VOLKSBANK

ANNUAL REPORT

ASSOCIATION OF VOLKSBANKS

2020

KEY FIGURES OF THE ASSOCIATION OF VOLKSBANKS

Euro million	31 Dec 2020	31 Dec 2019	31 Dec 2018
Balance sheet			
Total assets	**29,370**	**27,496**	**26,603**
Loans and receivables customers	**21,287**	**21,251**	**20,502**
Amounts owed to customers	**22,153**	**21,729**	**21,555**
Debts evidenced by certificates	**1,470**	**1,482**	**529**
Subordinated liabilities	**577**	**598**	**634**
Own funds according to Basel III for the association of Volksbanks			
Common equity tier 1 capital (CET1)	2,002	1,908	1,800
Additional tier 1 capital (AT1)	220	224	14
Tier 1 capital (T1)	**2,222**	**2,131**	**1,814**
Tier 2 capital (T2)	494	506	523
Own funds	**2,716**	**2,638**	**2,338**
Risk weighted exposure amount - credit risk	12,903	13,450	12,400
Total risk exposure amount market risk	38	85	86
Total risk exposure amount operational risk	1,184	1,231	1,288
Total risk for credit valuation adjustment	50	44	56
Other risk exposure amount	0	0	845
Total risk exposure amount	**14,175**	**14,810**	**14,675**
Common equity tier 1 capital ratio	**14.1 %**	**12.9 %**	**12.3 %**
Tier 1 capital ratio	**15.7 %**	**14.4 %**	**12.4 %**
Equity ratio	**19.2 %**	**17.8 %**	**15.9 %**
Income statement	**1-12/2020**	**1-12/2019**	**1-12/2018**
Net interest income	413.1	422.4	419.8
Risk provision	-126.0	-22.1	6.3
Net fee and commission income	239.1	229.6	233.5
Net trading income	-0.5	-0.9	-0.7
Result from financial instruments and investment properties	5.9	29.4	-3.1
Other operating result	37.3	55.2	28.4
General administrative expenses	-511.8	-534.2	-568.2
Restructuring result	0.0	0.0	-4.2
Result from companies measured at equity	-0.3	0.1	11.5
Result before taxes	**56.8**	**179.5**	**123.5**
Income taxes	-36.8	-31.0	-8.3
Result after taxes	**20.0**	**148.5**	**115.2**
Result attributable to non-controlling interest	0.0	0.0	0.0
Result of the Group	**20.0**	**148.4**	**115.2**
Key ratios	**1-12/2020**	**1-12/2019**	**1-12/2018**
Operating cost-income-ratio	**73.6 %**	**80.1 %**	**84.7 %**
ROE before taxes	**2.5 %**	**8.5 %**	**6.7 %**
ROE after taxes	**0.9 %**	**7.0 %**	**6.3 %**
ROE consolidated net income	**0.9 %**	**7.0 %**	**6.3 %**
Net interest margin	**1.4 %**	**1.5 %**	**1.6 %**
NPL ratio	**1.9 %**	**2.3 %**	**2.7 %**
Leverage ratio	**7.3 %**	**7.5 %**	**6.4 %**
Liquidity coverage ratio	**194.0 %**	**142.1 %**	**132.7 %**
Net stable funding ratio	**141.3 %**	**133.5 %**	**125.9 %**
Loan deposit ratio	**92.6 %**	**104.7 %**	**95.6 %**
Coverage ratio I	**40.1 %**	**38.6 %**	**35.7 %**
Coverage ratio III	**107.4 %**	**104.4 %**	**103.3 %**
Resources	**1-12/2020**	**1-12/2019**	**1-12/2018**
Staff average	**3,362**	**3,604**	**3,904**
Thereof domestic	3,362	3,598	3,863
Thereof abroad	0	6	41
	31 Dec 2020	**31 Dec 2019**	**31 Dec 2018**
Staff at end of period	**3,268**	**3,496**	**3,778**
Thereof domestic	3,268	3,496	3,740
Thereof abroad	0	0	38
Number of branches	**249**	**267**	**304**
Thereof domestic	249	267	303
Thereof abroad	0	0	1
Number of customers	**1,046,303**	**1,072,639**	**1,109,145**

Equity ratios are displayed in relation to total risk. The operating cost-income-ratio is the ratio between operating income and operating expenses. Operating income includes net interest income, net fee and commission income, net trading income and if positive other operating result and result from discontinued operation. Operating expenses include general administrative expenses and if negative other operating result and result from discontinued operation. Other operating result and result from discontinued operation is displayed net of other taxes, deconsolidation result and valuation result according to IFRS 5. The ROE before taxes indicates the result before taxes in relation to average equity including non-controlling interest. The ROE after taxes indicates the result after taxes in relation to average equity including non-controlling interest. The ROE consolidated net income indicates the consolidated net income in relation to average equity without non-controlling interest. The net interest margin shows the net interest income in relation to total assets. The NPL ratio indicates the portfolio of non-performing loans in relation to the total exposure of all loans to and receivables from customers. The leverage ratio indicates the business volume (CCF-weighted off-balance positions plus derivatives add-on, replacement value of derivatives, disallowance of derivative claims and financial volume) in relation to the tier 1 capital (CET1 + AT1). The net stable funding ratio indicates the available stable funding in relation to the necessary stable funding. The liquidity coverage ratio (LCR) describes the ratio of highly liquid assets to net outflows over the next 30 days assuming a stress scenario, and thus the ability to cover short-term liquidity outflows. The loan deposit ratio indicates the total amount of loan accounts, overdraft facilities less syndicated loans in relation to the total amount of savings deposits, demand deposits, fixed term deposits and debts evidenced by certificates. The coverage ratio I indicates the coverage ratio of non-performing loans by risk provisions. The coverage ratio III indicates the coverage ratio of non-performing loans by risk provisions and collaterals. Staff figures are calculated based on full-time equivalent.

