VOLKSBANK

HALF-YEAR MANAGEMENT REPORT

ASSOCIATION OF VOLKSBANKS

AS AT 30 JUNE 2018

KEY FIGURES OF THE ASSOCIATION OF VOLKSBANKS

Euro million	30 Jun 2018	31 Dec 2017	31 Dec 2016
Statement of financial position			
Total assets	**25,789**	**25,323**	**24,466**
Loans and receivables to customers (net)	19,822	19,407	18,988
Amounts owed to customers	21,468	20,850	20,018
Debts evidenced by certificates	550	624	966
Subordinated liabilities	654	671	325
Own funds according to Basel III for the association of Volksbanks			
Common equity tier 1 capital (CET1)	1,624	1,636	1,642
Additional tier 1 capital (AT1)	14	10	0
Tier 1 capital (T1)	**1,639**	**1,646**	**1,642**
Tier 2 capital (T2)	535	553	362
Own funds	**2,174**	**2,199**	**2,003**
Risk weighted exposure amount - credit risk	11,892	11,700	11,609
Total risk exposure amount settlement risk	0	0	0
Total risk exposure amount market risk	95	112	153
Total risk exposure amount operational risk	1,357	1,369	1,442
Total risk for credit valuation adjustment	51	60	61
Total risk exposure amount	**13,395**	**13,240**	**13,266**
Common equity tier 1 capital ratio[1)]	**12.13%**	**12.36%**	**12.38%**
Tier 1 capital ratio[1)]	**12.23%**	**12.43%**	**12.38%**
Equity ratio [1)]	**16.23%**	**16.61%**	**15.10%**
Income statement	**1-6/2018**	**1-6/2017**	**1-6/2016**
Net interest income	216.8	203.6	207.5
Risk provisions	-4.3	9.0	-10.7
Net fee and commission income	116.0	130.0	120.3
Net trading income	-0.4	9.4	-2.1
Result from financial investments	-8.2	-0.5	9.1
Result from other operating activities	12.1	0.3	21.0
General administrative expenses	-294.4	-308.8	-327.9
Restructuring result	-0.2	0.0	0.0
Result from companies measured at equity	1.5	-0.4	0.0
Result from discontinued operation	0.0	0.0	7.9
Result before taxes	**38.8**	**42.6**	**25.2**
Income taxes	1.0	-5.0	-10.8
Result after taxes	**39.8**	**37.6**	**14.4**
Non-controlling interest	0.0	0.0	0.0
Consolidated net income	**39.8**	**37.6**	**14.4**
Key ratios[2)]			
Operating cost-income-ratio	88.9%	89.4%	91.6%
ROE before taxes	4.4%	5.0%	1.9%
ROE after taxes	4.5%	4.4%	1.0%
ROE consolidated net income	4.5%	4.4%	1.0%
NPL ratio	3.1%	4.1%	4.2%
Net interest margin	1.7%	1.6%	1.5%
Leverage ratio	6.1%	6.1%	5.8%
Net stable funding ratio	133.4%	130.0%	131.0%
Loan deposit ratio	93.7%	92.0%	100.3%
Coverage ratio I	34.9%	32.9%	29.6%
Coverage ratio III	101.3%	96.4%	91.4%
Resources	**1-6/2018**	**1-6/2017**	**1-6/2016**
Staff average	**3,977**	**4,257**	**n.a.**
of which domestic	3,936	4,193	n.a.
of which abroad	41	64	n.a.
	30 Jun 2018	**31 Dec 2017**	**31 Dec 2016**
Staff at end of period	**3,924**	**4,129**	**4,347**
of which domestic	3,884	4,068	4,281
of which abroad	40	61	66
Number of sales outlets	**334**	**343**	**402**
of which domestic	333	340	399
of which abroad	1	3	3
Number of customers	**1,111,604**	**1,134,339**	**1,177,956**

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 result from other operating activities and result from discontinued operation. Operating expenses include general administrative expenses and if negative result from other operating activities and result from discontinued operation. Result from other operating activities and result from discontinued operation is displayed net of other taxes, deconsolidation result and valuation result according to IFRS 5. The ROE before taxes indicates the result before taxes in relation to the average equity including non-controlling interest. The ROE after taxes indicates the result after taxes in relation to the average equity including non-controlling interest. The ROE consolidated net income indicates the consolidated net income in relation to the average equity including non-controlling interest. The NPL ratio indicates the portfolio of non-performing loans in relation to the total exposure of all loans and receivables to customers. The net interest margin shows the net interest income in relation to total assets. The leverage ratio indicates the business volume (CCF-weighted off-balance positions plus derivatives add-on, replacement value of derivatives, disallowance of derivative claims and financial volume) in relation to the Tier I capital (CET1 + AT1). The net stable funding ratio indicates the available stable funding in relation to the necessary stable funding. The loan deposit ratio indicates the total amount of loan accounts, overdraft facilities less syndicated loans in relation to the total amount of savings deposits, demand deposits, fixed term deposits and debts evidenced by certificates. The coverage ratio I indicates the coverage ratio of non-performing loans by risk provisions. The coverage ratio III indicates the coverage ratio of non-performing loans by risk provisions and collaterals.

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HALF-YEAR REPORT

In order to improve readability, any role descriptions in this report that are used only in the masculine form apply analogously to the feminine form.

English translation by All Languages Alice Rabl GmbH.

HALF-YEAR MANAGEMENT REPORT FOR THE FIRST HALF OF 2018

Report on the business development and economic situation

Business development

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

Already in the first half of 2018, the owners of VBW and Waldviertler Volksbank Horn reg Gen mbH (VB Horn) resolved in the general meetings of both companies to contribute the banking operation of VB Horn to VBW; said contribution was effected in June 2018 by entering the same in the Companies' Register. All intended mergers were thus successfully implemented in due time to create the target structure of the Association of Volksbanks.

In February 2018, the Fitch rating agency raised the rating of the Association of Volksbanks by one notch to BBB. This also applies to the individual Volksbanks. The rating outlook is considered stable by Fitch.

Within the Association of Volksbanks, VBW is the only bank awarded a rating by Moody's. The long-term bonds and the covered bond programme obtained a Baa1 and Aaa rating, respectively, both with a stable outlook.

Economic environment

In the first half of 2018, the Austrian economy developed quite dynamically. According to calculations by the Austrian Institute of Economic Research (WIFO), the gross domestic product grew by 0.8% Q/Q in the first quarter and by 0.7% Q/Q in the second quarter. Thus, economic output had grown by 2.3% in real terms in the second quarter. The corresponding quarterly growth rates adjusted for season and workdays in compliance with Eurostat requirements amounted to 0.9% Q/Q and 0.5% Q/Q.

All GDP components increased. Private consumption increased in both quarters by 0.5% Q/Q, while government spending showed a somewhat restrained development with rates of 0.2% Q/Q and 0.3% Q/Q. Investments were the GDP component that showed the strongest growth in both quarters, increasing by 1.8% Q/Q and 1.2% Q/Q, respectively. Foreign trade showed dynamic development as well: with 1.0% Q/Q in the first quarter and 0.9% in the second, exports grew at a faster pace than imports (+0.8% Q/Q and +0.9% Q/Q).

In terms of economic sectors economic development remained balanced, too: all quarterly growth rates of the respective industrial sectors were positive, with the manufacturing industries showing the highest and trade the lowest growth levels in both quarters.

The favourable economic situation resulted in an increase in employment and a decrease in unemployment in all nine Austrian federal provinces. Tourism, manufacturing and construction mostly showed a good development. No specific regional patterns could be discerned.

During the first quarter, Vorarlberg showed below-average growth in manufacturing, but top levels in construction. In total, the development of overnight stays hardly varied from the Austrian average for the first five months. The already low unemployment rate decreased even further. At 5.8%, the rate of unemployment was far below the Austrian average in June (national method of calculation).

Manufacturing and tourism showed an inconspicuous development in Tyrol, compared to other federal provinces. Construction, however, showed some signs of weakness in the first quarter. The unemployment rate dropped to 3.9% which is the lowest value among all Austrian federal provinces.

Salzburg's economy did not vary significantly from the Austrian trend in any of the three sectors under review here. The unemployment rate dropped to 4.1%, which is the second lowest value among all Austrian federal provinces.

In Upper Austria, construction achieved by far the highest growth rates in the first quarter, as compared to Austria as a whole. As regards manufacturing and tourism, the federal province's annual growth rates were average. As regards the unemployment rate, Upper Austria achieved an acceptable 4.3% in June.

Styria registered top levels in manufacturing in the first quarter. In construction, the federal province showed below-average growth, in tourism average growth. At 6.2%, the rate of unemployment continued to be mid-table within Austria.

Neither in manufacturing nor in construction or tourism did Carinthia vary noticeably from the overall Austrian levels. At 7.0% in June, the federal province continued to show one of the highest unemployment rates, second only to Vienna, despite an extremely positive development.

During the first quarter, Lower Austria consistently showed above-average growth rates in construction and in manufacturing. Also with regard to overnight stays, Lower Austria did better than most of the other federal provinces during the first five months. The regional unemployment rate dropped to 6.9%.

Despite a positive overall development, Vienna lagged behind the dynamic development in Austria as a whole in manufacturing as well as in construction and tourism. At 11.7%, the unemployment rate still remained by far the highest among the Austrian federal provinces in June.

In Burgenland, construction showed the weakest development of all Austrian provinces, while all other economic sectors showed an average development, and the unemployment rate dropped to 6.2%.

Residential property prices have shown a very dynamic development. According to OeNB data, property prices all over Austria were 7.3% higher in the first quarter of 2018 than one year before. Within Austria, the development in Vienna was somewhat less dynamic than in the rest of Austria. In Vienna, prices rose by 3.5% Y/Y in total, with single-family homes showing a decline in prices (-5.2% Y/Y), while new apartments (+5.9% Y/Y) and pre-owned apartments (+4.0% Y/Y) showed strong growth. Outside Vienna, there was a total increase of 10.0% Y/Y. The prices of single-family homes rose by 12.3% Y/Y, new condominiums even by 15.4% Y/Y and pre-owned condominiums by 9.1% Y/Y.

Austria's unemployment rate showed a decreasing trend in the first half of 2018. According to international calculation methods (Eurostat), it went down from 5.2% in January to 4.7% in June. Starting from markedly higher values, the unemployment rate registered a declining trend in the euro zone as well, falling from 8.7% in January to 8.3% in June.

With levels between 1.9% and 2.3%, the Austrian inflation rate according to the Harmonised Index of Consumer Prices (HICP) slightly exceeded the rate of price increases in the entire euro zone during the first six months of the year which varied between 1.1% (February) and 2.1% (June) in the common currency zone.

The European Central Bank (ECB) left the key interest rate unchanged in the first half of 2018. The main refinancing rate continued to be 0.00%, the interest rate for the prime refinancing facility 0.25% and the deposit rate -0.40%. The securities purchasing programme was reduced to euro 30 billion per month at the beginning of the year.

In the entire first half of the year, the three-month Euribor was constantly between -0.33% and -0.32%. The yields of government bonds, hitherto considered safe, moved laterally. In Austria, the yields in the 10-year maturity range varied between 0.52% and 0.88% and ended the first half of the year nearly unchanged (0.58%), as compared to the beginning of the year. In Germany, the 10-year yield was between 0.26% and 0.77%. At the end of June it reached 0.30%.

Result of the Association for the first half of 2018

IFRS 9 financial instruments entered into force with effect from 1 January 2018. According to IFRS 9 transitional provisions, any retrospective application to previous reporting periods is not required; therefore, the comparative figures from the 2017 financial year were not adjusted. In the course of transition to IFRS 9, also the presentation of the items was amended and the figures of the reference period were adjusted to the amended structure.

The result of the Association before taxes amounts to euro 39 million (1-6/2017: euro 43 million). The result of the Association after taxes and minority shares amounts to euro 40 million (1-6/2017: euro 38 million).

The net interest income for the first half of 2018 amounts to euro 217 million, thus exceeding the income for the reference period (1-6/2017: euro 204 million) by euro 13 million. The increase essentially originates from the recognition of effective interest yields from loans and receivables to customers in the banks of the Association from the fourth quarter of 2017. In the reporting period, interest income thereof in the amount of euro 16 million is recognised. An effect to the contrary is achieved through an increase in interest expenditure from the subordinated bond issued in the fourth quarter of 2017.

At euro -4 million, the risk provision item shows higher provisions by euro 13 million for the reporting period than for the reference period (1-6/2017: euro 9 million). In the previous year, large amounts of individual impairments and portfolio impairments were released.

The net fee and commission income in the reporting period amounts to euro 116 million, a decrease by euro 14 million compared to the previous period (1-6/2017: euro 130 million). This essentially originates also from the recognition of effective interest yields from the fourth quarter of 2017. In the reporting period, net fee and commission income in the amount of euro 20 million was cancelled which is recognised in the interest result and allocated over the term in the context of effective interest yields. This negative effect has to be balanced against increases above all in the net fee and commission income from checking account business and payment transactions.

The net trading income in the first half of 2018 amounts to euro -0.4 million, a decrease by euro 10 million as compared to the previous period (euro 9 million). In addition to a decline in operations, the measurement results of trading book derivatives that are used for hedging investment book items as well as a positive measurement result of currency-related transactions last year are responsible for this decline mainly at Volksbank Vorarlberg.

The result from financial investments for the reporting period amounts to euro -8 million, thus undercutting the reference period (1-6/2017: euro -1 million) by euro 8 million. The valuation of SPPI-non-compliant loans results in a loss of euro -19 million in the reporting period. This has to be balanced against higher measurement results for derivatives and securities. In the previous year, this item also included write-downs on investments in the amount of euro -3 million.

