is divided into 30 risk clusters, with titles allocated to the financial and the Euro Corporates sector being differentiated even further according to seniority. Moreover, specific covered risk indices are used for the euro zone, and 15 European states are shown with individual risk clusters. The plausibility and reliability of the VaR indicators is reviewed by way of reverse comparisons (backtesting) and validated in a group independent from the modelling approach on a recurring basis.

Market risk in the trading book
The market risk in the trading book of VB Wien is of subordinate importance. Monitoring of the market risks is carried out in the market and liquidity risk controlling department in the Risk Controlling division, which is separate, in organisational terms, from the Treasury division on the level of the Managing Board. The main responsibilities of the Risk Controlling function 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 the development of the systems and models. The regulatory capital adequacy requirements of the trading book are calculated using the standard approach. There is currently no Internal Model for market risk in place at VB Wien. 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 considered within calculation of the risk-bearing capacity and aggregate bank risk stress testing. Reporting is effected daily by the market and liquidity risk department to Treasury, and monthly to ALCO.

For the purpose of risk monitoring, a value-at-risk 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 is reviewed daily by way of reverse comparisons (backtesting) and validated in a group independent from the modelling approach on a recurring basis.

2.2.7 Liquidity risk

As the central organisation (CO) of the Association of Volksbanks, VB Wien 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 VB Wien, investing their excess liquidity. Both operational, short-term liquidity management and medium- to long-term liquidity management are performed in a centralised manner at VB Wien, in the Treasury division, through the liquidity management department. 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 VB Wien.

The ALCO is responsible for controlling the liquidity position of VB Wien within the scope of risk limits defined by Risk Controlling and by the Managing Board within ALCO. The ALCO is the central body for the management of liquidity risks. Liquidity risk reporting within ALCO is taken care of by the market and liquidity risk department.

Within liquidity risk, VB Wien distinguishes between illiquidity risk and funding cost increase risk.

Illiquidity risk is the risk not to be able to settle payment obligations when they are due. 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 relevance especially in the context of liquidity stress testing. For VB Wien as a retail bank, illiquidity risk typically consists in the risk of a bank run. This occurs when, due to a loss of confidence, customers withdraw large deposit volumes and at the same time funding sources are not accessible (any more).

Illiquidity risk is managed by holding a sufficient liquidity buffer. VB Wien is responsible for the central management of the liquidity buffer for the whole of the Association. The liquidity buffer mainly consists of highly liquid bonds, LCR-eligible for the major part, of deposits with OeNB, 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.

At VB Wien, 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 sphere. This risk is taken into account in the risk-bearing capacity calculation within the scope of the ICAAP. Said risk is of minor importance at VB Wien, as the company is hardly dependent on the capital market, and little price sensitivity is observed in the sphere of customer deposits.

Risk measurement and the limitation of illiquidity risk are mainly effected through the regulatory indicators LCR (liquidity coverage ratio) and NSFR (net stable funding ratio), as well as through the survival period from internal liquidity stress testing. The LCR aims to ensure short-term financial solvency of banks under stressed conditions over a short-term horizon of 30 calendar days. According to LCR requirements, VB Wien is obliged to hold a liquidity buffer from highly liquid assets by way of liquidity provision, that covers the cumulated net liquidity outflows resulting from regulatory stress assumptions over a period of 30 calendar days. The calculation of the LCR takes place weekly and at the end of the month in the market and liquidity risk 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 takes place weekly and at the end of the month in the market and liquidity risk department at VB Wien. In 2016, the NSFR has always exceeded 120% (there is no regulatory limit yet).

Survival period and liquidity stress testing:
At VB Wien, 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.

Operational liquidity management

The liquidity management department in the Treasury division is responsible for operational liquidity management. The department is the central unit at VB Wien and 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 VB Wien)
- 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, and the control system put into effect by VB Wien as CO with the approval under section 30a BWG, for the individual banks of the Association – a.o. 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

2.2.8 Operational risk

VB Wien defines operational risk as the risk of losses occurring as a result of the inappropriateness or failure of internal procedures, people, systems or of external events. Moreover, the legal risk is also taken into account within operational risk. The calculation of regulatory capital adequacy requirements is effected consistently acc. to the standard approach. This method is used for both the regulatory and the economic presentation.

At VB Wien, line management is responsible for the management of operational risks. It is supported in this function by centrally- or decentrally-based experts from the spheres of operational risk and internal control system. Moreover, close cooperation with security, safety and insurance management allows for optimal, comprehensive control of operational risks. Within the scope of operational risk management, both quantitative and qualitative methods are used. Quantitative elements comprise – for instance – the execution of risk analyses, the performance of stress tests, the 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, business continuity plans and risk analyses, the preparation of the incident database incl. analysis of causes, the implementation of uniform ICS checks, as well as the analysis of the risk reports.