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MANAGEMENT REPORT OF THE ASSOCIATION OF VOLKSBANKS

Report on the business development and economic situation

Business development

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

In the 2020 financial year, business development within the Association was influenced significantly by the outbreak of the COVID-19 pandemic. During this highly challenging period, the bank's ability to serve its customers was ensured at all times, both with respect to personnel and in technical and organisational terms. Customer service was guaranteed on all channels based on quick and flexible solutions. Excellent teamwork between front office, account managers/loan officers and VB Services für Banken Ges.m.b.H. enabled the bank to quickly process urgent customer requests regarding deferments and interim financing solutions. In these challenging times, the focus was primarily on servicing our existing customers. To help these customers through the crisis in 2020 and 2021, a variety of support measures were offered in the form of deferments and bridging loans. Up to 31 December 2020, a total of approx. 18,520 financing solutions of some 12,140 customers were aligned with the customers' resources within the scope of COVID-19 measures; deferment measures were agreed for 14,280 accounts, while in approx. 4,240 cases, overdraft facilities were increased and/or bridging loans granted as well.

The far-reaching economic and social restrictions imposed to contain the coronavirus have had a highly negative impact on economic life. These effects on the real economy were mitigated by the measures taken by the Austrian government. As some customers are not expected to be economically viable after the end of the government aid programmes, also according to projections by Kreditschutzverband, the Association has made risk provisions for the consequences of the pandemic using statistical methods and forecast calculations. The assessment and provisioning of potential risks from lending business due to the COVID-19 pandemic accounted for the increase in expenses for risk provisions from euro -22.1 million in the previous year to euro -126.0 million in the past financial year. The resulting model adjustments led to an increase of risk provisions in the Performing business (Stage 1 and 2) in the amount of euro 30.0 million and of euro 6.4 million in Stage 3. Additionally, provisions were recorded as post-model adjustments for the Performing business in the amount of euro 93.3 million. As regards the procedure for risk provisions in relation to COVID-19, please refer to the Risk Report, Chapter 51.

In operational terms, 2020 was a successful financial year for the Association. During the pandemic, the Association focused on servicing existing customers and their special needs. The success of these efforts is reflected by the income from services, especially commissions from securities and custody business, which improved by euro 7.6 million in the reporting period compared to the comparative period of the previous year.

In these challenging times, the protection of the employees of the Association was particularly important. This resulted, among other things, in increased expenses for mouth-nose protection masks, plexiglass boards, disinfectants and disinfection stands, special cleaning, etc., but also investments in digital equipment. On the other hand, reductions in travel expenses, events, promotional activities, building management costs, etc. caused expenses to decrease.

In the financial year, an additional burden resulted from insolvencies of Austrian credit institutions (in particular Commerzialbank Mattersburg im Burgenland AG). The role of the deposit guarantee and investor compensation scheme is to pay out customers' deposits covered by the guarantee scheme in the event of a guarantee claim. Increased contributions for the purpose of replenishing the 2020 deposit guarantee scheme will result in an additional burden of approximately euro 53 million for the Volksbanks in the Association over the next four years. In the 2020 financial year, this resulted in additional expenses of some euro 9,5 million.

These COVID-19-related special effects as well as the additional expenses for the deposit guarantee scheme could not be fully compensated for by the successful increase in operating income and the reduction in staff expenses and administrative expenses, which is why the Association's annual result before taxes fell by euro 122.7 million year-on-year to euro 56.8 million.

The most significant capital market transaction in the reporting period was the participation in the "targeted longer-term refinancing operations" programme ("TLTRO III programme") of the European Central Bank in the amount of euro 1.5 billion, the interest rate of which depends on eligible credit growth in the defined observation period.

Economic environment

The COVID-19 pandemic has left deep scars on the Austrian economy. After negative GDP growth rates of -2.8 % Q/Q in the first quarter and -11.6 % Q/Q in the second quarter, respectively, there was a strong upturn from July to September with +12 % Q/Q. However, economic output in the third quarter did not come close to matching the previous year's level either, falling short of the previous year's comparative period by 4.2 %. Renewed lockdown measures were adopted in November and December to contain the pandemic. As a result, the GDP fell by 4.3 % Q/Q in the fourth quarter, according to the Austrian Institute of Economic Research (WIFO), leaving economic output 7.8 % below the previous year's period. For 2020 as a whole, Statistics Austria calculated a growth rate of -6.6 % in its estimate. At -4.3 % Y/Y, the euro zone GDP gap in the third quarter was only marginally larger than in Austria. In the final quarter of the year, the GDP in the monetary union fell by 0.7 % Q/Q, widening the gap with economic output in the same period of the previous year to 5.1 %. In 2020 as a whole, gross domestic product fell by 6.8 %, according to Eurostat's flash estimate. The domestic economy was supported – especially in the second half of the year – by the manufacturing sector, goods exports and government consumption, while private consumption, gross capital investments and tourism exports contributed significantly to the recession.

The crisis has also had an impact on the labour market. According to Eurostat, the Austrian unemployment rate peaked at 6.0 % in June, declined slightly over the summer and rose again in the autumn to 5.8 %. In 2019, unemployment had fallen to 4.5 %, the lowest level since 2008. A similar development was observed in the euro zone: starting at 7.5 % in 2019, again the lowest level since 2008, the unemployment rate rose to 8.6 % in the summer months and then fell slightly to 8.3 % in December 2020. According to the national calculation method, the unemployment rate in Austria was significantly higher than can be derived from the harmonised European data, rising to 9.5 % and 11 % in November and December, respectively. In addition, 417,113 people were on short-time work in Austria as at 31 December 2020.

As in previous years, Austria was among the countries with the highest inflation rates in the euro zone. According to the Harmonised Index of Consumer Prices, the inflation rate in Austria fluctuated between 0.6 % and 2.2 % from January to December 2020, with Statistics Austria having calculated an inflation rate of 1.4 % for the full year. In the past year, the rates of price increases varied between -0.3 % and 1.4 % in the common currency zone, the most recent value, of December, being -0.3 %.