The result from other operating activities for the first half of 2018 amounts to euro 12 million (1-6/2017: euro 0.3 million). A yield of euro 15 million is included from the sale of VB Switzerland in the first quarter of 2018. With regard to this position, a provision was made in the amount of euro -8 million for interest claims from entrepreneur loans with floors. In the previous year, the position included the allocation to interest claims for the charging of negative interest rates in the amount of euro -11 million. Moreover, a result of euro 3 million was obtained from early redemptions of issues in the previous year. The bank levy is included with an amount of euro -1 million (1-6/2017: euro -1 million).

General administrative expenses of euro 294 million (1-6/2017: euro 309 million) constitute a decrease of euro 14 million compared to the previous year. Compared to the end of 2017, the headcount decreased by 205 from 4,129 and now amounts to 3,924 employees. This decrease coincided with a reduction of staff costs by euro 7 million from 173 million in the reference period to euro 167 million in the reporting period. As regards administrative expenses, there were mainly reductions in the area of expenses for premises. Write-offs of fixed assets, too, decreased compared to the previous period (1-6/2017: euro 17 million) by euro 4 million and amount to euro 13 million for the first half of 2018.

In the reporting period, the result of companies measured at equity amounted to euro 2 million (1-6/2017: euro -0.4 million). The increase originates from the transfer of the current result of VB Verbund-Beteiligung eG, which has improved due to higher investment income as compared with the reference period.

Due to the tax planning of the next four years, it was possible, in the reporting period, to recognise deferred tax assets for part of the tax loss carried forward. For tax loss carried forward in the amount of euro 339 million (31 December 2017: euro 359 million), no deferred tax assets are recognised. Deferred tax is recognised for the remaining valuation differences, especially in connection with the valuation of financial instruments.

Financial position

As at 30 June 2018, total assets amount to euro 25.8 billion, increasing by euro 0.5 billion compared to the end of 2017 (euro 25.3 billion), essentially due to the increase in customer receivables.

Compared to the end of the previous period (euro 0.5 billion), loans and receivables to credit institutions in the amount of euro 0.5 billion have remained stable.

As at 30 June 2018, loans and receivables to customers less risk provisions amount to euro 19.8 billion, thus increasing by euro 0.4 billion compared to the end of the previous year (euro 19.4 billion), with VBW and Volksbank Lower Austria in particular contributing to this moderate increase.

Financial investments of euro 2.4 billion have increased slightly compared to the previous year (euro 2.3 billion), mainly because of investments in bonds in the business model hold.

Vacant branches and investment property assets the sale of which was already contractually agreed or is highly likely as at 30 June 2018 are shown in the assets held for sale. At the end of 2017, this included mainly the assets of the VB Switzerland disposal group.

Amounts owed to credit institutions have almost remained the same as compared to the end of 2017 (euro 0.4 billion).

Amounts owed to customers in the amount of euro 21.5 billion have increased by euro 0.6 billion compared to the end of 2017 (euro 20.8 billion). The increase basically originates from the Volksbanks in Tyrol, Lower Austria and Styria.

As at 30 June 2018, debts evidenced by certificates amount to euro 0.5 billion and have decreased compared to 31 December 2017 (euro 0.6 billion) mainly due to redemptions.

In the previous year, liabilities held for sale include the liabilities of the VB Switzerland disposal group, which was sold end of February 2018.

In the reporting period, the equity positions (including company shares and non-controlling interest) increased by euro 27 million and amount to euro 1.8 billion as at 30 June 2018. An amount of euro 13 million was recognised from the effects of initial application of IFRS 9. In OCI, the disposal of VB Switzerland results in a decline of the currency reserve. The valuation of investments is now presented without any effect on profit or loss in OCI and amounts to euro -5 million for the reporting period, after deduction of deferred taxes. Following the contribution of the VB Horn banking operation into VBW, VB Horn – now WV Beteiligung eG – was deconsolidated, as no joint management with the CO has been agreed in its Articles of Association. The disposal is presented in equity in the line Changes to scope of consolidation and reduces equity by euro 3 million. Distribution by VBW to its shareholders results in a reduction by euro 6 million.

Financial performance indicators

As at 30 June 2018, the regulatory own funds of the Association KI Group amount to euro 2.2 billion (31 December 2017: euro 2.2 billion). As at 30 June 2018, the aggregate risk amount was euro 13.4 billion (31 December 2017: euro 13.2 billion). The Tier I capital ratio in relation to total risk amounts to 12.1% (31 December 2017: 12.4%), the equity ratio in relation to total risk is 16.2% (31 December 2017: 16.6%). Regulatory own funds, aggregate risk amount and the key indicators calculated therefrom were determined acc. to CRR (EU Regulation No. 575/2013). For more detailed information, please refer to the Notes.

Performance indicators	1-6/2018	1-6/2017	1-6/2016
Return on Equity before taxes	4.4%	5.0%	1.9%
Return on Equity after taxes	4.5%	4.4%	1.0%
Cost-income ratio	88.9%	89.4%	91.6%

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

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

The 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 result from other operating activities, and result from discontinued operation, if positive. The operating expenses includes the general administrative expenses as well as the result from other operating activities, and result from discontinued operation, if negative. The result from other operating activities and the result from discontinued operation are adjusted for other taxes, deconsolidation result and IFRS 5 measurement.

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

Related party transactions

For details on transactions with related parties, please refer to the information contained in the Notes.

Report on the company's future development and risks

Future development of the company

Economic environment

According to the economic forecast of the WIFO published late June, the Austrian economy is expected to grow by 3.2% this year, employment is going to increase noticeably, and unemployment is going to decrease slightly. According to WIFO in compliance with the Eurostat definition, it will be 5.1% on annual average. In the current year, Austria's inflation rate is expected to reach 2.0%, according to WIFO. However, this growth is expected to slow down in the next year, as is also indicated by leading indicators such as the Purchasing Managers' Index calculated by IHS Markit/Bank Austria. After record levels around the turn of the year, the index showed a slight weakening, but still indicates a robust condition of the Austrian industry.

According to the macroeconomic forecasts of the ECB published in June, economic growth in the euro zone is likely to amount to 2.1% in the current year, and the average inflation rate will probably amount to 1.7%. For the next two years, ECB economists still expect levels of 1.7%. Hence the target inflation rate of a little under 2% will not be achieved.

No key interest rate rises are expected for the next few months in the euro zone. In terms of returns, there might be a moderate upward trend, supported by an expiring bond purchase programme. An abrupt global rise in interest rates would constitute a potential source of risk, especially for the real estate market, while for the financial industry any prolonged persistence of interest rates below zero per cent is associated with a yield risk.

An important element of uncertainty are global protectionist tendencies that have already found their expression in import duties on steel and aluminium being introduced by the USA and corresponding retaliation tariffs by the European Union. Even if a slight easing has recently become apparent – the USA and the European Union agreed not to impose any new customs duties for now –, a further deterioration of the situation cannot be ruled out. Another source of risk is Great Britain's impending exit from the EU. Especially an exit that is not accompanied by further agreements (Hard Brexit) might cause economic turmoil both in the European Union and in Great Britain.

As always, geopolitical conflicts may also potentially harm the basically positive economic outlook. This includes, among others, tensions between the USA and Iran – sanctions imposed by the USA have already entered into force – and tensions between the USA and Turkey.

Future development of the Association

The focus of the Association of Volksbanks on retail banking is meant to be continued, supported, in particular, by increasing digitalisation of the sales process. In the course of medium-term planning, the Association of Volksbanks has set itself a number of strategic goals, of which the accomplishment, observance and/or undercutting/exceeding will be a management focus in the years to come. Among others, this includes achieving a cost-income ratio of 60%, a CET 1 capital ratio of at least 12%, a total capital ratio of at least 16%, an NPL ratio (non-performing loan) of not more than 3%, as well as a return on equity (ROE) of 8%.

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

The low interest rate environment expected to continue in 2018 calls for a streamlining of the cost structure and an increase of productivity. For this purpose among others, additional cooperation models are being evaluated within and outside the Association of Volksbanks.

Significant risks and uncertainties

Regarding the legally required disclosures on the use of financial instruments, risk management targets and methods as well as the risk of price changes, default, liquidity and cash flow risks, please refer to the information contained in the Notes to the 2018 half-year report and the 2017 report of the Association.

FINANCIAL STATEMENTS

HALF-YEAR REPORT

Condensed statement of comprehensive income

INCOME STATEMENT	1-6/2018 Euro thousand	1-6/2017 Euro thousand	Changes Euro thousand	%
Interest receivable and similar income	267,935	256,539	11,396	4.44 %
Interest and similar expenses	-51,155	-52,906	1,751	-3.31 %
Net interest income	216,780	203,633	13,147	6.46 %
Risk provisions	-4,269	8,994	-13,263	-147.47 %
Fee and commission income	133,370	147,848	-14,478	-9.79 %
Fee and commission expenses	-17,395	-17,807	413	-2.32 %
Net fee and commission income	115,975	130,040	-14,065	-10.82 %
Net trading income	-403	9,449	-9,853	-104.27 %
Result from financial investments	-8,185	-535	-7,650	> 200.00 %
Result from other operating activities	12,058	331	11,727	> 200.00 %
General administrative expenses	-294,420	-308,848	14,429	-4.67 %
Restructuring result	-225	0	-225	100.00 %
Result from companies measured at equity	1,523	-449	1,972	< -200.00 %
Result for the period before taxes	38,833	42,616	-3,782	-8.88 %
Income taxes	964	-5,049	6,013	-119.10 %
Result for the period after taxes	39,798	37,567	2,231	5.94 %
Result attributable to shareholders of the parent company (Consolidated net result)	39,787	37,560	2,227	5.93 %
thereof from continued operation	39,787	37,560	2,227	5.93 %
Result attributable to non-controlling interest	11	7	3	48.15 %
thereof from continued operation	11	7	3	48.15 %

Other comprehensive income

	1-6/2018 Euro thousand	1-6/2017 Euro thousand	Changes Euro thousand	%
Result for the period after taxes	**39,798**	**37,567**	**2,231**	**5.94 %**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation of obligation of defined benefit plans	-1,906	-2,326	420	-18.05 %
Deferred taxes on revaluation of obligation of defined benefit plans	381	581	-200	-34.44 %
Fair value reserve - equity instruments	-6,244	0	-6,244	100.00 %
Deferred taxes of fair value valuation equity instruments	1,561	0	1,561	100.00 %
Revaluation of own credit risk	-2,558	0	-2,558	100.00 %
Deferred taxes of revaluation of own credit risk	639	0	639	100.00 %
Total items that will not be reclassified to profit or loss	-8,126	-1,744	-6,381	> 200.00 %
Items that may be reclassified to profit or loss				
Currency reserve	-5,609	-1,362	-4,247	> 200.00 %
Fair value reserve - debt instruments (including deferred taxes)				
Change in fair value	-1,770	4,273	-6,043	-141.43 %
Net amount transferred to profit or loss	131	-623	754	-121.00 %
Change in deferred taxes arising from untaxed reserve	458	0	458	< -200.00 %
Change from companies measured at equity	-1,203	0	-1,203	100.00 %
Total items that may be reclassified to profit or loss	**-7,994**	**2,287**	**-10,281**	**< -200.00 %**
Other comprehensive income total	**-16,120**	**543**	**-16,663**	**< -200.00 %**
Comprehensive income	**23,678**	**38,110**	**-14,432**	**-37.87 %**
Comprehensive income attributable to shareholders of the parent company	23,667	38,103	-14,436	-37.89 %
thereof from continued operation	23,667	38,103	-14,436	-37.89 %
Comprehensive income attributable to non-controlling interest	11	7	4	49.51 %
thereof from continued operation	11	7	4	49.51 %

Condensed statement of financial position as at 30 June 2018

	30 Jun 2018	31 Dec 2017	Changes	
	Euro thousand	Euro thousand	Euro thousand	%
ASSETS				
Liquid funds	2,092,972	2,001,338	91,634	4.58 %
Loans and receivables to credit institutions (net)	524,767	494,848	29,919	6.05 %
Loans and receivables to customers (net)	19,822,188	19,406,540	415,648	2.14 %
Assets held for trading	51,292	63,587	-12,296	-19.34 %
Financial investments (net)	2,391,024	2,292,273	98,751	4.31 %
Investment property	50,243	52,180	-1,937	-3.71 %
Investments in associated companies (measured at equity)	69,776	70,456	-680	-0.97 %
Participations	111,158	117,602	-6,444	-5.48 %
Intangible assets	1,359	1,591	-232	-14.57 %
Tangible fixed assets	407,194	413,672	-6,478	-1.57 %
Tax assets	96,465	92,602	3,863	4.17 %
Current taxes	2,984	2,413	571	23.66 %
Deferred taxes	93,482	90,190	3,292	3.65 %
Other assets	168,909	190,476	-21,567	-11.32 %
Assets held for sale	1,336	126,105	-124,769	-98.94 %
TOTAL ASSETS	**25,788,683**	**25,323,270**	**465,413**	**1.84 %**
LIABILITIES				
Amounts owed to credit institutions	404,088	448,740	-44,652	-9.95 %
Amounts owed to customers	21,467,694	20,849,571	618,123	2.96 %
Debts evidenced by certificates	549,771	623,633	-73,861	-11.84 %
Liabilities held for trading	70,829	77,459	-6,630	-8.56 %
Provisions	267,113	264,261	2,852	1.08 %
Tax liabilities	19,886	23,158	-3,272	-14.13 %
Current taxes	7,052	9,995	-2,943	-29.45 %
Deferred taxes	12,834	13,163	-328	-2.50 %
Other liabilities	575,879	508,866	67,013	13.17 %
Liabilities held for sale	0	103,684	-103,684	-100.00 %
Subordinated capital	653,905	671,159	-17,254	-2.57 %
Total nominal value cooperative capital shares	4,242	4,010	233	5.80 %
Subscribed capital	293,442	288,640	4,802	1.66 %
Reserves	1,479,687	1,457,918	21,768	1.49 %
Non-controlling interest	2,147	2,171	-25	-1.13 %
TOTAL LIABILITIES	**25,788,683**	**25,323,270**	**465,413**	**1.84 %**