The following principles, derived from the risk strategy, apply in OpRisk Management at VB Wien:
- The topmost aim is the optimisation of processes to reduce the incidence rate and/or effect of operational losses.
- Documentation of incidents is effected on an electronic platform. Since April 2014, operational incidents are recorded consistently across the group. The resulting transparency with respect to the occurrence of incidents allows for risk assessment to be derived from historical facts.
- The methods, systems and processes need to be adjusted to the respective bank, in compliance with the requirements of the Association, following the principle of proportionality.
- The appropriateness of the risk control and monitoring measures and other risk-minimising measures is assessed on a current basis, but at least once a year, and reported to the Managing Board. Measures for risk control comprise, for instance, awareness-building measures/training events, the monitoring of the OpRisk indicators, maintaining the confidentiality, availability and integrity of customer and corporate data, as well as business continuity planning, but also – in particular – the adequate separation of responsibilities, as well as observance of the dual control principle. Operational (residual) risks that cannot be avoided, reduced or transferred must be accepted formally and demonstrably by the management.
- The efficiency of operational risk management is confirmed through periodic and independent internal audits.

At Volksbank, an internal control system (ICS) has been established. The control activities are documented and reviewed, ICS-relevant risks are regularly evaluated and adjusted. The OpRisk and ICS framework describes the inter-related components implemented within the Association of Volksbanks with a view to identifying, measuring, monitoring and controlling operational risk. The close interlocking of OpRisk management with the internal control system ensures appropriate consideration of operational risks within the Association of Volksbanks.

One focus in 2016 was on the development of the risk analysis regarding quantitative elements, as well as the implementation of OpRisk indicators and consistent minimum controls across the Association.

2.2.9 Other risks

Other risks that VB Wien has to face are the investment risk, strategic risk, reputational risk, equity risk, and the business risk.

Investment risk is defined by the bank as the risk that any participation held is lost or impaired. As this risk is significant for the bank, it is quantified and taken into account in the risk-bearing capacity calculation. For this purpose, investment risk is divided into the following types:
- Risk of loss of participations
- Risk of impairment of participations
- FX risk from participations

The risk of loss of participations is calculated using the credit value-at-risk model and reported within the scope of credit risk reporting, with not only participations in the classic sense, but also loans to such participations that comply with the definition contained in IAS 24 "Related Parties" being considered within this type of risk.

The risk of impairment of participations is accounted for by way of discounts from the carrying amounts of the participations in the risk-bearing capacity calculation.

The FX risk from participations describes the risk of value changes of consolidated core capital components in currencies other than the euro, due to exchange rate fluctuations, and is calculated by means of value-at-risk via the internal market risk model.

As at 31 December 2016, the volume of participations at acquisition values amounts to euro 287.8 million (2015: euro 215.6 million), of which euro 125.1 million (2015: euro 111.8 million) from affiliates and euro 162.6 million (2015: euro 103.8 million) from holding companies. The participations and shares in affiliates are primarily attributable to the financial service sector. The additions from the three retail mergers of the business year amount to euro 25.2 million within affiliates and to euro 55.0 million within participations. As at 31 December 2016, cumulated write-downs on shares in affiliates amount to euro 99.1 million (2015: euro 86.1 million) and to euro 136.2 million (2015: euro 83.5 million) on participations. Write-downs on participations and affiliates were effected in the amount of euro 16.4 million (2015: euro 13.1 million) in 2016. In the business year, write-ups were effected in the amount of euro 3.3 million (2015: euro 0.0 million).

Due to the persistently challenging economic development, especially also in banking, there is a risk of decreasing profits and distributions from participations. In future, this may lead to lower market values.

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

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

The bank defines equity risk as the risk of an instable composition of internal equity in relation to the bank's type and size, or difficulties in quickly raising additional risk covering potentials if needed.

Business risk (yield risk) is the risk arising from the volatility of earnings and the associated risk of no longer being able to (fully) cover sticky fixed costs. Non-standard risks and/or non-financial risks (reputational risks, conduct risks, compliance risks, legal risks, model risks, as well as IT and systemic risks) are taken into account, among others, by the compliance framework and the framework for operational risks.

While other risks are not significant for the bank, they are nevertheless inherent in the bank's operations. Organisational and process-based measures, in particular, have been implemented to manage other risks.