The European Central Bank has responded to the COVID-19 crisis with a package of measures. In the spring, it established the Pandemic Emergency Purchase Programme (PEPP), the duration of which was extended until at least March 2022 at the December meeting. In the process, the ECB increased the volume of bond purchases under this programme to a maximum of euro 1.85 trillion, with a further euro 120 billion purchased by the ECB under its "Asset Purchase Programme" of euro 20 billion per month, which had already started again in 2019, and which was topped up in March for 2020 by an additional maximum annual amount (Envelope) of euro 120 billion. In addition, new tranches of long-term loans ("TLTRO III") will be issued, the terms of which the ECB had already eased in the spring. For example, the interest rate for banks meeting lending targets is 50 basis points below the deposit rate for 12 months, equivalent to -1 % in 2020. These loans are supplemented by long-term financing, the terms of which are not linked to lending: the "Pandemic emergency longer-term refinancing operations" ("PELTRO") programmes. The interest rate here is 25 basis points below the average main refinancing rate over the term. In December, an additional TLTRO III bonus period and additional PELTROs were approved and individual components of the conditions were eased.

Interest rates continued to decline in the money market in 2020. The three-month rate started the year at -0.38 % and fell to -0.39 % in March before rising to -0.16 % shortly thereafter. From April onwards, the interest rate fell again, dropping to -0.55 % at the end of December. The yield of 10-year Austrian government bonds on the capital market developed similarly. Starting from -0.02 % at the beginning of the year, a low of -0.47 % was reached, followed by a rapid recovery into positive territory to 0.28 %. As the year progressed, the yield fell to -0.43 % at year-end. German benchmark bonds were still yielding -0.23 % at the beginning of January 2020, in March the yield fell to -0.86 % and rose to -0.2 % a little later, and at the end of December the benchmark yield was -0.57 %.

The Fed in the USA has also responded comprehensively to the COVID-19 crisis. The policy rate band was lowered by 150 basis points to between 0.0 % and 0.25 % and securities purchases were expanded without limit, with the Fed referring to the achievement of its monetary policy objectives and the normal functioning of financial markets. In addition, several credit facilities have been established to provide liquidity to banks and other players in the financial markets, as well as to provide loans to companies, non-profit organisations, states and municipalities. In August 2020, the Fed announced the outcome of its monetary policy strategy review. The 2 % inflation target is now considered to be a longer-term average, and after periods of too low inflation, inflation may remain moderately above the target for some time. In addition, the definition of the employment target was adjusted. The euro appreciated against the dollar in the course of the year; while the exchange rate was still 1.12 USD/EUR at the beginning of the year, it had risen to 1.22 USD/EUR by the end of the year. Against the Swiss franc, the euro ended at 1.08 CHF/EUR, a level similar to that at which it began at 1.09 CHF/EUR. In between, the Swiss franc appreciated, but remained above the CHF/EUR 1.05 mark.

Regional development and branches of industry

Vienna is the only one among the federal Länder where the production value of material goods production rose in the first half of 2020, and the upward trend continued in the third quarter. However, Vienna recorded by far the sharpest decline in overnight stays in tourism for the year as a whole, at -74 % Y/Y. The (much more moderate) decline in the value of output in the construction industry and in retail sales was also stronger than the national average in the first three quarters. A positive development can be seen in regional foreign trade, where Vienna recorded an increase in the first half of the year, while exports of goods declined in all other federal Länder. The Viennese labour market also deviated positively from the trend, with unemployment figures rising at a below-average rate (from an above-average starting level) in the federal capital in 2020.

In Lower Austria, the decline in retail sales was smallest in the first half of the year and the recovery was strongest in the third quarter. In the first half of the year, Lower Austria shared the top spot with Upper Austria. While the decline in material goods production was more pronounced than the national average, construction output developed better in the first three quarters. For the full year, the drop in overnight stays was the second highest after Vienna, but the increase in the number of unemployed persons and retraining participants was below average. While the decline in gross value added in the first half of the year was smaller than the Austrian average, the decline in exports of goods was higher.

In Burgenland, the construction industry stood out, which, as in Vorarlberg, developed positively and most strongly nationwide in the first half of the year, but fell behind the national average in the third quarter. Material goods production remained below average in the first nine months, but retail sales developed more dynamically than on average. For the full year, Burgenland recorded a less pronounced decline in overnight stays than tourism across the whole of Austria, and the increase in the number of unemployed persons and retraining participants also lagged behind the nationwide trend. The decline in goods exports was also slight in the first half of the year, and the drop in gross value added was below average.

Styria recorded the strongest decline in the material goods production sector in the first nine months. Construction performed better than average in the first half of the year, but worse than average in the third quarter. The entire first nine months saw a more dynamic trend in the retail sector than the national average. Styria also performed well in tourism, where the decline in the number of overnight stays was the smallest after Carinthia, at -24.5 % Y/Y, thanks in part to the above-average share of domestic guests. However, this did little to support the labour market, with the number of unemployed persons and retraining participants rising significantly in 2020 by comparison. In the first half of the year, the dynamics in the material goods production sector were also reflected in exports of goods, which showed the strongest decline throughout Austria. The decline in gross value added in the first half of the year was greater than the national average.

In Carinthia, the decline in overnight stays in tourism was the smallest in Austria thanks to the summer season; at -17 % Y/Y, overnight stays fell only about half as much as in Austria as a whole. The increase in the number of unemployed persons and retraining participants also remained below average in 2020. Similarly, the decline in retail sales and in material goods production in the first nine months remained below the national average. Only the dynamics in construction output could not keep up with the national trend in the first three quarters. Gross value added in the first half of the year also fell more sharply than average. However, goods exports developed in line with the national average.

In Upper Austria, material goods production and construction were unable to keep up with the other federal Länder in the first half of the year. While material goods production gained momentum in the third quarter, dynamism remained weak in the construction sector. However, the development of retail sales was above average throughout the first nine months. In 2020 as a whole, both the increase in the number of unemployed persons or retraining participants and the drop in overnight stays in tourism remained close to the national average. The decline in goods exports and gross value added in the first half of the year was somewhat greater than the average.