Condensed changes in equity and cooperative capital shares

Euro thousand	Subscribed capital [1)]	Reserves	Shareholders' equity	Non-controlling interest	Equity	Cooperative capital shares [2)]	Equity and cooperative capital shares
As at 1 January 2017	**194,890**	**1,480,118**	**1,675,007**	**151**	**1,675,158**	**17,389**	**1,692,547**
Consolidated net income		37,560	37,560	7	37,567		37,567
Revaluation of obligation of defined benefit plans (including deferred taxes)		-1,744	-1,744		-1,744		-1,744
Currency reserve		-1,362	-1,362		-1,362		-1,362
Available for sale reserve (including deferred taxes)		3,650	3,650	0	3,650		3,650
Change from companies measured at equity		0	0		0		0
Comprehensive income	0	38,103	38,103	7	38,110	0	38,110
Dividends paid		-13,241	-13,241	-16	-13,257		-13,257
Changes in base amount regulation	1,124	0	1,124		1,124	-1,124	0
Changes scope of consolidation	-14,832	16,425	1,593		1,593	610	2,203
Change in cooperative capital and participation capital	0	0	0		0	-2,184	-2,184
Change in treasury stocks	157	-157	0		0	0	0
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation	0	33	33	0	33		33
As at 30 June 2017	**181,338**	**1,521,281**	**1,702,619**	**141**	**1,702,761**	**14,691**	**1,717,452**
As at 1 January 2018	**288,640**	**1,457,918**	**1,746,558**	**2,171**	**1,748,729**	**4,010**	**1,752,739**
Impact of adopting IFRS 9		**12,598**	**12,598**		**12,598**		**12,598**
As at 1 January 2018 restated	**288,640**	**1,470,516**	**1,759,157**	**2,171**	**1,761,328**	**4,010**	**1,765,337**
Consolidated net income		39,787	39,787	11	39,798		39,798
Change in deferred taxes arising from untaxed reserve		458	458		458		458
Revaluation of obligation of defined benefit plans (including deferred taxes)		-1,525	-1,525		-1,525		-1,525
Currency reserve		-5,609	-5,609		-5,609		-5,609
Fair value reserve - equity instruments (including deferred taxes)		-4,683	-4,683		-4,683		-4,683
Fair value reserve - debt instruments (including deferred taxes)		-1,639	-1,639		-1,639		-1,639
Own credit risk reserve (including deferred taxes)		-1,918	-1,918		-1,918		-1,918
Change from companies measured at equity		-1,203	-1,203		-1,203		-1,203
Comprehensive income	0	23,667	23,667	11	23,678	0	23,678
Dividends paid		-6,268	-6,268	-16	-6,284		-6,284
Changes in base amount regulation	0	0	0		0	0	0
Changes scope of consolidation	4,802	-8,258	-3,456		-3,456	-30	-3,486
Change in cooperative capital and participation capital	0	0	0		0	259	259
Reclassification fair value reserve due to sale		0	0		0		0
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation	0	28	28	-19	9	3	12
As at 30 June 2018	**293,442**	**1,479,687**	**1,773,128**	**2,147**	**1,775,275**	**4,242**	**1,779,517**

thereof obtained in reserves:

Euro thousand	30/06/2018	30/06/2017
Currency reserve	10,921	21,678
thereof through profit or loss	23	-9
Fair value reserve	-702,907	9,397
thereof deferred taxes	234,302	-3,140
Own credit risk reserve	2,441	0
thereof deferred taxes	-814	0

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

Condensed cash flow statement

In euro thousand	1-6/2018
Cash and cash equivalents at the end of previous period (= liquid funds)	1,990,348
Cash flow from operating activities	323,635
Cash flow from investing activities	-218,092
Cash flow from financing activities	-24,090
Effect of currency translation	844
Cash and cash equivalents at the end of period	2,072,644

Details to cash and cash equivalents are shown in note 5).

Condensed Notes to the Financial Statements for the period from 1 January to 30 June 2018

1) General Information

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

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

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

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

The interim financial statements do not contain all information required for full annual financial statements and should therefore be read in conjunction with the consolidated financial statements as at 31 December 2017. The accounting policies, estimates and assumptions on which these financial statements are based are the same as those used in the preparation of the consolidated financial statements as at 31 December 2017, with the exception of changes and amendments that are explained in note 1a) and 3) Accounting principles (in particular first time application IFRS 9).

These condensed consolidated interim financial statements have been reviewed by the statutory auditor.

The accounts have been prepared using the going concern assumption. The Association of Volksbanks consolidated financial statements are reported in euros, as this is the Association’s functional currency. All figures are indicated in thousand of euro unless specified otherwise. The following tables may contain rounding differences.

a) Accounting principles for the Association

The financial statements for the Association are prepared in accordance with all the latest valid versions of the IFRS/IAS as at the reporting date, as published by the International Accounting Standards Board (IASB). The financial statements also comply with all interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and Standing Interpretations Committee (SIC), provided these have also been adopted by the European Union in its endorsement process and additional requirements pursuant to section 245a of the Austria Commercial Code (Unternehmensgesetzbuch, UGB) and section 59a of the Austrian Banking Act. Regarding the exceptions to the application of indivual IFRS we refer to the 2017 Association financial statements.

2) Presentation and changes in the scope of consolidation

By way of an agreement on a transfer and contribution in kind dated 24 April 2018, Waldviertler Volksbank Horn registrierte Genossenschaft mit beschränkter Haftung contributed its undertaking, the Horn banking operation, to VBW. The contribution in kind is effected against the granting of 49,629 new no-par shares of VBW. The registration in the commercial register took place on 20 June 2018. As there is no joint management agrred with the ZO in the statue of VB Horn – now WV Beteiligung eG – the company was deconsolidatet at this point. As the company is no subordinated entity and there is no controlling relationship within the Association, no result of disposal is recorded in the profti and loss statement. The equity disposal is balanced together with the capital increase of the VBW and is shown in the position changes in the scope of consolidation, without effect on the income statement.

On 5 December 2017 VOLKSBANK VORARLBERG e. Gen. Signed the share purchase agreement regarding the sale of all participations in ist subsidiary Volksbank AG in Switzerland. The closing took playe on 28 February 2018.

Deconsolidation result VB Switzerland

Euro thousand	
Assets proportional	100,430
Liabilities proportional	94,589
Revaluation IAS 19 propotional	1,523
Currency reserve proportional	6,224
Disposal of net assets proportional	**1,906**
Revenues proportional	13,396
Deconsolidation result	**15,302**

Participation right of the federal government

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. The participation right was issued by VB Rückzahlungsgesellschaft mbH (RZG), a direct subsidiary of VBW.

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

According to its contractual obligations towards the federal government, VBW must submit to the Volksbanks a proposal for the total amount to be distributed with respect to the federal government's participation right by RZG in the subsequent calendar year and for the total amount of the primary banks' contributions required for this purpose (indirect contributions of the Volksbanks and direct contribution of VBW to RZG) by 30 November of each year. VBW is charged according to the share of its retail segment in the Association of Volksbanks (total assets UGB/BWG). Of the repayment amount of euro 300 million that was promised to the federal government, euro 69 million have already been repaid. Accordingly, the threshold existing at 31 December 2017 for the minimum repayment in the amount of euro 15 million was by far exceeded. From today's point of view, the next threshold at 31 December 2019 in the amount of euro 75 million will be met as well.

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

3) Accounting principles

Due to first-time application of IFRS 9 Financial instruments, these financial statements contain the complete accounting principles applicable to this report.

The following chapters contain a presentation of amended and new accounting principles that are essential to the consolidated financial statements of VBW.

a) Initially apllied standards and interpretations

The following new or amended standards and interpretations are initally applied in the 2018 financial year:

Standard	Content	significant effects on the Association
New standards and interpretations		
IFRS 9	Financial instruments	Yes
IFRS 15	Revenue from contracts with customers	No
IFRIC 22	Foreign currency transactions and advance consideration	No
Amendments to standards and interpretations		
IFRS 4	Amendments to IFRS 4 - Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts	No
IAS 40	Transfer of investment property	No

IFRS 9 – Financial instruments:

As at 1 January 2018, the Association of Volksbanks implements IFRS 9 Financial instruments. It contains regulations for recognition and measurement, derecognition and hedge accounting and supersedes IAS 39 – Financial instruments: recognition and measurement. According to IFRS 9 transition arrangements, any retrospective application to previous reporting periods is not required. Therefore, the comparative figures from the 2017 financial year were generally not adjusted. In the course of implementation of IFRS 9, the presentation of the items was also amended and the figures of the comparative period adjusted to the amended structure.
In the balanace sheet this applies to loans to and receivables from credit institutions and customers which were shown with gross amounts in the comparative period are presented with net amounts. In the income statement the current income from equities and participations as well as the income from operating lease and investment property were reclassified from net interest income to result from financial investments.

Classification and recognition of financial instruments

Within the scope of evaluating the classification of debt instruments, apart from verifying the business model criterion, the contractually agreed cash flows also need to be analysed. Potential critical contract components require special attention, necessitating the performance of a benchmark test under certain conditions.

The business model determines how a company generates cash flows: by receiving contractually agreed cash flows, by selling financial instruments, or both. A business model aims at controlling financial assets in a certain manner. The evaluation of business models was based on various criteria such as targets, compensation, performance measurement, management and/or risk strategy, frequency and timing of selling transactions, as well as reasons for the selling transactions. Based on these criteria, individual portfolios or sub-portfolios were created within the Hold, Hold and Sell and Other business models. Apart from analysing, defining and establishing the business model criterion, analysing the structure of cash flows of financial instruments is also required to classify them appropriately. In addition to the respective business model criterion, the SPPI criterion must be met for allocation to the categories at amortised cost or at fair value through

OCI. If the SPPI criterion is not met, valuation must absolutely be effected at fair value through profit or loss. The only exception exists for equity instruments in case the OCI option is exercised and therefore measured at fair value through OCI.

Changes of classification and measurement

Based on the list of criteria for determination of the business models and the SPPI criterion, portfolios were defined for the Association within the loan and securities division and allocated to the business models. The business model assessment in the loan division has shown that the objective is basically portfolio maintenance and growth in the Retail/SME, model, commercial, project and real estate financing spheres. No performance-based, variable compensation or selling transactions are intended. Risks included in the loan portfolio are minimised using, among others, interest rate derivatives or sub-participations. Accordingly, all portfolios in the loan sphere are allocated to the Hold business model, unless there is an intention to sell loans or companies holding such loans. Portfolios or individual financial assets meant to be sold, as well as those within companies up for sale are designated as for sale and measured at fair value through profit or loss. At 31 December 2017, there were no intentions whatsoever to sell any loan portfolios or companies that hold any loans. Accordingly, as at 1 January 2018, all loans are allocated to the Hold business model within the Association. As at 1 January 2018, the negative effect (reduction of equity) due to fair value measurement of loans that fail to meet the SPPI criterion amounts to euro -2.9 million (before deferred tax) and concerns a volume of approximately euro 639 million.

Identification of the business models for securities portfolios revealed that in the investment book remuneration is independent in terms of performance measurement. Performance is basically measured on the basis of net interest income. No performance-based, variable compensation has been scheduled. Within the positions in the banking book, no differentiation in terms of management and risk strategies is effected either. All banking book investments are made within the scope of the group-wide investment strategy and basically show a low credit risk profile. Accordingly, identification of the business models essentially took place on the basis of the following parameters: investment goals, such as compliance with regulatory requirements or realising returns, as well as reasons for and frequency of selling transactions. The Association defines as compliant any sales of positions that do no longer fit the investment strategy due to a significant increase in default risk, that take place shortly before maturity and the sales proceeds of which approximately correspond to the remaining contractual payments, which are effected, among others, due to expiration of the basis of the business and which take place within the scope of a strategic reorientation associated with regulatory or risk-related considerations. The different portfolios within the Association result from the different objectives for banking book investments. A volume of approximately euro 1,667 million was allocated to the Hold portfolio, as the intention here is to hold these financial instruments until maturity. A volume of approximately euro 512 million was allocated to the Hold and Sell portfolio, which is basically intended to hold financial investments until maturity. If, however, due to positive market conditions, an opportunity for optimised returns arises through premature sales, they may be utilised accordingly. The aim of the Association is to minimise volatility within the income statement based on the fair value measurement. Therefore, the volume of securities that fail to meet the SPPI criterion is minimised to the greatest possible extent. These instruments are accordingly available for sale at any time. Within the Association, this volume amounts to approximately euro 128 million. As for purchases on or after 1 January 2018, Treasury will allocate the financial instrument to a business model. In consideration of hedge accounting, the negative effect on equity due to revaluations of securities amounts to euro -8.3 million (before deferred tax).

As for participations, the first-time application of IFRS 9 does not result in any transition effect, as all material participations were already reported at fair value at 31 December 2017.

For financial liabilities, classification and measurement under IFRS 9 remain unchanged, with the exception that gains and losses from a financial liability designated at fair value through profit or loss, which have emerged due to changes of the bank's own credit risk, are reported in OCI. Within the Association, the fair value option is chosen for the bank's structured own issues. At a volume of about euro 82 million, the change of equity amounts to euro -4 million (before deferred tax).

Accounting of impairments of financial assets

The new regulations regarding impairments under IFRS 9 must be applied to financial assets allocated to the valuation categories at amortised cost and at fair value through OCI, as well as to off-balance sheet loan commitments and financial guarantees. Therefore, not only losses that have already occurred but also losses already expected must be recognised. In this context, a distinction is made as to whether or not the default risk of financial assets has deteriorated significantly ever since their initial recognition. If a significant deterioration has occurred, and if the default risk cannot be assessed as low on the reporting date, all lifetime expected credit losses must be recognised with effect from that date. In case of significant deterioration and low default risk, only those losses expected for the lifetime of the financial instrument must be taken into account that result from future potential loss events within the next twelve months. Exceptions exist for trade receivables. For these assets, all expected losses must (receivables without any significant financing component) or may (receivables with a significant financing component and lease receivables) be taken into account already at the time of initial recognition. For further information, please refer to note Risk provisions.