2.3 Use of financial instruments

At VB Wien, interest rate- and currency-related as well as other derivative financial instruments are used. As regards the volumes (schedule of derivatives) and information on financial instruments acc. to section 237a UGB, please refer to the Notes ("Additional disclosures") of the annual financial statements as at 31 December 2016. In the investment book, financial instruments are primarily used for hedging purposes, i.e. to hedge liquidity, foreign currency and interest rate risks.

The regulations acc. to the AFRAC statement "Derivatives and hedging instruments (UGB)" of December 2015, on the accounting of derivatives and hedging instruments, are applied. Other risks and imminent losses from derivative financial instruments that have arisen in the 2016 business year were taken into account in the amount of the negative market values through allocation to provisions. Effectivity measurements are performed for accounting groups on a current basis. Appropriate risk provisions are set up for negative market values from ineffective accounting groups as well as for the ineffective portion of effective hedging relationships (negative market backlog of the derivative).

In the trading book, financial instruments are used for the purpose of controlling customer cash flows, and to capitalise on existing or expected differences between purchase and selling prices or market price fluctuations in the short term. Compliance with the limits, both in the trading book and in the investment book, is permanently monitored by a separate market risk department and is regulated in the market risk policy. For the purpose of market risk control in the trading book, backtesting calculations are performed to check the plausibility and reliability of risk indicators through reverse comparisons (backtesting) on a daily basis.

The counterparty risk for positive market values from unsecured interest rate management derivatives is taken into account by way of credit value adjustments (CVA) – as approximation function of the potential future loss associated with counterparty default risk. The CVA charge (adjustment of credit valuation) is the adjustment of a portfolio of transactions with a counterparty at the mean market value. Said adjustment reflects the market value of the counterparty's credit risk in relation to the bank, but not the market value of the bank's credit risk in relation to the counterparty. For all unlisted derivatives of the trading book, the calculation is effected with respect to all business activities of a bank (incl. securities financing transactions, unless the regulatory authority finds any significant CVA risk in this respect).

3 Report on research and development

VB Wien is not active in research and development.

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

The aim of the internal control system is to support the management in such a way that it is able to ensure effective internal controls with respect to accounting. The Managing Board is responsible for the establishment and organisation of an adequate internal control and risk management system in respect of the accounting process.

At VB Wien, an internal control system (ICS) has been installed according to the internationally recognised COSO standard. Detailed descriptions of ICS processes and control measures are available. The responsibilities and roles relating to the ICS are clearly defined. Regular reporting takes place for the ICS. Control activities are documented and reviewed, ICS-relevant risks are regularly evaluated and adjusted. Accordingly, a continuous optimisation process is ensured. Internal Audit verifies compliance with internal regulations independently and regularly, also in the sphere of accounting. As a staff function, Internal Audit is allocated to the Managing Board, and the head of the Internal Audit unit directly reports to the whole Board and also to the Supervisory Board on a quarterly basis.

4.1 Control environment

Observance of all relevant legal provisions is the ultimate ambition of VB Wien within the scope of financial reporting. The Managing Board is responsible for the establishment and organisation of a corresponding internal control and risk management system with respect to the accounting process and has defined a framework for implementation applicable to the entire group in the ICS group policy. Within VB Wien, responsibility for implementation lies with the OPRISK and Risk Governance group. For entries in the general ledger, observance of the dual control principle has basically been provided for. Each accounting document must be signed by the employee who has prepared it, and must bear the signature of the person authorised to approve it. The employee posting the entry is electronically documented in the general ledger accounting system.

4.2 Risk assessment

Risks relating to the accounting process are assessed and monitored by the process owners¬, in order to ensure, in particular, complete and correct recording of all transactions, the timely remittance of invoices as well as the accurate calculation and timely payment of taxes. The focus is on those risks that are to be considered significant.

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 to the following items and facts of the financial statements in particular: 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.

4.3 Control measures

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 accounting. Within the scope of the internal control system, 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, 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 a random sample basis, that operational controls are observed on the part of executives. For this purpose, a separate control plan has been prepared where the intervals of the reviews are set down by the competent executive (divisional head, department head, group manager) depending on the degree of risk. The random samples must be documented in the control plan in a way comprehensible to third parties. The results are reported semi-annually to the next higher executive (management reporting).

The entire control documentation (operational controls and management controls) is effected by means of the BART software.

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.

4.4 Information and communication

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

Additionally, accounting employees are continuously trained with respect to new developments in accounting, in order to be able to early identify risks of unintentional false reporting.