In 2020, Salzburg recorded a slightly below-average decline in overnight stays in tourism and a dynamic development in material goods production and construction in the first nine months compared to the rest of Austria. However, the development of retail sales in this period lagged behind the national average. In the first half of the year, both the decline in goods exports and in gross value added was below average. However, unemployment rose more sharply than the national average for the year as a whole.

Material goods production in Tyrol fell at a below-average rate in the first nine months, and then in the third quarter construction fell behind the nationwide trend. The development of retail sales remained below average throughout the first nine months. While the decline in overnight stays in tourism in 2020 as a whole was also lower than the average for all federal Länder, the restrictions in this regard still had above-average consequences. In 2020, the Tyrolean labour market suffered the highest increase in the number of unemployed persons or retraining participants in Austria. In the first half of the year, the Tyrolean economy also experienced the sharpest decline in gross value added nationwide. A more positive development could be seen in the first half of the year for goods exports; with a slight minus, Tyrol took second place in a comparison of all federal Länder.

In Vorarlberg, the decline in the number of overnight stays in tourism in 2020 was below average, but the number of unemployed persons or retraining participants increased significantly compared to other federal Länder. The material goods production and construction sectors as well as sales in the retail sector showed above-average momentum in the first nine months. In the first half of the year, gross value added nevertheless declined somewhat more sharply than the national average, while the decline in goods exports was below average.

The slowdown in construction activity, which was already evident before the pandemic, accelerated during the crisis. Housing investments, for example, fell by 5.5 % Y/Y in the first half of the year, and building permits, which have been declining since 2017, fell by 18 %. As the lower numbers of building permits filter through to completions, supply is also likely to be lower, which tends to stabilise the market. Nevertheless, Vienna reported a record number of completions in 2020. However, prices were hardly affected by the increase in supply and incomes, which were hit by the recession. According to the real estate price index of Oesterreichische Nationalbank, the Austrian residential real estate market showed strong momentum in the first three quarters. Price increases in the first quarter were particularly notable for single-family homes in Vienna, at 10.4 % Y/Y; in the second and third quarters, single-family homes in both Vienna and Austria excluding Vienna posted double-digit annual growth rates. Price increases also accelerated for freehold flats, reaching 9.1 % in Vienna and 8.3 % in the rest of Austria excluding Vienna in the third quarter. In Vienna, where 93 % of the development is determined by the market for freehold flats (Austria excluding Vienna: 70 %), real estate prices increased by 3.9 % in the first quarter, slightly less than in 2019, and by 4.1 % and 9.4 % in the second and third quarters, respectively. A similar trend can be seen in Austria excl. Vienna; at 2.8 % in the first three months of the year, real estate already became slightly more expensive than in 2019 and, in the following two quarters, the growth rates accelerated to 6.8 % and 9.7 %. According to brokers and real estate companies, however, there were signs of a slowdown in some segments of the commercial real estate market.

After a record year in 2019, Austria's tourism sector started 2020 with further growth in overnight stays, but already in March overnight stays plummeted due to the COVID-19 pandemic. During the summer months, accommodation facilities were able to cushion the effects of the travel restrictions to some extent due to increased demand from domestic guests, but the previous year's level was not matched in any month. The start of the winter season was recently accompanied by new "lockdown" measures, which led to a near total shutdown of tourism businesses in November and December. In 2020 as a whole, the number of overnight stays fell by 35.9 % according to preliminary data from Statistics Austria.

Both loans from non-banks and their deposits showed above-average growth rates in the past year. Housing loans mainly reflected the robust housing market, while corporate loan growth was driven more by deferments and government-guaranteed bridging loans. The retention of liquidity by companies and the decline in consumption triggered partly by lockdowns and partly by economic uncertainties were the main motives for the noticeable growth in deposits despite low interest rates.

Result of the Association for the 2020 business year

The result of the Association before taxes amounts to euro 56.8 million (2019: euro 179.5 million), while the result of the Association after taxes and minority shares amounts to euro 20.0 million (2019: euro 148.5 million).

Interest and similar income decreased from euro 525.4 million to euro 505.6 million in 2020. The main reason for this is the euro 14.0 million decrease in interest income from customers and the euro 4.8 million decrease in income from bonds and other fixed-income securities. There was also a reduction of euro 4.5 million in income from derivative financial instruments.

In case of interest and similar expenses in the amount of euro 92.6 million (2019: euro 103.0 million), interest on amounts owed to credit institutions fell by euro 1.2 million year-on-year due to the decline in interest rates. Furthermore, interest expenses for amounts owed to customers have decreased from euro 17.3 million in 2019 to euro 10.7 million in 2020. On the other hand, there were positive effects from derivative financial instruments in the amount of euro 3.4 million.

This results in net interest income of euro 413.1 million, which is euro 9.3 million lower than the result for the comparative period (2019: euro 422.4 million).

The risk provision item increased in 2020 to euro -126.0 million compared to euro -22.0 million in the comparative period. The serious consequences of the COVID-19 pandemic for the general economic environment and the currently high degree of uncertainty increase the need for post-model adjustments (adjustment of the standard method used by the system) when determining expected credit losses.

Net fee and commission income amounted to euro 239.1 million in the reporting period and increased compared to the previous period (2019: euro 229.6 million) by euro 9.6 million. The increase is due to changes in securities business (euro +8.0 million) and lending business (euro +6.6 million). On the other hand, giro and payment transactions declined by euro -4.1 million.

The change in net trading income (euro +0.5 million) is essentially due to a lower negative valuation result from interest rate-related transactions.

The result from financial instruments and investment properties for the reporting period amounts to euro 5.9 million, thus undercutting the reference period (euro 29.4 million) by euro 23.5 million. This is mainly due to higher negative valuation results of derivatives (euro -16.8 million), of loans and receivables to credit institutions measured at fair value (euro -5.3 million) and of securities (euro -2.7 million). This was offset by a lower negative valuation result of securitised debts measured at fair value (euro +2.3 million).

The other operating result for the 2020 financial year amounts to euro 37.3 million (2019: euro 55.2 million). The sale of the former headquarters of VBW in 1090 Vienna, Kolingasse, which took place in January 2020, will generate income in the amount of euro 32.1 million in 2020. In the previous year, the one-off effect of the deconsolidation result of VB Liechtenstein was shown here at euro 44.0 million.