Applying IFRS 9 impairment regulations as at 1 January 2018 resulted in a positive movement of the loan loss provisions reported of euro 31.4 million (before deferred tax).

Accounting of hedging relationships

As at 1 January 2018, hedge accounting according to IFRS 9 is applied within the Association. The aim of the new rules is for hedge accounting to be related more clearly to 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 now, the relationship between the hedged underlying transaction and the hedging instrument has to correspond to the requirements of the risk management strategy.
Based on the amendments under IFRS 9, VBW has been applying new hedge constellations, such as layer hedge accounting, since 2018. Within VBW, parts of portfolios of fixed-income loans are hedged using layer hedge accounting.
Hedging relationships applied under IAS 39 remain valid for the major part. Only in case of structured own issues with a volume of approximately euro 82 million, designated as hedge accounting under IAS 39, the hedging relationship was terminated and the fair value option applied under IFRS 9. The resulting change of equity has entailed a reduction of euro -4 million (before deferred tax).

Transition

The following tables show the reconciliation of the values according to IAS 39 reported at 31 December 2017 towards those after first-time application of IFRS 9 as at 1 January 2018.

Reclassification and Valuation of financial instruments

The following table shows the changes between valuation categories and the carrying amounts of finacial assets and liabilities according to IAS 39 and IFRS 9 as at 1 January 2018.

Euro thousand	Valuation category acc. to IAS 39	Valuation category acc. to IFRS 9	Carrying amount IAS 39 31 Dec 2017	Carrying amount IFRS 9 1 Jan 2018
Liquid funds	at amortised cost	at amortised cost	2,001,338	2,001,338
Loans and receivables to credit institutions (net)			494,848	494,824
	at amortised cost	at amortised cost	494,848	493,328
		at fair value through profit or loss - obligatory		1,495
Loans and receivables to customers (net)			19,406,540	19,435,609
	at amortised cost	at amortised cost	19,406,540	18,770,713
		at fair value through profit or loss - obligatory		664,896
Assets held for trading			63,587	63,587
Fixed-income securities	held for trading	at fair value through profit or loss	8,320	8,320
Positive fair value from derivatives	held for trading	at fair value through profit or loss	55,267	55,267
Financial investments (net)			2,292,273	2,283,281
Fixed-income securities			2,184,269	2,175,272
	held to maturity	at amortised cost	359,140	1,640,286
	available for sale	at fair value through OCI	1,825,129	523,744
		at fair value through profit or loss - obligatory		11,242
Equities and other variable-yield securities			108,005	108,008
	available for sale	at fair value through OCI	108,005	0
		at fair value through profit or loss - obligatory		108,008
Participations	available for sale	at fair value through OCI	117,602	117,602
Positive fair value from derivatives (investment book)	held for trading	at fair value through profit or loss	104,195	104,195
Financial assets total			**24,480,384**	**24,500,435**
Financial assets of the disposal group			106,725	105,676
Amounts owed to credit institutions	at amortised cost	at amortised cost	448,740	448,740
Amounts owed to customers	at amortised cost	at amortised cost	20,849,571	20,849,571
Debts evidenced by certificates			623,633	627,613
	at amortised cost	at amortised cost	623,633	522,786
		at fair value through profit or loss - designated		104,827
Liabilities held for trading	held for trading	at fair value through profit or loss	77,459	77,459
Negative fair value from derivatives (investment book)	held for trading	at fair value through profit or loss	386,113	386,113
Subordinated capital	at amortised cost	at amortised cost	671,159	671,159
Financial liabilities total			**23,056,675**	**23,060,655**
Financial liabilities total of the disposal group			93,725	93,725

The following table shows the transition effects from IAS 39 as at 31 December 2017 to IFRS 9 as at 1 January 2018 on financial assets regarding classification and valuation for on and off balance sheet positions affected by IFRS 9 without consideration of impairments.

Transition of the carrying amounts of financial assets based on their valuation category:

Financial Assets

Euro thousand	Carrying amount IAS 39 31 Dec 2017	Reclassification	Valuation	Carrying amount IFRS 9 1 Jan 2018
At amortised cost				
Liquid funds	2,001,338			2,001,338
Loans and receivables to credit institutions (net)	494,848	-1,504	-16	493,328
Thereof reclassification into at fair value through profit or loss		-1,504		
Loans and receivables to customers (net)	19,406,540	-652,692	16,865	18,770,713
Thereof reclassification into at fair value through profit or loss		-652,692		
Fixed-income securities held to maturity	359,140	-359,140		0
Thereof reclassification into at amortised cost		-343,639		
Thereof reclassification into at fair value through OCI		-15,501		
Fixed-income securities at amortised cost		1,649,782	-9,496	1,640,286
Thereof reclassification out of held to maturity		343,639		
Thereof reclassification out of available for sale		1,306,144		
At amortised cost - total	**22,261,865**	**636,447**	**7,353**	**22,905,665**
At fair value through profit or loss				
Assets held for trading	63,587			63,587
Loans and receivables to credit institutions (gross) - at fair value through profit or loss - obligatory	0	1,504	-9	1,495
Thereof reclassification out of at amortised cost		1,504		
Loans and receivables to customers (gross)	0	652,692	12,204	664,896
Thereof reclassification out of at amortised cost		652,692		
Fixed-income securities - at fair value through profit or loss - obligatory		11,242	0	11,242
Thereof reclassification out of available for sale		11,242		
Equities and other variable-yield securities - at fair value through profit or loss - obligatory		108,008	0	108,008
Thereof reclassification out of available for sale		108,008		
Positive fair value from derivatives (investment book)	104,195			104,195
At fair value through profit or loss - total	**167,783**	**773,446**	**12,195**	**953,424**
At fair value through OCI				
Fixed-income securities available for sale	1,825,129	-1,825,129		0
Thereof reclassification into at fair value through OCI		-507,740		
Thereof reclassification into at amortised cost		-1,306,144		
Thereof reclassification into at fair value through profit or loss		-11,246		
Fixed-income securities at fair value through OCI		523,240	504	523,744
Thereof reclassification out of available for sale		507,740		
Thereof reclassification out of held to maturity		15,501		
Equities and other variable-yield securities available for sale	108,005	-108,005		0
Thereof reclassification into at fair value through profit or loss		-108,005		

Euro thousand	Carrying amount IAS 39 31 Dec 2017	Reclassification	Valuation	Carrying amount IFRS 9 1 Jan 2018
Participations available for sale	117,602	-117,602		0
Thereof reclassification into at fair value through OCI		-117,602		
Participations at fair value through OCI - designated		117,602		117,602
Thereof reclassification out of available for sale		117,602		
At fair value through OCI - total	**2,050,736**	**-1,409,893**	**504**	**641,346**
Financial assets total	**24,480,384**	**0**	**20,052**	**24,500,435**

The column Valuation includes effects from revaluations and impairments.

Transition oft he carrying amounts of financial liabilities besed in ther valuation category:

Financial liabilities

Euro thousand	Carrying amount IAS 39 31 Dec 2017	Reclassification	Valuation	Carrying amount IFRS 9 1 Jan 2018
At amortised cost				
Amounts owed to credit institutions	448,740			448,740
Amounts owed to customers	20,849,571			20,849,571
Debts evidenced by certificates	623,633	-100,847		522,786
Thereof reclassification into at fair value through profit or loss		-100,847		
Subordinated capital	671,159			671,159
At amortised cost - total	**22,593,103**	**-100,847**	**0**	**22,492,257**
At fair value through profit or loss				
Debts evidenced by certificates at fair value through profit or loss - designated	0	100,847	3,980	104,827
Thereof reclassification out of at amortised cost		100,847		
Liabilities held for trading	77,459			77,459
Derivatives - investment book	386,113			386,113
At fair value through profit or loss - total	**463,571**	**100,847**	**3,980**	**568,398**
Financial liabilities total	**23,056,675**	**0**	**3,980**	**23,060,655**

Impairment

The following table shows effects on impairments for on and off balance sheet positions affected by IFRS 9.

	Risk provisions IAS 39 31 Dec 2017	Reclassification	Valuation	Risk provisions IFRS 9 1 Jan 2018
At amortised cost				
Loans and receivables to customers	361,913	-15,073	-16,865	329,975
Loans and receivables to credit institutions	41	0	16	57
Financial investments - fixed-income securities			737	737
Financial investments - equities and other variable-yield securities				
At fair value through OCI				
Financial investments - fixed-income securities	0		92	92
Off-balance obligations - loan commitments and financial guarantees	17,839	-126	-46	17,667
Risk provisions and off-balance obligations	**379,792**	**-15,199**	**-16,066**	**348,527**

Deferred taxes

The following table shows effects from IFRS 9 on the carrying amounts of deferred tax assets and deferred tax liabilities.

Euro thousand	Carrying amount IAS 39 31 Dec 2017	Effect on retained earnings	Effect on OCI-reserves	Carrying amount IFRS 9 1 Jan 2018
Deferred tax assets	90,190	4,590	1,121	95,900
Deferred tax liabilities	13,163	12,314	-2,602	22,875

b) Standards und interpretations tob e applied in future

IFRS 16 – Leases:

On 13 January 2016, the IASB published the new accounting standards regarding lease accounting. The essential amendment concerns the recognition of leases in the financial statements. Basically, now all leases must be recognised in the balance sheet within the so-called right of use approach (RoU). At the time when the lessor delivers an asset for use to the lessee, the latter must recognise a liability and the corresponding right of use to the object of the lease as an RoU asset. Accounting at the lessor will change only slightly as compared to IAS 17. The information contained in the notes will be more comprehensive as compared to IAS 17. No material effects are expected with respect to finance leases. The date of first-time application shall be 1 January 2019. The regulations were adopted into European law by the EU.

In the fourth quarter of 2017, the Association initiated a project for analysing application and effects. Within the Association, the majority of contracts subject to application of IFRS 16 relate to vehicles, real estate and IT components. The Association is currently analysing the effects of IFRS 16. It has not been decided yet whether to use practical simplifications possible under IFRS 16 or not.

IFRIC 23 – Uncertainty regarding income tax treatments:

The interpretation clarifies how regulations regarding recognition and measurement under IAS 12 Income taxes must be applied in case of any uncertainties regarding income tax treatments. Application of IFRIC 23 is mandatory for the first time in reporting periods commencing on or after 1 January 2019. The amendments need to be adopted into European law by the EU and are not expected to have any material effect on the Association.

IFRS 17 – Insurance contracts:

The aim of the new standard is the consistent, principle-based accounting of insurance contracts and requires the valuation of insurance liabilities at their current performance value. This results in consistent valuation and presentation of all insurance contracts. The standard is applicable to financial years commencing on or after 1 January 2021. The amendments need yet to be adopted into European law by the EU. This standard will not have any material effect on the Association.

Annual improvements to IFRS (2015-2017 Cycles)

In December 2017, the IASB published several amendments of existing IFRS within the scope of its annual “Improvements to IFRS 2015-2017 Cycles”. These include phrases in need of improvement and clarifications regarding IFRS 3, IAS 12 and IAS 23 effecting the recognition, measurement and reporting of business transactions. Application of the amendments to the standards is mandatory for reporting periods that commence on or after 1 January 2019. Application of the amendments prior to that date is admissible. The amendments need yet to be adopted into European law by the EU. The amendments are not expected to have any material effects on the Association.

c) Net interst income

Net 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 in-come.

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 provisions)
- Interest and similar income from fixed-income securities
- Interest and similar expenses for deposits
- Interest and similar expenses for debts evidenced by certificates and subordinated capital
- Interest components of derivatives reported in the investment book

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

The results of the valuation and disposal of financial investments are reported in the result from financial investments.

d) Risik provisions

The item risk provisions includes the allocation to and release of individual loan loss provision and of portfolio loan loss provision for loans and receivables evidenced by certificates and those not evidenced by certificates. Direct write-offs and income from loans receipts from receivables previously written off, as well as modification gains or losses of financial assets are also recognised in this item. Allocations to and releases of off-balance risk provisions are also shown in the risk provisions.

The valuation models are based on statistically calculated parameters, such as historical default and loss ratios. The methods and parameters used are validated regularly in order to approximate the estimated and actual defaults and losses. The process for determining the impairment is computer-aided, using an impairment tool specifically developed for this purpose. Details regarding determination of the risk provisions are described in note 7) Financial assets and liabilities.

e) Net fee and commission income

This item contains all income and expenses relating to the provision of services on an accrued basis.

f) Net trading income

All realised and unrealised results from financial investments, foreign currency positions and derivatives held for trading (trading assets and liabilities) are reported in this item. This not only includes changes in market value, but also all interest income, dividends and refinancing expenses for trading assets.

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

g) Result from financial investments

The result from financial investments consists of:

- Realised gains and losses from sale of financial investments
- Revaluation gains and losses of financial instruments
- Result from hedge accounting
- Result from other derivative instruments (investment book)
- Income from equities and other variable-yield securities
- Income from investments in unconsolidated affiliates, from investments in companies with participating interest and investments other companies
- Income from operating lease and investment property

Results from disposals of financial assets measured at amortised cost or debt instruments measured at fair value through OCI are shown in the realised gains and losses from sale of financial investments.

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

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

h) Other operating result

This item contains the result from the repurchase of financial liabilities, the impairment of goodwill, the valuations of IFRS 5 disposal groups and the deconsolidation result from the disposal of subsidiaries, as well as taxes and constitutions for banking business and all other operating income.

i) General administrative expenses

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

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

Administrative expenses include expenses for premises, communications, advertising and marketing, costs for legal advice and other consultancy, as well as training and IT costs.