A management report is prepared at least quarterly. It contains statements regarding the completeness, comprehensibility, active implementation and effectiveness of the control system with a view to the accounting process.

4.5 Monitoring

Top management regularly receives summary financial reports, such as monthly and 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 monitoring activity with respect to the accounting process is reported within the scope of the management report. The report contains a qualitative risk assessment of the processes. Moreover, the number of controls performed in relation to control requirements is documented in the report.

Internal Audit also performs a monitoring and supervisory function.

Vienna, 15 February 2017

The Managing Board

Gerald Fleischmann
Chairman of the Managing Board

Josef Preissl
Deputy Chairman of the Managing Board

Rainer Borns
Member of the Managing Board

AUDITOR'S REPORT

REPORT ON THE FINANCIAL STATEMENTS

Audit Opinion

We have audited the financial statements of

**VOLKSBANK WIEN AG,
VIENNA, AUSTRIA,**

that comprise the statement of financial position as of 31 December 2016, the income statement for the year then ended, and the notes.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2016 and its financial performance for the year then ended in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements.

Basis for our Opinion

We conducted our audit in accordance with 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 Company within the meaning of Austrian commercial law and 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements 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 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 amounts to Euro 4,426 million, i.e. 41 % of assets. This includes credit risk provisions in the amount of Euro 69.9 million and a general provision according to section 57 (1) BWG in the amount of Euro 32.8 million.

The Managing Board of VB Wien describes the approach to determine credit risk provisions in the section „Accounting and Valuation Methods" of the Notes to the financial statements.

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 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.

AUDITOR'S REPORT

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 provisions is to identify events of default, and largely depends on estimating future cash flows, taking in account the financial situation of the counterparty, the valuation of loan collateral and the statistical parameter assumptions used, 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 reflect the valuation of those loans and advances. We have compiled the relevant key controls and tested the design and implementation, as well as 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, rating levels with higher default risk were particularly taken into account. In case of identified impairment triggers we assessed the banks 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 as specialists 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.

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

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Company's ability to continue as a going concern, and, where appropriate, to disclose matters that are relevant to the Company'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 Company or closure of operations is planned or cases in which such measures appear unavoidable.

The audit committee is responsible for the oversight of the financial reporting process of the Company.

AUDITOR'S REPORT

Auditors' Responsibility

Our aim is to obtain reasonable assurance about whether the financial statements taken as a whole, are free of material – intentional or unintentional– misstatements and to issue an audit report containing our audit 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 detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if they could, individually or as a whole, be expected to influence the economic decisions of users based on the financial statements.

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.

Moreover:
- We identify and assess the risks of material misstatements – intentional or unintentional – in the financial statements, 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 consider 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 and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity'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 financial statements 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 Company departing from the going concern assumption.
- We assess the overall presentation, structure and content of the financial statements including the notes as well as whether the financial statements give a true and fair view of the underlying business transactions and events.
- We communicate to the audit committee the scope and timing of our audit as well as significant findings including 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 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.

AUDITOR'S REPORT

Report on Other Legal Requirements

Management Report

In accordance with Austrian Generally Accepted Accounting Principles the management report is to be audited as to whether it is consistent with the financial statements 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 management report in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements.

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

Opinion

In our opinion, the management report has been prepared in accordance with legal requirements and is consistent with the financial statements. 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 financial statements and the understanding of the Company and its environment, we did not note any material misstatements in the management report.

Other Information

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

Our opinion on the financial statements does not cover other information, and we will not provide any 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 financial statements 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.

Vienna, 15 February 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.

STATEMENT OF ALL LEGAL REPRESENTATIVES

VOLKSBANK WIEN AG
Statement of all Legal Representatives

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

Vienna, 15 February 2017

Gerald Fleischmann
Chairman of the Managing Board

Corporates, Digitalisation, General Secretariat, Front Office Service Center / Customer Service Center, Organisation & IT, HR Management, PR & Communication, Private Banking / Treasury, Real Estate, Retail, Banking Association Strategy, Sales Management / Marketing

Josef Preissl
Deputy Chairman of the Managing Board

Operation / Wind-down, Property Subsidiaries, Audit, Risk Retail / SME, Risk Management Real Estate and Corporates, Association Risk Management, Reorganisation Management, VB Services for Banks

Rainer Borns
Member of the Managing Board

Control, Finance,
Legal and Compliance, Risk Contro

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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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1) Private and corporate customers domestic and foreign 2) In relation to total risk 3) Staff at end of period
As at 31 December 2016, VOLKSBANK WIEN AG including the function as central organisation