General administrative expenses for the financial year totalled euro 511.8 million. (2019: euro 534.2 million), confirming the trend of recent years. The decrease is mainly due to lower staff expenses and administrative expenses for legal, auditing and consultancy expenses, for business premises and for advertising and entertainment.

The change in income taxes in the amount of euro 5.7 million mainly results from higher current tax expenses. Moreover, based on the tax planning for 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 345 million (2019: euro 254 million), no deferred tax assets are recognised.

Financial position

As at 31 December 2020, total assets amount to euro 29.4 billion, having increased compared to the end of 2019 (euro 27.5 billion), essentially due to the deposit with OeNB for participation in the TLTRO III Tender, which is reflected by the increase of the liquid funds item.

Loans and receivables to customers net of risk provisions amount to euro 21.3 billion as at 31 December 2020, and have moderately increased against the previous year (euro 21.3 billion). The higher risk provisions due to the COVID-19 pandemic are offset by lower SPPI non-compliant claims.

Financial investments of euro 2.6 billion have not changed by comparison with the previous year (euro 2.6 billion).

As at 31 December 2020, the item Assets available for sale shows the carrying amount of commercially used properties and vacant objects the sale of which has already been contractually agreed, or is very likely, as at 31 December 2020. The change against the previous year is essentially due to the fact that, in 2019, assets available for sale primarily include the carrying amount of the former headquarters of Volksbank Wien AG in 1090 Vienna, Kolingasse.

Amounts owed to credit institutions increased to euro 1.9 billion compared to year-end 2019 (euro 0.4 billion), mainly due to participation in the European Central Bank's TLTRO III programme in the amount of euro 1.5 billion. Amounts owed to customers increased slightly from euro 21.7 billion to euro 22.2 billion due to higher other deposits.

Report on branch establishments

The Association does not have any branch establishments.

Financial performance indicators

As at 31 December 2020, the regulatory own funds of the group of credit institutions of the Association amount to euro 2.7 billion (2019: euro 2.6 billion). The total risk amount was euro 14.2 billion (2019: euro 14.8 billion) as at 31 December 2020. The CET1 ratio in relation to total risk amounts to 14.1 % (2019: 12.9 %), the total capital ratio in relation to total risk is 19.2 % (2019: 17.8 %).

Regulatory own funds, total risk amount and the key indicators calculated therefrom were determined in accordance with the CRR (EU Regulation No. 575/2013). For more detailed information, please refer to the Notes, Chapter 36.

Performance indicators	2020	2019	2018
Return on Equity before taxes	2.5 %	8.5 %	6.7 %
Return on Equity after taxes	0.9 %	7.0 %	6.3 %
Cost-income-ratio	73.6 %	80.1 %	84.7 %

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

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

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

The performance indicators shown are considered as customary within the industry and are essential factors for the credit rating of banks. Additionally, within 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, Chapter 46.

Non-financial performance indicators

Human Resources

In 2020, the focus in Human Resources was primarily on the joint management of the coronavirus pandemic and on staff measures within the scope of the Adler programme, the relationship bank concept of the future derived therefrom, and the entrenchment of our employer values.

The pandemic was one of the greatest challenges for Human Resources. In a very short period of time, it was necessary to support the crisis team in order to maintain banking operations as part of the systemically relevant infrastructure, to continuously assess and address the legal framework, to clarify and stabilise the requirements and necessities for the workforce, and to guarantee operational implementation.

We consider it a great success to have been able to support our customers in this crisis situation without interruption as a trustworthy financial advisor, but also to have guaranteed the requirements for the highest possible safety of the workforce (remote work, protective measures, etc.).

The coronavirus crisis brought a digital tailwind to continuing education within the Association. The further development of digital skills was one of the central milestones in the Volksbank Academy's 2020 training programme. The 2020 in-person training days could be converted into 253 webinars from mid-April, and many learning phases were accompanied on-site and digitally with the support of the mentors / learning coaches. As a result, employees have received practical, regional and innovative training within their functions.

Irrespective of the coronavirus pandemic, the Association continued to pursue the HR strategic goals from the Adler programme. In 2020, the main focus here was on further bundling activities within the Association (banking oversight, operational organisation and processing). In the course of the bundling process, a uniform training plan was also designed and finalised within the Association for operational purposes (processing). Exceeding the cost targets made a major contribution to the good results achieved by the Association.

Another major shared success under the Adler programme are the uniform service catalogues and job descriptions that were created and approved in 2020, three-quarters of which have already been implemented. The service catalogues describe who does what within the Association and, together with the uniform organisational charts implemented in the Volksbanks since mid-2020, form the basis for the cooperative division of labour in the Association.

To support the relationship bank of the future, we continued the process of entrenching our common employer values in 2020. In some Volksbanks, value propositions were developed for this purpose together with their employees in the course of workshops in order to authentically establish our position as employer and to communicate these values internally and externally.

In this context, the employer value "Fit for the future through flexibility", in addition to the compatibility of private life, family and career, has also become increasingly important during the pandemic and is a long-term focus within the Association.

Report on the future development and risks of the Association

Future development of the Association

Economic environment

OeNB projection and WIFO

In December 2020, WIFO projected growth rates of 4.5 % and 3.5 % in 2021 and 2022, respectively, provided that another "lockdown" can be avoided in 2021. If there is a four-week full lockdown followed by an equally long partial lockdown in the first quarter, the growth rate for this year is expected to be 2.5 %. In its projections for 2021, also published in December, the ECB expects a growth rate of 3.9 % this year and 4.2 % and 2.1 % in the following years in the euro zone. The OeNB projection contained therein sees the rate of economic growth in Austria at 3.6 % this year, followed by 4.0 % and 2.2 % in the next two years. The OeNB, too, gives a lower value in the event of continuing restrictions. The "strong" COVID scenario puts GDP growth at just 0.4 % for the current year, followed by 3.3 % Y/Y in 2022. According to the OeNB's medium scenario, the largest contributions to growth this year will come from private consumption and exports. Accordingly, real disposable household income will rise by 0.2 % in 2021 and increase more significantly in the next two years, by 2.3 % and 1.8 % respectively. The household savings rate is going to fall to 10 % this year, still well above the 2019 level, but will decrease to below pre-crisis levels at 7.9 % and 7.7 % over the next two years.