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

j) Financial assets and liabilities

A financial asset or a financial liability is initially recognised in the balance sheet when the Association becomes party to a contract on the financial instrument and thus acquires the right to receive or assumes a legal obligation to pay liquid funds. 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 disposal.

Classification of financial assets

Within the scope of evaluating the classification of debt instruments, apart from verifying the business model criterion, the contractually agreed cash flows also need to be analysed. Potentially critical contract components require special attention and running a benchmark test is necessary under certain conditions.

The business model determines the way in which a company generates cash flows: by receiving contractually agreed cash flows, by selling financial instruments, or both. A business model aims at controlling financial assets in a certain manner. The evaluation of business models was effected on the basis of various criteria such as targets, compensation, performance measurement, management and/or risk strategy, frequency and timing of disposals, as well as reasons for these disposals. Based on these criteria, individual portfolios or sub-portfolios were created within the Hold, Hold and Sell and Other business models. Apart from analysing, defining and stipulating the business model criterion, analysing the arrangement of the cash flows of financial instruments is also required to be able to appropriately classify them. In addition to the respective business model criterion, the SPPI criterion must also be met for allocation to the categories at amortised cost or at fair value through OCI to be effected. If the SPPI criterion is not met, valuation must absolutely be effected at fair value through profit or loss. Unless designated under the OCI option, equity instruments are also measured at fair value through profit or loss.

Classification of financial liabilities

Financial liabilities are measured at amortised cost, unless the option of measuring them at fair value through profit or loss (FV option) is exercised. At initial recognition the option is effected on a voluntary and irrevocable basis in the measurement category at fair value through profit or loss, if this enables any measurement or recognition inconsistency to be avoided or reduced significantly. Beyond that, financial liabilities may be designated as measured at fair value through profit or loss, if a group of financial liabilities or a group of financial assets and financial liabilities is either controlled or if their performance is measured, based on their fair values.

Derecognition and modification

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, i.e. when the liabilities agreed upon in the contract have either been settled, cancelled or expired.

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

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

Offsetting

Financial assets and liabilities are set off against each other if, and only if, the Association has a legal right to do so and if the Association settles the liability invoiced on a net basis or clears the liability simultaneously with realisation of the receivable.
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 the Association's trading activities.

Measured at amortised cost

Amortised cost of financial assets and liabilities is defined as the amount consisting of the original purchase price adjusted for account redemptions, the 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.

Measured at fair value through profit or loss

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

Level 1: Quoted prices in active markets for 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 and independent parties, as well as reference to the current fair value of another financial instrument that is 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. The measurement is consistent with accepted economic methodologies for pricing financial instruments. All estimates applied to these valuation techniques represent reasonable market expectations and take account of all risk factors inherent in financial instruments.

Level 3: Measurement methods that largely use parameters which are not observable on the market. These parameters have a significant impact on the calculation of fair value. This category also contains instruments which are measured by adjusting non-observable inputs, provided such adjustment is considerable.
The valuation methods are realigned periodically and checked for validity, using prices of current observable market transactions or prices based on available observable market data for the same financial instrument. The valuation method for level 3 was adjusted during the financial year 2017. The fair value measurement of the loans is still effected by way of a discounted cash flow method, discounting the cash flows calculated on the basis of forward rates with the risk-free interest curve incl. an additional charge. This additional charge was re-modelled and now consists of risk costs, liquidity costs and a collective position for all pricing parameters not taken into account (epsilon). The risk-free interest curve is derived from market data. The liquidity cost curve is modelled on the basis of market data. The risk cost curve is deducted from the rating or the probability of default. The constant epsilon is calibrated in such a way that a transaction will not generate any fair value gain/loss at the time of conclusion.

In case of financial assets and liabilities in the investment book measured at fair value through profit or loss, interest, dividends as well as any associated fee and commission income and expenses are separately reported in the respective items of the income statement. The result from measurement at fair value is shown separately in the result from financial investments.

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. The impairment model is based on the assumption that it represents expected losses. Not only losses that have already occurred, but also expected losses are recognised. In this context, a distinction is made as to whether or not the default risk of financial assets has deteriorated significantly ever since their addition. If a material deterioration has occurred, and if the default risk cannot be assessed as low on the reporting date, all lifetime expected credit losses must be recognised with effect from that date. In case of material deterioration and low default risk, only those losses expected for the lifetime of the financial instrument must be taken into account that result from future potential loss events within the next twelve months. Exceptions exist for trade receivables. For these assets, all expected losses must (receivables without any significant financing component) or may (receivables with a significant financing component and lease receivables) be taken into account already at the time of addition.

Scope

The impairment model is meant to be applied to the following financial instruments:

- Financial assets measured at amortised cost
- Financial assets mandatorily measured at fair value through OCI
- Purchased or originated credit-impaired financial assets (POCI) with a change in the estimated loss amount since addition are reported in risk provisions using the credit risk-adjusted effective interest rate.
- Impairments are reported as provisions for irrevocable loan commitments and financial guarantees.

Impairments must not be separately shown for debt instruments and equity instruments measured at fair value through profit or loss, as any impairments are already taken account of in the fair value.

General approach

Except for purchased or originated credit-impaired financial assets, any expected losses must either be recognised on a 12-month ECL (expected credit loss) or the total-term ECL basis. This will depend on whether the credit risk for the financial instrument has increased significantly since initial recognition. Changes of the amount of the risk provision must be reported as a write-up or impairment in the income statement.

A significant increase in credit risk is primarily measured on the basis of the change in lifetime probability of default (PD). If the change in lifetime PD exceeds a predefined threshold, the financial asset is classified as total-term ECL. Additionally, default of performance of at least 30 days, classification as forborne or the customer's transfer to intensive supervision are interpreted as a significant increase in credit risk.

Any objective evidence of impairment equals a downgrade of the customer's rating to the default rating category. This downgrade can basically be triggered by 13 defined default events. The definition of default within the Association corresponds to the requirements of CRR I Art. 178.

Options

- The option regarding the low credit risk exemption – i.e. the lump sum allocation of low-risk instruments to stage 1 without any further examination of any significant increase in credit risk – is exercised. The relevant instruments exclusively comprise securities with an external investment grade rating. If several external ratings exist, the second best rating is used. In this way, it is guaranteed that at least two of three rating agencies provide the issuer with an investment grade rating.
- The option of a simplified procedure for trade receivables, contractual assets according to IFRS 15 and leasing receivables was not exercised, as such receivables either do not occur within the Association at present or are insignificant.

Information regarding the calculation logic

The impairment is the expected loss defined as the present value of the difference of contractually agreed cash flows and expected cash flows.

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

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

According to the instructions in the Group credit risk manual, customers with an internal rating of 4C to 4E (watchlist 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. A corresponding risk provision is recognised for uncollateralised or partly collateralised exposures. For non-performing loans (rating category 5A - 5E), the appropriateness of the level of risk provisioning is examined.

Derivatives

Derivatives are measured at fair value through profit or loss.

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

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

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

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

Own equity and debt instruments

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

k) Loans and receivables to credit institutions and customers

Receivables are non-derivative financial assets with fixed or determinable payments that are not listed in any active market and not evidenced by securities.

Loans to credit institutions and to customers are recognised with their net amounts after deduction of impairments including deferred interest. The risk provision for off-balance sheet transactions is included in the item Provisions.

Receivables are initially recognised at fair value plus all directly attributable transaction costs. Subsequent measure-ment is performed at amortised cost, under the prerequisite that the SPPI criterion (cash flows of the financial instru-ment only consist of interest and redemption payments of the outstanding principal amount) is met. Interest income is calculated according to the effective interest method. If the SPPI criterion is not met, the financial instrument is meas-ured at fair value through profit or loss.

l) Risik provisions

Individual loan loss provisions and portfolio loan loss provisions are effected for the special risks of banking business.

The valuation models are based on statistically calculated parameters, such as historical default and loss ratios. The methods and parameters used are validated regularly in order to approximate the estimated and actual defaults and losses. The process for determining the impairment is computer-aided, using an impairment tool specifically developed for the purpose.

For further details please refer to note 3) j) Financial assets and liabilities.

m) Assets and liabilities held for trading

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

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

n) Financial investments

Financial investments comprise all securitised debt and equity instruments not classified as interests and participations. These are purely financial investments without any relevance to the core business of the Association, where the optimisation of returns is of primary importance. Financial investments are initially recognised at fair value plus incremental direct transaction costs.

Classification of securitised debt instruments

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

The evaluation of the business model is effected on the basis of various criteria such as targets, compensation, performance measurement, management and/or risk strategy, frequency and timing of selling transactions, as well as reasons for the selling transactions, and is performed by the management at aggregate level. This results in the following business models: Hold, Hold and Sell, and Other. Apart from allocation to a business model, analysing the arrangement of the cash flows of financial instruments is also required to be able to appropriately classify them. If the SPPI-criterion is not met, valuation must absolutely be effected at fair value through profit or loss.

Measured at amortised cost

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

Measured at fair value through profit or loss

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

Measured at fair value through OCI

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

Classification of equity instruments

Equity instruments are measured at fair value through profit or loss. Upon initial recognition, however, an irrevocable option (OCI option) may be exercised, individually for each instrument. This option only applies to financial instruments that are not held for trading and do not constitute a conditional consideration, which are recognised by an acquirer within the scope of a business combination under IFRS 3. If the option is exercised, all changes to the fair value are reported in OCI (except for dividends, which are reported through profit or loss). Gains or losses reported in OCI can never be reclassified from equity to the income statement. Accordingly, there is no need to test these investments for possible impairments.

o) Investment property assets

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

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

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

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

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

p) Investments in associated companies (measured at equity) and participations

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

Companies on which a material influence is exerted are measured according to the equity method. All other participations are reported at fair value, except if their acquisition costs are less than euro 50,000 and the equity share does not exceed a carrying amount of euro 100,000. As these participations are not listed at a stock exchange and no market prices are available on an active market, the participations are measured by means of valuation methods and input factors some of which are not observable. Valuations are effected according to the discounted cash flow method and the peer group approach. Various calculation models are applied. The income approach is used if VBW controls the company or exercises any management function, and budgets are available accordingly. If the company is not controlled, the fair value calculation is performed on the basis of the dividend paid as well as the annual results of the last five years. In case of companies whose object does not permit any regular income or the result of which is controlled by the parent company through settlements, the net assets are used as valuation criterion. In case of participations in co-operatives, the share capital is used as the fair value, provided the subscription of new shares and the cancellation of existing shares are possible at any time. If valuation reports are prepared by external valuators, they will be used for current valuation.

To the extent that the discounted cash flow method is applied, the discount rates used are based on the respective current recommendations of the Fachsenat der österreichischen Kammer der Wirtschaftstreuhänder as well as of international financial data service providers and, in the 2018 financial year, range between 6.3 and 8.5 % (2017: 6.9 to 8.9 %). The market risk premium used for the calculation is 6.75 % (2017: 6.75 %), the beta values used range between 0.8 and 1.1 (2017: 0.8 to 1.1). Additional country risks did not have to be considered. Discounts due to fungibility and exercise of control in the amount of 10 % in each case are effected for two participating interests.

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

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

q) Intangible and tabgible fixed assets

Intangible assets are carried at cost less straight-line amortisation and impairments. 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 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 the 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 must not be reversed.

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

In case of permanent impairments, non-scheduled depreciation is applied. If the reason for impairment ceases to exist the impairment is reversed up to amortised cost as a maximum.

The useful life ist he period of time during which an asset is expected tob e used by the Association and is calculated as follows:

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

r) Tax assets and liabilities

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

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

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

s) Other assets

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

t) 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 or at fair value through profit or loss, if the FV option was drawn on. In case of financial liabilities where the FV option was drawn on, gains or losses due to a change of the company's own credit risk must be reported through OCI. Any remaining changes in value are reported in the income statement.

u) Employee benefits

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

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 anal-yses 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, applicable in the event of negative market developments, provide the framework for the investments.

The pension fund fulfils the requirements of the Austrian Financial Market Authority's (FMA) Risk Management Regulation (Risikomanagementverordnung) within 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 devia-tions from the basis of calculation in a timely manner and to avoid such deviations by amending the tables according-ly. 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.

Moreover, committed assets are invested in the Malbun collective foundation (Sammelstiftung). The foundation is structured
according to the full insurance model. Within its own sphere, the collective foundation meets the prerequisites of the Eidgenössische Finanzmarktaufsicht (FINMA; Swiss financial market authority) and regularly reports to the board of the foundation. The foundation has concluded a group life insurance contract with Züricher Lebensversicherungs-Gesellschaft AG for the insurance risks age, death and invalidity as well as for investment risks. Therefore, the pension fund is neither exposed to any underwriting risk nor to any investment risk. The pension fund warrants that it can meet its obligations. Whether all underwriting risks are assumed under the group life insurance contract by Züricher Lebensversicherungs-
Gesellschaft AG is verified each year. The group life insurance contract ensures that the cover ratio always amounts to 100 %.

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

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

Principal actuarial assumptions for calculation of employee benefit obligations

	2017	2016	2015	2014
Expected return on provisions for pensions	1.10 %	1.10 %	1.50 %	1.60 %
Expected return on provisions for severance payments	1.10 %	1.10 %	2.00 %	2.00 %
Expected return on anniversary pensions	1.10 %	1.10 %	2.00 %	1.80 %
Expected return on plan assets	1.10 %	1.10 %	1.50 %	
Future salary increase	3.00 %	3.00 %	3.00 %	3.00 %
Future pension increase	2.00 %	2.00 %	2.00 %	2.00 %
Fluctuation rate	none	none	none	none

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

The current retirement age limits are generally taken into account in these calculations, it is assumed that employees will retire upon reaching standard pensionable age, which is 65 years for men and between 60 and 65 years for women.