The OeNB expects the inflation rate to be 1.4 % this year and 1.7 % in the next two years. The ECB's projections for the euro zone envisage significantly lower inflation rates of 1.0 % this year and 1.1 % and 1.4 % in the following two years, which means that inflation is likely to be well below the ECB's target over the entire forecast horizon. This and the announced continuation of monetary policy easing suggest that interest rates will remain low in 2021. The result of the review of the monetary policy strategy is expected in the middle of the year. This could bring a nuanced change in the definition of the inflation target.

However, increased inflation expectations, for instance due to higher energy prices and the reversal of price-dampening VAT cuts or an increased demand for investments, with the investment premium adopted by the federal government, among others, potentially contributing to this trend, may cause yields to rise again. The projected revival of investments, as well as the solid demand for residential real estate still evident at the turn of the year, would suggest further credit growth in the current year. However, this will be dampened or compensated for, particularly in the case of corporate loans, by the higher initial level, the repayment of bridging loans and deferred amounts starting this year.

The main risk of the outlined outlook lies in the continuation of the pandemic. Rapid progress would brighten the outlook, but mutations and/or organisational shortcomings in the vaccination strategy may also lead to sensitive setbacks and make the lifting of the restrictions that weighed on economic activity at the beginning of the year slower than hoped for. The longer the pandemic lasts, the more the financial (and political) options of states and businesses are overstretched, which not only puts a strain on the subsequent economic recovery, but may also result in growing systemic risk on the financial market. The trade conflict also continues to pose an economic risk. In addition, there could be renewed disruptions or delays in international supply chains, which could affect Austrian exporters and suppliers and subsequently burden other companies and the employment situation of private households, which would also be reflected in banking business. Extended or renewed travel restrictions or a lack of sense of personal safety would hit tourism. Tensions within the European Union, some of them in connection with the continuing negotiations about relations with Great Britain, or any increase in political uncertainty in the member states, e.g. after elections, constitute a risk for the course of economic development within the region. A rapid rise in interest rates would also have to be classified as a risk for economic activity and the real estate markets. Any abrupt change of the macro-economic environment might also cause corporate bonds with the lowest investment-grade rating of BBB to be downgraded, with sales following rating downgrades potentially causing distortions on the financial markets. Additionally, geopolitical conflicts may also potentially harm the economic outlook.

Future development of the Association

The regionally active Volksbanks look after their customers locally and are the mouthpiece of their interests and needs within the Association. In order to be able to respond even better to the needs of Austrians as their principal bank, the Volksbanks are consistently implementing the “relationship bank of the future” service concept within the Association. The focus is on the customers in the regions. The aim is to become the most successful decentralised association of banks in Austria.

The Volksbanks have decided to implement the “Adler” programme in order to position the Association as the “relationship bank of the future”. The comprehensive measures from “Adler” have been consistently implemented, reported and controlled within the Association since 2019. The project is expected to be fully completed by the end of 2022.

The consistent orientation as the relationship bank of the future is based on two pillars. On a high level of processing quality for regional customer service and on the central pillar of “control and service” with the bundling of central functions of the Association within VBW.

Thanks to the consistent development of our “hausbanking” (relationship banking), the Volksbanks have their finger on the pulse of the times, and customers have given us excellent marks for this in the latest customer satisfaction surveys.

Furthermore, the Volksbanks are working together more efficiently according to uniform rules and in uniform structures. The cooperative division of labour has been implemented for the most part. Since mid-2020, the Volksbanks have had uniform organisational charts, and three-quarters of the new job descriptions and service catalogues have been implemented. The implementation plans in the areas of Risk Controlling, Legal, Internal Audit and Compliance are now in live operation throughout the Association. The final steps have already been taken for Facility Management tasks and the outsourcing of ORG/IT.

The introduction of MSC Passiv, MSC Aktiv and loan processing in the banks of the Association, as well as the ongoing support by and cooperation with VBW as central organisation are paying off. The new leaner and more efficient cooperation is reflected favourably in the cost structure.

Apart from customers, the focus for 2021 will continue to be on cooperation across the Association, on improving processes and driving forward digitisation.

All in all, these structural and cultural changes will help to establish Volksbank as the most modern association of banks in Austria.

In the course of medium-term planning, the Association has set itself a number of strategic goals, the accomplishment, observance or undercutting/exceeding of which will be a management focus in the years to come. These include an improvement in the cost-income ratio, a Tier 1 capital ratio (CET 1) of at least 10.9 %, a total capital ratio of at least 15.5 %, an NPL ratio (non-performing loans) of no more than 3.0 %, and a return on equity (RoE) of more than 8.0 %.

The focus of the Association on retail banking is meant to be continued in these challenging times, supported in particular by increasing digitisation of the sales process, which constitutes one of the major opportunities of the COVID-19 crisis. Not least because of the change in customer behaviour and its impact on sales, this is a key focus within the Association and provides an opportunity to offer faster services to our customers, thus strengthening the customer relationship. It is gratifying to note that the Association now has a very competitive product on the market in the form of the "hausbanking" app.

By forming appropriate risk provisions, the Association has taken into account the expected deterioration in credit quality. As the current assessment is that the risk provisions in the 2020 financial statements may be expected to cover all risks from the COVID-19 crisis currently known, a positive annual result is expected for the 2021 financial year, despite significantly higher planned risk expenditure.

The low interest rate environment expected to continue in subsequent years calls for a streamlining of the cost structure and an increase of productivity. To this end, further synergies within the Association were evaluated, among other things.

We also refer to Chapter 49) Events after the balance sheet date in the Notes.