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

v) Provisions

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

Risk provisions comprise loan loss provisions for contingent liabilities (in particular financial guarantees). Other provisions contain provisions for legal disputes and restructuring. The allocation and release of risk provisions are recorded under risk provisions in the income statement. Amounts allocated to and released from the restructuring provision are included under restructuring result.

w) Other liabilities

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

x) Subordinated capital

Subordinated capital is initially recognised at fair value plus directly attributable transaction cost. Subsequent measurement is performed at amortised cost using the effective interest method, unless these liabilities were designated at fair value through profit or loss.
If, in case of liquidation or bankruptcy of the company, the liability only needs to be satisfied after settlement of the liabilities of other non-subordinated creditors, debts evidenced by certificates or financial liabilities not so evidenced are allocated to subordinated capital.

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

y) Equity

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

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

There is no ultimate parent company in the Association as the CO does not exercise control as defined by IFRS 10. The Association´s financial statements are therefore prepared on the basis of a group of companies which are legally independant entities, but under unified control without a parent company.

The equity components of the non-controlled companies included are aggregated and the aggregated carrying amounts of the investments in these member companies are then subtracted. The remaining equity components are reported as equity under the relevant items. This type of consolidation does not result in any minority interests.

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

z) Reserves

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

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

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

aa) Own funds

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

Credit risk is determined by multiplying on-balance-sheet and off-balance-sheet exposures 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, which is derived from regulatory requirements and, in particular, reflects the counterparty risk in the derivatives transaction. The market risk component of the Association is also calculated using the standard approach. The capital requirements for operational risk are calculated by multiplying the operating revenues by the percentages applicable to the respective divisions.

Regulatory own funds can be broken down into three elements:

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

The first two components comprise the Tier I capital.

CET1 comprises the equity and participation capital that meets the CRR requirements. These are as follows: classification as equity with separate disclosure in the accounts, perpetual, fully loss-bearing, no reduction in the principal amount except in the case of liquidation or repayment without particular incentive mechanisms, no obligation to make distributions, and distributions not linked to the nominal price. Transition arrangements apply to 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 minority interests used to meet the regulatory capital requirement. Intangible assets and goodwill, deferred tax assets and participations 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 Association complied with these relevant supervisory requirements throughout the entire reporting period, even exceeding them.
A capital conservation buffer of 2.5 % which needs to consist of CET1 must be built up until 2019. For the year 2018, the required capital conservation buffer is 1.875 % (2017: 1.25 %).
With effect from January 1, 2018 the Association of Volksbanks is required by the FMA to build up a systemic risk buffer consisting also of CET1 capital. The systemic risk buffer for 2018 is 0.25 % and will be raised to 1 % till 2020.

Alongside the systemic risk buffer, the FMA also regulates the countercyclical capital buffer. This buffer is intended to counteract any credit bubbles that emerge. Calculation of the bank-specific countercyclical capital buffer is governed by the provisions of the Capital Buffer Regulation and is currently set at 0.0% for claims in Austria. Further reference is made to events after the balance sheet date.

bb) Trustee transaction

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

cc) Repurchase tranactions

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

dd) Contingent liabilities

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

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

Guaranteed amounts from participations in cooperatives are reported under other contingent liabilities.

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

ee) Cash flow statement

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

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

4) Notes to the income statement

Net interest income

Euro thousand	1-6/2018	1-6/2017
Interest and similar income from	267,935	256,539
Credit and money market transactions with credit institutions	2,796	1,790
Credit and money market transactions with customers	234,298	217,887
Fixed-income securities	24,373	26,513
Derivative instruments	6,468	10,349
Interest and similar expenses from	-51,155	-52,906
Liquid funds	-3,956	-2,483
Deposits from credit institutions (including central banks)	-1,349	-2,057
Deposits from customers	-13,500	-20,498
Debts evidenced by certificates	-8,216	-10,994
Subordinated liabilities	-8,995	-4,058
Derivative instruments	-15,138	-12,816
Net interest income	**216,780**	**203,633**

Net interest income according to IFRS 9 categories

Euro thousand	1-6/2018	1-6/2017
Interest and similar income from	267,935	256,539
Financial investments at amortised cost	248,235	221,597
Financial investments at fair value through OCI	6,820	24,592
Financial investments at fair value through profit or loss	6,411	0
Derivative instruments	6,468	10,349
Interest and similar expenses from	-51,155	-52,906
Financial investments at amortised cost	-34,437	-40,089
Financial investments at fair value through profit or loss	-1,580	0
Derivative instruments	-15,138	-12,816
Net interest income	**216,780**	**203,633**

Due to the trend of money market interest rates towards negative reference rates, interest income of euro 1,293 thousand (1-6/2017: euro 424 thousand) and interest expenses of euro -4,628 thousand (1-6/2017: euro -3,251 thousand) were realised in the first half of 2018. 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.

Risk provisions

Euro thousand	1-6/2018
Changes in risk reserve	-5,230
Changes in provision for risks	784
Direct write-offs of loans and receivables	-4,978
Income from loans and receivables previously written off	5,155
Revaluation result modification / derecognition	0
Risk provisions	**-4,269**

Euro thousand	1-6/2017
Allocation to risk provisions	-53,268
Release of risk provisions	64,664
Allocation to provisions for risks	-3,455
Release of provisions for risks	5,055
Direct write-offs of loans and receivables	-8,417
Income from loans and receivables previously written off	4,415
Risk provisions	**8,994**

Net fee and commission income

Euro thousand	1-6/2018	1-6/2017
Fee and commission income from	133,370	147,848
Lending business	5,966	17,795
Securities business and custody business	41,413	48,396
Payment transactions	59,633	54,263
From foreign exchange, foreign notes and coins and precious metals transactions	2,563	3,007
Financial guarantees	4,619	4,480
Other services	19,175	19,907
Fee and commission expenses from	-17,395	-17,807
Lending business	-6,383	-2,989
Securities business and custody business	-4,209	-8,811
Payment transactions	-5,702	-4,924
From foreign exchange, foreign notes and coins and precious metals transactions	0	-198
Financial guarantees	-343	-337
Other services	-758	-548
Net fee and commission income	**115,975**	**130,040**

Net fee and commission income does not include any management fee for trustee agreements.

Net trading income

Euro thousand	1-6/2018	1-6/2017
Equity related transactions	32	-14
Exchange rate related transactions	418	9,547
Interest rate related transactions	-854	-83
Net trading income	**-403**	**9,449**

Result from financial investments

Euro thousand	1-6/2018	1-6/2017
Result from financial investments measured at fair value through profit or loss	**-12,805**	**-7,234**
Valuation from financial investments measured at fair value through profit or loss - mandatory	-18,502	-3,410
Loans and receivables to credit institutions and customers	-19,410	0
Fixed-income securities	1,348	-810
Investment property	-440	252
Participations	0	-2,852
Valuation from financial investments measured at fair value through profit or loss - designated	1,077	0
Debts evidenced by certificates	1,077	0
Result from financial investments measured at fair value through profit or loss	675	0
Equities and other variable-yield securities	675	0
Result from fair value hedges	-1,528	1,341
Result from other derivative instruments (investment book)	5,473	-5,164
Result from financial investments measured at amortised cost	**10**	**0**
Realised gains	10	0
Result from financial investments measured at fair value through OCI	**2,461**	**4,196**
Realised gains	25	1,124
Realised losses	-155	-514
Equities and other variable-yield securities	0	855
Participations	2,592	2,730
Result from assets for operating lease and investment property assets as well as other financial investments	**2,150**	**2,504**
Income from financial investments	**-8,185**	**-535**

Other operating result

Euro thousand	1-6/2018	1-6/2017
Other operating income and expenses	-1,126	2,426
Other operating income	18,182	18,644
Other operating expenses	-19,308	-16,218
Deconsolidation result from consolidated affiliates	15,302	0
Taxes and contribution for banking business	-2,061	-2,066
Impairment of goodwill	-58	-29
Other operating result	**12,058**	**331**

Other operating expenses include costs of external companies that are passed on and expenses from the disposal of fixed assets in the amount of euro 5,814 thousand (1-6/2017: euro 3,694 thousand) as well as leasing income in the amount of euro 2,491 thousand (1-6/2017: euro 3,073 thousand). In the previous year income in the amount of euro 3 million was generated by early redemptions of issues.

Other operating expenses include provisions for interest claims from corporate loans with floors in the amount of euro -7,855 thousand. In the previous year euro -10,879 thousand were reported in this position for provisions for repayment of negative interest. Other operating expenses include costs of external companies that are passed on as well as expenses from the sale of fixed assets in the amount of euro -1,664 thousand (1-6/2017: euro -1,709 thousand).

The result from the sale of VB Switzerland is presented in the deconsolidation result.

Other taxes include the bank levy in the amount of euro -1.4 million (1-6/2017: euro -1.5 million).

General administrative expenses

Euro thousand	1-6/2018	1-6/2017
Staff expenses	-166,703	-173,313
Wages and salaries	-120,540	-127,954
Expenses for statutory social security	-32,573	-34,363
Fringe benefits	-2,283	-2,693
Expenses for retirement benefits	-1,721	-3,807
Allocation to provision for severance payments and pension funds	-9,586	-4,497
Administrative expenses	-114,915	-118,657
Office space expenses	-11,862	-15,185
Office supplies and communication expenses	-3,315	-4,298
Advertising, PR and promotional expenses	-7,733	-8,848
Legal, advisory and consulting expenses	-18,773	-18,437
IT cost	-40,462	-42,018
Contribution to the deposit guarantee	-12,294	-12,579
Sundry administrative expenses	-20,476	-17,291
Depreciation	-12,801	-16,877
Regular	-12,801	-15,182
Impairment/reversal of impairment	0	-1,695
General administrative expenses	**-294,420**	**-308,848**

Income taxes

Due to the tax planning of the next four years, deferred tax assets were recognised in respect of some tax losses carried forward in the period under review. For tax losses carried forward in the amount of euro 339 million (31 December 2017: euro 359 million), no deferred tax assets were recognised.

5) Notes to the consolidated statement of financial positions

Liquid funds

Euro thousand	30 Jun 2018	31 Dec 2017
Cash in hand	185,203	217,457
Balances with central banks	1,907,769	1,783,881
Liquid funds	**2,092,972**	**2,001,338**

Transition from liquid funds to cash and cash equivalents

Euro thousand	30 Jun 2018	31 Dec 2017
Liquid funds	2,092,972	2,001,338
Restricted cash and cash equivalents	-20,328	-20,328
Cash and cash equivalents	**2,072,644**	**1,981,010**

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 second half of 2016.

Loans and receivables to credit institutions and customers

Euro thousand	30 Jun 2018	31 Dec 2017
Loans and receivables to credit institutions		
Amortised cost	523,552	494,889
Fair value through profit or loss	1,343	0
Gross carrying amount	524,895	494,889
Risk provisions	-128	-41
Net carrying amount	**524,767**	**494,848**
Loans and receivables to customers		
Amortised cost	19,543,139	19,768,453
Fair value through profit or loss	603,736	0
Gross carrying amount	20,146,874	19,768,453
Risk provisions	-324,687	-361,913
Net carrying amount	**19,822,188**	**19,406,540**
Loans and receivables to credit institutions and customers	**20,346,955**	**19,901,388**

Risk provisions

Euro thousand	Portfolio loan loss provision – Stage 1	Portfolio loan loss provision - Stage 2	Portfolio loan loss provision - Stage 3	Purchased originated or credit impaired	Total
As at 1 Jan 2018	22,466	33,223	275,172	0	330,860
Increases due to origination and acquisition	3,212	742	4,320	0	8,274
Decreases due to derecognition	-2,674	-3,344	-14,488	0	-20,505
Changes due to change in credit risk (net)	-434	9,346	5,651	0	14,562
Decrease in allowance account due to write-offs	0	0	-12,578	0	-12,578
Other adjustments	43	51	4,936	0	5,030
As at 30 Jun 2018	**22,613**	**40,017**	**263,013**	**0**	**325,644**

Euro thousand	Individual impairment customers	Portfolio based allowance	Total
As at 1 Jan 2017	318,327	79,424	397,752
Currency translation	-489	-49	-538
Unwinding	-3,008	0	-3,008
Utilisation	-20,121	0	-20,121
Release	-55,252	-9,412	-64,664
Addition	51,888	1,380	53,268
As at 30 Jun 2017	**291,346**	**71,344**	**362,689**

Loans and receivables to customers include non-interest-bearing receivables amounting to euro 227,872 thousand (30 Jun 2017: euro 262,927 thousand). Portfolio based allowances are mainly related to loans and receivables to customers.

Sensitivity analysis

Loans and receivables to credit institutions and customers measured at fair value

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

Loans and receivables to credit instituitions and customers

Euro thousand	Positive change in fair value	Negative change in fair value
Change in risk markup +/- 10 bp	2.778	-2.478
Change in risk markup +/- 100 bp	27.624	-25.035
Change in rating 1 stage down / up	3.347	-6.751
Change in rating 2 stages down / up	5.271	-10.654

Assets held for trading

Euro thousand	30 Jun 2018	31 Dec 2017
Fixed-income securities	2,535	8,320
Positive fair values from derivative instruments	48,757	55,267
Exchange rate related transactions	0	33
Interest rate related transactions	48,757	55,234
Assets held for trading	**51,292**	**63,587**

Since the acquisition of CO functions the company maintains a trading book. The volume of the trading book as at 30 Jun 2018 amounts to euro 3,726,743 thousand (2017: euro 3,951,958 thousand).

Financial investments

Euro thousand	30 Jun 2018	31 Dec 2017
Amortised cost	1,874,756	359,140
Fair value through OCI	399,038	1,933,134
Fair value through profit or loss	117,967	0
Risk provisions	-737	0
Financial investments	**2,391,024**	**2,292,273**

Participations

Euro thousand	30 Jun 2018	31 Dec 2017
Investments in unconsolidated affiliates	15,589	16,104
Investments in companies with participating interest	7,177	7,126
Investments in other companies	88,392	94,372
Participations	**111,158**	**117,602**

Sensitivity analysis

Participations valued by dcf method

Proportinal market value			interest rate	
30 Jun 2018		-0.50 %	actual	0.50 %
Income component	-10.00 %	18,963	17,897	17,010
Income component	**actual**	20,876	**19,685**	18,634
Income component	10.00 %	22,789	21,478	20,323

Proportinal market value			interest rate	
31 Dec 2017		-0.50 %	actual	0.50 %
Income component	-10.00 %	20,355	19,269	18,333
Income component	**actual**	22,420	**21,158**	20,059
Income component	10.00 %	24,487	23,102	21,877

Participations valued by net assets

		Proportinal market value	
Euro thousand 30 Jun 2018	if assumption is increased	actual	if assumption is decreased
Net asset (10 % change)	14,598	**16,219**	17,842

		Proportinal market value	
Euro thousand 31 Dec 2017	if assumption is decreased	actual	if assumption is increased
Net asset (10 % change)	15,192	**16,921**	18,643

Participations valued by external appraisers

Euro thousand 30 Jun 2018	Lower band	actual	Upper band
Proportional market value	58,557	**65,053**	71,550

Euro thousand 31 Dec 2017	Lower band	actual	Upper band
Proportional market value	62,773	**69,727**	76,687

Other assets

Euro thousand	30 Jun 2018	31 Dec 2017
Deferred items	8,208	2,408
Other receivables and assets	74,156	83,872
Positive fair values from derivative instruments	86,545	104,195
Other assets	**168,909**	**190,476**

Assets held for sale

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

Euro thousand	30 Jun 2018	31 Dec 2017
Liquid funds	0	9,338
Loans and receivables to credit institutions (net)	0	35,084
Loans and receivables to customers (net)	0	52,424
Financial investments (net)	0	9,864
Investment property	769	6,959
Participations	0	15
Intangible assets	0	18
Tangible fixed assets	470	11,892
Other assets	97	511
Assets held for sale	**1,336**	**126,105**

Amounts owed to credit institutions

Euro thousand	30 Jun 2018	31 Dec 2017
Central banks	162,166	169,541
Other credit institutions	241,922	279,199
Amounts owed to credit institutions	**404,088**	**448,740**

Amounts owed to credit institutions are measured at amortised cost.

Amounts owed to customers

Euro thousand	30 Jun 2018	31 Dec 2017
Savings deposits	8,995,666	9,217,464
Other deposits	12,472,028	11,632,107
Amounts owed to customers	**21,467,694**	**20,849,571**

Amounts owed to customers are measured at amortised cost.

Debts evidenced by certificates

Euro thousand	30 Jun 2018	31 Dec 2017
Bonds	434,342	474,101
Amortised cost	326,916	474,101
Fair value through profit or loss - designated	107,426	0
Medium-term notes	94,072	119,937
Others	21,357	29,594
Debts evidenced by certificates	**549,771**	**623,633**

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

Liabilities held for trading

Euro thousand	30 Jun 2018	31 Dec 2017
Negative fair values of derivative instruments		
Interest rate related transactions	70,829	77,459
Liabilities held for trading	**70,829**	**77,459**

Provisions

Euro thousand	30 Jun 2018	31 Dec 2017
Provisions for post-employment benefits	216,012	215,273
Provisions for off-balance and other risks	16,738	17,839
Stage 1	3,277	n.a.
Stage 2	3,421	n.a.
Stage 3	10,040	n.a.
Other provisions	34,364	31,150
Provisions	**267,113**	**264,261**

Other liabilities

Euro thousand	30 Jun 2018	31 Dec 2017
Deferred items	5,384	2,745
Other liabilities	177,521	120,008
Negative fair values from derivative instruments	392,974	386,113
Other liabilities	**575,879**	**508,866**

Liabilities held for sale

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

Euro thousand	30 Jun 2018	31 Dec 2017
Amounts owed to credit institutions	0	5
Amounts owed to customers	0	91,900
Debt evidenced by certificates	0	1,820
Provisions	0	5,125
Tax liabilities	0	681
Other liabilities	0	4,152
Liabilities held for sale	**0**	**103,684**

Subordinated capital

Euro thousand	30 Jun 2018	31 Dec 2017
Subordinated liabilities	517,407	525,905
Supplementary capital	136,497	145,254
Subordinated capital	**653,905**	**671,159**

The subordinated capital is measured at cost.

6) Own funds

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

Euro thousand	30 Jun 2018	31 Dec 2017
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	762,541	744,999
Retained earnings	1,273,425	504,751
Accumulated other comprehensive income (and other reserves)	-335,277	471,734
Amount of capital instruments subject to phase out from CET1	9,811	11,529
Non-controlling interest	0	434
Common tier I capital before regulatory adjustments	1,710,500	1,733,447
Common tier I capital: regulatory adjustments		
Regulatory value adjustments	0	0
Goodwill (net of related tax liability)	-29	-58
Intangible assets (net of related tax liability)	-1,330	-1,551
Value adjustments due to the requirement for prudent valuation	-1,993	-2,676
Deferred tax assets arising from temporary difference (amount above 10 % threshold, net of related tax liability)	0	0
Regulatory adjustments - transitional provisions	0	-14,948
Unrealised gains (0 %; 2017: 20 %)	0	-19,255
Loss of the current financial year (0 %; 2017: 20 %)	0	3,985
Intangible assets (0 %; 2017: 20 %)	0	322
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	0
Additional CET 1 deductions pursuant to article 3 CRR	-82,721	-78,241
Total regulatory adjustments	-86,073	-97,475
Common equity tier I capital - CET1	**1,624,427**	**1,635,972**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	14,153	14,153
Additional tier I capital before regulatory adjustments	14,153	14,153
Additional tier I capital: regulatory adjustments		
Regulatory adjustments - transitional provisions	0	-4,307
Loss of the current financial year (0 %; 2017: 20 %)	0	-3,985
Intangible assets (0 %; 2017: 20 %)	0	-322
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	0
Total regulatory adjustments	0	-4,307
Additional tier I capital - AT1	**14,153**	**9,846**
Tier I capital (CET1 + AT1)	**1,638,580**	**1,645,818**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts, allowable as additional tier I capital	486,277	499,078
Capital instruments subject to phase out from tier II	48,825	54,266
Tier II capital before regulatory adjustments	535,102	553,344
Tier II capital: regulatory adjustments		
Regulatory adjustments - transitional provisions	0	0
Total regulatory adjustments	0	0
Tier II capital - T2	**535,102**	**553,344**
Total own funds – TC (T1 + T2)	**2,173,682**	**2,199,162**
Common equity tier I capital ratio (tier I)	12.13 %	12.36 %
Tier I capital ratio	12.23 %	12.43 %
Equity ratio	16.23 %	16.61 %
each in relation to total risk exposure amount		

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

Euro thousand	30 Jun 2018	31 Dec 2017
Risk weighted exposure amount - credit risk	11,892,035	11,699,539
Total risk exposure amount - settlement risk	47	77
Total risk exposure amount for position, foreign exchange and commodities risks	94,846	111,792
Total risk exposure amount for operational risk	1,356,928	1,368,575
Total risk exposure amount for credit valuation adjustment (cva)	50,769	59,658
Total risk exposure amount	**13,394,625**	**13,239,641**

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

Euro thousand	30 Jun 2018	31 Dec 2017
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	762,541	744,999
Retained earnings	1,273,425	504,751
Accumulated other comprehensive income (and other reserves)	-335,277	471,734
Common tier I capital before regulatory adjustments	1,700,689	1,721,483
Common tier I capital: regulatory adjustments		
Regulatory value adjustments	0	0
Goodwill (net of related tax liability)	-29	-58
Intangible assets (net of related tax liability)	-1,330	-1,551
Value adjustments due to the requirement for prudent valuation	-1,993	-2,676
Additional CET1 deductions pursuant to article 3 CRR	-82,721	-88,579
Total regulatory adjustments	-86,073	-92,864
Common equity tier I capital - CET1	**1,614,616**	**1,628,620**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	14,153	14,153
Additional tier I capital before regulatory adjustments	14,153	14,153
Additional tier I capital: regulatory adjustments		
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**14,153**	**14,153**
Tier I capital (CET1 + AT1)	**1,628,769**	**1,642,773**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts, allowable as additional tier II capital	492,193	506,163
Tier II capital before regulatory adjustments	492,193	506,163
Tier II capital: regulatory adjustments		
Total regulatory adjustments	0	0
Tier II capital - T2	**492,193**	**506,163**
Total own funds – TC (T1 + T2)	**2,120,963**	**2,148,936**
Common equity tier I capital ratio (tier I)	12.05 %	12.33 %
Tier I capital ratio	12.16 %	12.43 %
Equity ratio	15.83 %	16.26 %
each in relation to total risk exposure amount		

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

Euro thousand		
Risk weighted exposure amount - credit risk	11,892,035	11,673,697
Total risk exposure amount - settlement risk	47	77
Total risk exposure amount for position, foreign exchange and commodities risks	94,846	111,792
Total risk exposure amount for operational risk	1,356,928	1,368,575
Total risk exposure amount for credit valuation adjustment (cva)	50,769	59,658
Total risk exposure amount	**13,394,625**	**13,213,798**

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

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

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

In the first half of 2018, 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.

7) Financial assets and liabilities

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

Euro thousand	Amortised cost	Fair value through OCI	Fair value through profit or loss	Carrying amount - total	Fair value
30 Jun 2018					
Liquid funds	2,092,972	0	0	2,092,972	2,092,972
Loans and receivables to credit institutions (gross)	523,552	0	1,343	524,895	
Individual loan loss provision	0	0	0	0	
Loans and receivables to credit institutions less individual loan loss provision	523,552	0	1,343	524,895	516,873
Loans and receivables to customers (gross)	19,543,139	0	603,736	20,146,874	
Individual loan loss provision	-263,013	0	0	-263,013	
Loans and receivables to customers less individual loan loss provision	19,280,126	0	603,736	19,883,861	19,585,259
Assets held for trading	0	0	51,292	51,292	51,292
Financial investments (gross)	1,874,756	399,038	117,967	2,391,761	
Individual loan loss provision	0	0	0	0	
Financial investments less individual loan loss provision	1,874,756	399,038	117,967	2,391,761	2,393,571
Participations	0	111,158	0	111,158	111,158
Derivative instruments	0	0	86,545	86,545	86,545
Financial assets held for sale				0	0
Financial assets total	**23,771,405**	**510,197**	**860,883**	**25,142,484**	**24,837,669**
Amounts owed to credit institutions	404,088	0	0	404,088	400,275
Amounts owed to customers	21,467,694	0	0	21,467,694	21,442,824
Debts evidenced by certificates	442,346	0	107,426	549,771	558,634
Liabilities held for trading	0	0	70,829	70,829	70,829
Derivative instruments	0	0	392,974	392,974	392,974
Subordinated capital	653,905	0	0	653,905	654,478
Financial liabilities held for sale				0	0
Financial liabilities total	**22,968,033**	**0**	**571,229**	**23,539,261**	**23,520,014**

Euro thousand	Amortised cost	Fair value through OCI	Fair value through profit or loss	Carrying amount - total	Fair value
31 Dec 2017					
Liquid funds	2,001,338	0	0	2,001,338	2,001,338
Loans and receivables to credit institutions (gross)	494,889	0	0	494,889	
Individual loan loss provision	0	0	0	0	
Loans and receivables to credit institutions less individual loan loss provision	494,889	0	0	494,889	501,713
Loans and receivables to customers (gross)	19,768,453	0	0	19,768,453	
Individual loan loss provision	-282,447	0	0	-282,447	
Loans and receivables to customers less individual loan loss provision	19,486,005	0	0	19,486,005	19,209,673
Assets held for trading	0	0	63,587	63,587	63,587
Financial investments	359,140	1,933,134	0	2,292,273	2,296,914
Participations interests	0	117,602	0	117,602	116,214
Derivative instruments	0	0	104,195	104,195	104,195
Financial assets held for sale	104,806	1,918	0	106,725	107,493
Financial assets total	**22,446,178**	**2,052,654**	**167,783**	**24,666,615**	**24,401,128**
Amounts owed to credit institutions	448,740	0	0	448,740	439,015
Amounts owed to customers	20,849,571	0	0	20,849,571	20,780,530
Debts evidenced by certificates	623,633	0	0	623,633	644,477
Liabilities held for trading	0	0	77,459	77,459	77,459
Derivative instruments	0	0	386,113	386,113	386,113
Subordinated capital	671,159	0	0	671,159	677,437
Financial liabilities held for sale	93,725	0	0	93,725	93,725
Financial liabilities total	**22,686,829**	**0**	**463,571**	**23,150,400**	**23,098,756**

The table below shows financial assets and liabilities which are measured at fair value according to their fair value hierarchy.

Euro thousand	Level 1	Level 2	Level 3	Total
30 Jun 2018				
Loans and receivables to credit institutions	0	0	1,343	1,343
Loans and receivables to customers	0	0	603,736	603,736
Assets held for trading	2,535	48,757	0	51,292
Financial investments	406,361	33,402	77,243	517,006
Fair value through profit or loss	9,896	30,828	77,243	117,967
Fair value through OCI	396,464	2,574	0	399,038
Participations	0	0	109,854	109,854
Fair value through OCI - designated	0	0	109,854	109,854
Derivative instruments	0	86,545	0	86,545
Financial assets held for sale	0	0	0	0
Total	**408,896**	**168,704**	**792,175**	**1,369,775**
Debts evidenced by certificates	0	0	107,426	107,426
Liabilities held for trading	0	70,829	0	70,829
Derivative instruments	0	392,974	0	392,974
Subordinated capital	0	0	0	0
Total	**0**	**463,803**	**107,426**	**571,229**

Euro thousand	Level 1	Level 2	Level 3	Total
31 Dec 2017				
Loans and receivables to credit institutions	0	0	0	0
Loans and receivables to customers	0	0	0	0
Assets held for trading	8,320	55,267	0	63,587
Financial investments	1,797,444	61,336	74,890	1,933,134
Available for sale	1,797,444	61,336	74,890	1,933,134
Participations	0	0	116,214	116,214
Derivative instruments	0	104,195	0	104,195
Financial assets held for sale	0	0	1,918	1,918
Total	**1,805,765**	**220,799**	**193,022**	**2,219,049**
Debts evidenced by certificates	0	0	0	0
Liabilities held for trading	0	77,459	0	77,459
Derivative instruments	0	386,113	0	386,113
Total	**0**	**463,571**	**0**	**463,571**

In 2018 no reclassifications between the levels were made.