Significant risks and uncertainties

As regards the legally required disclosures on the use of financial instruments, the risk management targets and methods as well as the existing risk of price changes, default, liquidity and cash flow risks, please refer to the information contained in the Notes (in particular the Risk Report in Chapter 51). After the close of the financial year, no events of particular importance have occurred that have any significant effect on the present financial statements of the Association.

Report on research and development

The Association is not active in research and development.

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

Control environment

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

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

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

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

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

Risk assessment

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

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

Information and communication

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

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

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

Monitoring

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

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Statement of comprehensive income

INCOME STATEMENT	Note	1-12/2020 Euro thousand	1-12/2019 Euro thousand	Changes Euro thousand	%
Interest and similar income		505,649	525,414	-19,764	-3.76 %
thereof using the effective interest method		486,320	503,141	-16,820	-3.34 %
Interest and similar expenses		-92,556	-103,042	10,487	-10.18 %
Net interest income	4	413,094	422,371	-9,278	-2.20 %
Risk provision	5	-126,049	-22,050	-103,999	> 200.00 %
Fee and commission income		263,109	257,681	5,427	2.11 %
Fee and commission expenses		-23,971	-28,113	4,142	-14.73 %
Net fee and commission income	6	239,138	229,568	9,570	4.17 %
Net trading income	7	-470	-937	467	-49.82 %
Result from financial instruments and investment properties	8	5,897	29,430	-23,532	-79.96 %
Other operating result	9	37,334	55,169	-17,835	-32.33 %
General administrative expenses	10	-511,826	-534,188	22,363	-4.19 %
Result from companies measured at equity		-327	119	-446	< -200.00 %
Result before taxes		**56,791**	**179,482**	**-122,691**	**-68.36 %**
Income taxes	11	-36,777	-31,030	-5,746	18.52 %
Result after taxes		**20,014**	**148,451**	**-128,437**	**-86.52 %**
Result attributable to shareholders of the parent company (Consolidated net result)		**20,026**	**148,431**	**-128,405**	**-86.51 %**
thereof from continued operation		20,026	148,431	-128,405	-86.51 %
Result attributable to non-controlling interest		-12	20	-32	-158.67 %
thereof from continued operation		-12	20	-32	-158.67 %

Other comprehensive income

	1-12/2020 Euro thousand	1-12/2019 Euro thousand	Changes Euro thousand	%
Result after taxes	**20,014**	**148,451**	**-128,437**	**-86.52 %**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation of obligation of defined benefit plans (including deferred taxes)	15,955	-10,424	26,379	< -200.00 %
Fair value reserve - equity instruments (including deferred taxes)	-1,973	17,056	-19,029	-111.57 %
Revaluation of own credit risk (including deferred taxes)	-106	-422	316	-74.84 %
Total items that will not be reclassified to profit or loss	**13,876**	**7,162**	**6,713**	**93.73 %**
Items that may be reclassified to profit or loss				
Currency reserve	0	-12,498	12,498	-100.00 %
Fair value reserve - debt instruments (including deferred taxes)				
Change in fair value	266	-493	759	-153.86 %
Change in deferred taxes arising from untaxed reserve	4	0	4	100.00 %
Change from companies measured at equity	-1,037	3,608	-4,644	-128.73 %
Total items that may be reclassified to profit or loss	**-767**	**-9,383**	**8,617**	**-91.83 %**
Other comprehensive income total	**13,109**	**-2,221**	**15,330**	**< -200.00 %**
Comprehensive income	**33,123**	**146,230**	**-113,107**	**-77.35 %**
Comprehensive income attributable to shareholders of the parent company	**33,128**	**146,211**	**-113,082**	**-77.34 %**
thereof from continued operation	33,128	146,211	-113,082	-77.34 %
Comprehensive income attributable to non-controlling interest	-5	20	-25	-126.67 %
thereof from continued operation	-5	20	-25	-126.67 %

Statement of financial position as at 31 December 2020

	Note	31 Dec 2020 Euro thousand	31 Dec 2019 Euro thousand	Changes Euro thousand	%
ASSETS					
Liquid funds	12	3,943,760	2,071,712	1,872,048	90.36 %
Loans and receivables credit institutions	13, 14	438,106	431,109	6,998	1.62 %
Loans and receivables customers	13, 14	21,287,322	21,250,646	36,676	0.17 %
Assets held for trading	15	55,970	56,044	-74	-0.13 %
Financial investments	14, 16	2,635,829	2,578,976	56,853	2.20 %
Investment property	17	40,977	47,533	-6,556	-13.79 %
Companies measured at equity	18	90,870	92,234	-1,363	-1.48 %
Participations	19	128,139	130,479	-2,340	-1.79 %
Intangible assets	20	2,591	3,377	-786	-23.28 %
Tangible assets	21	443,625	481,864	-38,239	-7.94 %
Tax assets	22	116,549	130,018	-13,469	-10.36 %
Current taxes		7,265	10,239	-2,974	-29.04 %
Deferred taxes		109,284	119,779	-10,495	-8.76 %
Other assets	23	178,481	168,127	10,354	6.16 %
Assets held for sale	24	8,044	53,554	-45,509	-84.98 %
TOTAL ASSETS		**29,370,265**	**27,495,673**	**1,874,593**	**6.82 %**
LIABILITIES					
Amounts owed to credit institutions	25	1,883,873	412,189	1,471,684	> 200.00 %
Amounts owed to customers	26	22,153,454	21,729,089	424,366	1.95 %
Debts evidenced by certificates	27	1,469,924	1,481,917	-11,993	-0.81 %
Lease liabillities	28	169,889	183,300	-13,411	-7.32 %
Liabilities held for trading	29	61,518	76,868	-15,351	-19.97 %
Provisions	30, 31	231,660	256,136	-24,476	-9.56 %
Tax liabilities	22	25,425	21,329	4,096	19.21 %
Current taxes		21,899	17,486	4,413	25.24 %
Deferred taxes		3,526	3,843	-317	-8.24 %
Other liabilities	32	533,264	487,948	45,316	9.29 %
Liabilities held for sale	33	122	0	122	100.00 %
Subordinated liabilities	34	576,811	597,542	-20,731	-3.47 %
Total nominal value cooperative capital shares	35	4,041	4,547	-506	-11.12 %
Subscribed capital	35	288,487	286,725	1,762	0.61 %
Additional tier 1 capital	35	217,722	221,292	-3,570	-1.61 %
Reserves	35	1,751,967	1,734,644	17,323	1.00 %
Non-controlling interest	35	2,108	2,146	-38	-1.77 %
TOTAL LIABILITIES		**29,370,265**	**27,495,673**	**1,874,593**	**6.82 %**