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.

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

Development of Level 3 fair values of financial assets

Euro thousand	Loans and receivables to credit institutions	Loans and receivables to customers	Financial investments	Participations	Debts evidenced by certificates	Total
As at 1 Jan 2018	37,366	715,740	74,890	116,214	104,827	1,049,037
Changes in the scope of consolidation	-41,354	-37,686	0	0	0	-79,040
Currency translation	393	561	0	0	0	954
Additions	7,339	13,859	97	3	1,118	22,415
Disposals	-169	-71,559	0	-49	0	-71,777
Valuation						
Through profit or loss	-2,232	-17,179	2,257	0	-1,077	-18,231
Through OCI	0	0	0	-6,315	2,558	-3,757
As at 30 Jun 2018	**1,343**	**603,736**	**77,243**	**109,854**	**107,426**	**899,601**

Euro thousand	Financial investments	Participations	Total
As at 1 Jan 2017	67,173	4,514	71,687
Changes in the scope of consolidation	0	0	0
Currency translation	0	0	0
Reallocation in Level 3	0	0	0
Additions	4,284	0	4,284
Disposals	0	0	0
Valuation			
Through profit or loss	-5	0	-5
Through OCI	2,519	-281	2,238
As at 30 Jun 2017	**73,972**	**4,233**	**78,205**

The valuations shown in the table above are included in the item result from financial investments (income statement) or fair value reserve (other comprehensive income). The valuations recorded in the income statement include financial assets still held at the reporting date in the amount of euro -10,863 thousand (1-6/2017: euro -5 thousand).

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

As at 30 Jun 2018 financial investments include participation certificates with a carrying amount of euro 76,706 thousand (31 Dec 2017: euro 74,353 thousand) which are allocated to level 3 of the fair value hierarchy. They are not treded on an active market and only allow for alternative measurement by means of unobservable input parameters.

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

End of December 2019 is assumed as the estimated final maturity. The extended redemption period results from the Managing Board’s assessment that a redemption by the Volksbanks of the participation capital held by VB Regio as an asset is subject to approval by the ECB. Only after such approval will VB Regio be able to redeem its own participation certificates. Moreover, a valuation report is required for the redemption of participation certificates in each case. Based on the liquidity base of the issuer, a redemption rate of 100 is assumed. This assumption is supported by the asset impairment test performed. Discounting of cash flows is effected using a 3-month EURIBOR base rate plus markup reflecting the cost of capital.

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

30 Jun 2018 Euro thousand	Positive change in fair value	Negative change in fair value
Change in maturity + 1 year	0	-3,375
Change in markup +/- 100 bp	1,133	-1,117
Change in redemption - 5 %	0	-3,750

31 Dec 2017 Euro thousand	Positive change in fair value	Negative change in fair value
Change in maturity +/- 1 year	0	-3,355
Change in markup +/- 100 bp	1,514	-1,482
Change in redemption - 5 %	0	-3,623

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

8) Number of staff

Number of staff employed during the business year

	Average number of staff		Number of staff at end of period	
	1-6/2018	1-6/2017	30 Jun 2018	31 Dec 2017
Domestic	3,936	4,193	3,884	4,068
Abroad	41	64	40	61
Total number of staff	**3,977**	**4,257**	**3,924**	**4,129**

	Average number of staff		Number of staff at end of period	
	1-6/2018	1-6/2017	30 Jun 2018	31 Dec 2017
Employees	3,924	4,153	3,878	4,043
Workers	52	103	46	86
Total number of staff	**3,977**	**4,257**	**3,924**	**4,129**

9) Branches

	30 Jun 2018	31 Dec 2017
Domestic	333	340
Abroad	1	3
Total number of branches	334	343

10) Related party disclosures

Euro thousand	Unconsolidated affiliates	Companies with a participating interest	Associated companies	Companies which exercise a significant influence on the parent as shareholders
30 Jun 2018				
Loans and receivables to credit institutions (net)	0	0	0	0
Loans and receivables to customers (net)	40,816	19,606	27,300	0
Fixed-income securities (net)	0	0	0	721,996
Assets held for sale	0	0	0	0
Amounts owed to credit institutions	0	0	0	0
Amounts owed to customers	8,597	362	97,086	0
Liabilities arising from guarantees	1,623	0	17,664	0
Provisions	0	5	15	0
Liabilities held for sale	0	0	0	0
Transactions	51,863	33,766	120,509	0
31 Dec 2017				
Loans and receivables to credit instituitions (net)	0	0	0	0
Loans and receivables to customers (net)	49,057	15,902	26,662	0
Fixed-income securities (net)	0	0	0	934,019
Assets held for sale	0	0	0	0
Amounts owed to credit institutions	0	0	0	0
Amounts owed to customers	9,189	514	100,044	0
Liabilities arising from guarantees	1,642	0	16,535	0
Provisions	0	11	10	0
Liabilities held for sale	0	0	0	0
Transactions	48,918	48,051	113,173	0

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

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

The Republic of Austria exercises significant influence over the CO.

11) Segment reporting by business segments

1-6/2018 Euro thousand	CO	Vienna	Lower Austria	Styria	Carinthia	Upper Austria
Net interest income	5,608	53,046	31,115	24,953	13,696	19,952
Risk provisions	2,786	-3,302	-1,366	-2,132	-3,096	-651
Net fee and commission income	-2,410	27,560	14,013	12,244	7,393	11,748
Net trading income	-261	125	-41	-11	-3	35
Result from financial investments	9,326	-2,748	-835	-828	-1,501	38
Other operating result	71,547	-2,303	847	10	196	-233
General administrative expenses	-61,648	-77,267	-38,918	-31,062	-19,031	-29,608
Restructuring result	75	-160	0	0	-140	0
Result from investments in associated companies	0	1,542	-19	0	0	0
Result for the period before taxes	**25,022**	**-3,506**	**4,796**	**3,174**	**-2,487**	**1,281**
Income taxes	-4,625	4,916	-1,100	508	600	-258
Result for the period after taxes	**20,398**	**1,409**	**3,695**	**3,682**	**-1,887**	**1,023**
30 Jun 2018						
Total assets	**5,908,006**	**6,279,382**	**3,297,021**	**2,614,449**	**1,355,530**	**2,293,021**
Loans and receivables to customers (net)	418,970	4,788,919	2,681,660	2,177,258	1,091,513	1,757,031
Investments in associated companies	15	40,006	7,248	2,746	2,452	7,463
Amounts owed to customers	641,769	5,521,669	2,929,852	1,859,733	1,186,518	2,050,685
Debts evidenced by certificates, including subordinated liabilities	762,538	119,559	23,323	36,185	30,907	28,427

1-6/2017 Euro thousand	CO	Vienna	Lower Austria	Styria	Carinthia	Upper Austria
Net interest income	17,981	45,309	25,956	23,658	12,238	15,862
Risk provisions	2,129	8,015	-3,750	-1,767	1,349	-1,306
Net fee and commission income	-1,990	32,994	17,936	12,002	8,208	13,460
Net trading income	4,985	84	130	41	3	107
Result from financial investments	2,554	1,100	607	-342	682	16
Other operating result	50,679	-1,648	-2,051	-3,084	-188	-1,291
General administrative expenses	-66,019	-76,613	-37,968	-29,536	-17,935	-26,062
Restructuring result	0	0	0	0	0	0
Result from investments in associated companies	0	-449	0	0	0	0
Result for the period before taxes	**10,319**	**8,792**	**861**	**972**	**4,357**	**786**
Income taxes	2,353	716	-572	-256	-1,083	-727
Result for the period after taxes	**12,672**	**9,508**	**289**	**717**	**3,274**	**58**
31 Dec 2017						
Total assets	**6,044,699**	**6,254,739**	**3,197,705**	**2,644,534**	**1,330,709**	**2,268,474**
Loans and receivables to customers (net)	422,673	4,605,974	2,578,751	2,202,257	1,053,210	1,694,236
Companies measured at equity	15	40,729	7,204	2,746	2,452	7,463
Amounts owed to customers	623,141	5,512,578	2,809,406	1,812,234	1,162,417	2,016,938
Debts evidenced by certificates, including subordinated liabilities	792,958	126,052	35,477	40,535	38,852	31,814

Salzburg	Tyrol	Vorarlberg	Physicians	Consolidation	Total
24,819	23,148	14,104	6,339	1	216,780
-1,117	5,512	-554	-351	0	-4,269
11,581	17,449	12,490	2,670	1,237	115,975
3	67	7	-193	-131	-403
-1,601	-38	-4,543	64	-5,518	-8,185
54	-880	10,235	-62	-67,351	12,058
-33,140	-34,122	-26,566	-10,838	67,780	-294,420
0	0	0	0	0	-225
0	0	0	0	0	1,523
599	**11,136**	**5,172**	**-2,372**	**-3,982**	**38,833**
-27	-2,629	3,038	528	13	964
572	**8,507**	**8,211**	**-1,844**	**-3,969**	**39,798**
2,705,290	**3,136,750**	**2,189,562**	**904,708**	**-4,895,036**	**25,788,683**
2,118,098	2,610,938	1,549,539	694,371	-66,109	19,822,188
6,320	26	20	3,481	0	69,776
2,223,909	2,611,934	1,682,549	823,160	-64,083	21,467,694
60,829	83,670	72,112	16,201	-30,077	1,203,676

Salzburg	Tyrol	Vorarlberg	Physicians	Consolidation	Total
22,010	21,445	13,201	5,743	230	203,633
593	-575	5,481	-1,174	0	8,994
13,645	16,280	13,126	3,106	1,273	130,040
134	379	3,680	-94	0	9,449
965	-2,465	-2,530	1,849	-2,971	-535
2,101	-875	458	-577	-43,192	331
-30,801	-30,003	-27,014	-10,215	43,317	-308,848
0	0	0	0	0	0
0	0	0	0	0	-449
8,648	**4,186**	**6,402**	**-1,363**	**-1,343**	**42,616**
-2,102	-2,150	-1,563	346	-11	-5,049
6,546	**2,036**	**4,839**	**-1,017**	**-1,353**	**37,567**
2,633,853	**3,103,616**	**2,199,041**	**891,715**	**-5,245,814**	**25,323,270**
2,099,743	2,574,993	1,541,924	690,924	-58,145	19,406,540
6,320	26	20	3,481	0	70,456
2,134,809	2,473,928	1,567,810	802,237	-65,926	20,849,571
60,829	93,184	77,485	23,414	-25,809	1,294,792

12) Subsequent events

In its 16th meeting held on 4 July 2018, the Financial Market Stability Board (FMSB) evaluated the systemically important institution buffer (O-SII buffer). The EBA guideline (EBA/GL/2014/10) provides for two steps for identification. In a first step, banks are identified based on indicators reflecting (i) the size, (ii) the relevance for the economy of the EU or the member state concerned, (iii) the significance of cross-border activities, and (iv) the degree of interlocking of the institution or the group with the financial system (see also art. 131 CRD, directive 2013/36/EU). In a second step (supervisory judgement), national supervisory authorities are expected to use their expertise relating to the specific banking sector in order to ensure that all systemically important banks are identified as O-SIIs, even if this would not be the case based on the mechanics of the first step. It turns out that especially banks that present a high degree of guaranteed deposits, and accordingly would constitute a burden or stress of the deposit protection system, are highly relevant to the system. Additionally, banks may not only be systemically important at consolidated level, but also at the level of the individual company. These extensions by comparison with previous years result in the additional identification of the Association of Volksbanks (due to the high amount of guaranteed deposits) and of the former O-SII banks as systemically important bank also at the level of the individual companies.

Accordingly, the Association of Volksbanks was added to this list. For 2019 and 2020, buffers amount to 0.5 % and 1 %, respectively.

13) Quarterly financial data

Euro thousand	04-06/2018	01-03/2018	10-12/2017	07-09/2017	04-06/2017
Net interest income	114,397	102,383	129,013	99,160	98,845
Risk provisions	-2,043	-2,226	-65,184	10,777	-3,821
Net fee and commission income	56,833	59,142	43,260	63,599	62,797
Net trading income	-197	-207	-1,458	6,371	10,392
Result from financial investments	-13,090	4,906	-3,014	762	-1,132
Other operating result	-10,304	22,362	-12,158	8,977	-8,735
General admistrative expenses	-130,917	-163,502	-142,853	-133,841	-126,494
Restructuring result	-225	0	1,276	0	0
Result from companies measured at equity	176	1,347	-7,027	-145	-402
Result for the period before taxes	**14,629**	**24,204**	**-58,145**	**55,660**	**31,450**
Income taxes	-3,096	4,061	35,880	-9,804	-5,220
Result for the period after taxes	**11,533**	**28,265**	**-22,265**	**45,856**	**26,230**
Result attributable to shareholders of the parent company (Consolidated net result)	**11,525**	**28,262**	**-22,266**	**45,853**	**26,227**
Result attributable to non-controlling interest	7	3	0	3	4

Vienna, 29 August 2018

Gerald Fleischmann
Chairman of the Managing Board

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

Josef Preissl
Deputy Chairman of the Managing Board

Corporates, Property Subsidiaries, Real Estate, VB Services for Banks

Rainer Borns
Member of the Managing Board

Control, Financial Data Steering, Finance, Legal and Compliance

Thomas Uher
Member of the Managing Board

Credit risk management, Risk controlling, Transition Credit