Changes in equity and cooperative capital shares

Euro thousand	Subscribed capital [1)]	Additional tier 1 capital [3)]	Capital reserves	Retained earnings and other reserves	Shareholders' equity	Non-controlling interest	Equity	Cooperative capital shares [2)]	Equity and cooperative capital shares
Stand 1. Jänner 2019	**299,844**		**497,473**	**1,090,613**	**1,887,930**	**2,164**	**1,890,094**	**4,249**	**1,894,343**
Consolidated net income				148,431	148,431	20	148,451		148,451
Other comprehensive income	0	0	0	-2,221	-2,221	0	-2,221	0	-2,221
Comprehensive income	0	0	0	146,211	146,211	20	146,230	0	146,230
Capital increase		217,722		0	217,722		217,722		217,722
Dividends paid				-9,236	-9,236	-16	-9,252		-9,252
Changes in base amount regulation	164			0	164		164	-164	0
Changes scope of consolidation	-5		0	0	-5		-5	1	-5
Change in cooperative capital and participation capital	-9,707		9,706	0	-1		-1	460	459
Reclassification additional tier 1 capital	-3,570	3,570			0				
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation	0		-410	286	-124	-22	-146	1	-145
As at 31 December 2019	**286,725**	**221,292**	**506,560**	**1,228,084**	**2,242,661**	**2,146**	**2,244,807**	**4,547**	**2,249,354**
Consolidated net income				20,026	20,026	-12	20,014		20,014
Other comprehensive income	0	0	0	13,102	13,102	7	13,109	0	13,109
Comprehensive income	0	0	0	33,128	33,128	-5	33,123	0	33,123
Dividends paid [4)]				-17,750	-17,750	-13	-17,763		-17,763
Changes in base amount regulation	108			0	108		108	-108	0
Change of capital	1,654	-3,570	1,916	0	0		0		0
Change in cooperative capital and participation capital				0	0		0	-401	-401
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation	0		879	-851	28	-19	9	3	12
As at 31 December 2020	**288,487**	**217,722**	**509,355**	**1,242,612**	**2,258,176**	**2,108**	**2,260,284**	**4,041**	**2,264,325**

1) Subscribed capital incl. participation capital and cooperative capital shares, pursuant to IFRIC 2 eligible as equity.
2) Cooperative capital shares, pursuant to IFRIC 2 not eligible as equity.
3) AT1-capital is shown in Additional tier 1 capital.
4) Thereof dividends on AT1-capital euro 17,050 thousand (31 December 2019: euro 8,525 thousand) and dividends on participation capital euro 262 thousand (31 December 2019: euro 190

Details are shown in note 35) Equity.

Cash flow statement

In euro thousand	Note	1-12/2020	1-12/2019
Annual result (before non-controlling interest)		**20,014**	**148,451**
Non-cash positions in annual result and other adjustments			
Net interest income	4	-424,152	-431,061
Income from participations	8	-2,573	-2,507
Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets	8, 10	30,136	31,710
Allocation to and release of provisions, including risk provisions	5, 10	131,704	37,736
Gains from the sale of financial investments and fixed assets	8, 9	-30,153	-55,305
Income taxes	11	36,390	30,234
Changes in assets and liabilities from operating activities			
Loans and advances to credit institutions	13	-25,935	-106,171
Loans and advances to customers	13	-150,693	-777,550
Trading assets	15	-1,035	4,040
Financial investments	16	96,595	217,216
Other assets from operating activities	23	17,638	-3,297
Amounts owed to credit institutions	25	1,472,528	-89,449
Amounts owed to customers	26	425,558	154,282
Debts evidenced by certificates	27	-8,331	954,466
Derivatives	15, 23, 29, 32	13,803	-7,891
Other liabilities	32	-17,635	-29,062
Interest received		504,965	526,726
Interest paid		-76,825	-79,401
Dividends received		2,573	2,507
Income taxes paid		-23,879	-20,907
Cash flow from operating activities		**1,990,696**	**504,768**
Proceeds from the sale or redemption of			
Financial investments at amortised cost	16	6,610	53,515
Participations	19	300	2,345
Intangible and tangible assets	20, 21	96,417	39,277
Investment property	17	4,337	4,243
Disposal of subsidiaries (net of cash disposed)	2	0	-199,683
Payments for the acquisition of			
Financial investments at amortised cost	16	-164,202	-385,954
Participations	19	-1,227	-758
Intangible and tangible assets	20, 21	-15,026	-26,087
Investment property	17	-55	-117
Cash flow from investing activities		**-72,845**	**-513,220**
Change in cooperative capital and participation capital	35	-401	459
Additional tier 1 capital	35	0	217,722
Dividends paid	35	-17,763	-9,252
Cash outflow of lease liabilities	28	-6,693	-5,698
Cash inflow of subordinated liabilities	34	1,736	8,695
Cash outflow of subordinated liabilities	34	-22,711	-45,425
Cash flow from financing activities		**-45,832**	**166,502**
Cash and cash equivalents at the end of previous period	12	**2,051,384**	**1,893,054**
Cash flow from operating activities		1,990,696	504,768
Cash flow from investing activities		-72,845	-513,220
Cash flow from financing activities		-45,832	166,502
Effect of currency translation		29	280
Cash and cash equivalents at the end of period	12	**3,923,431**	**2,051,384**

Details of the calculation method of cash flow statement are shown in note 3) ii).
Details to the changes in subordinated liabilities are shown in note 34).

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NOTES

1) General information

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

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

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

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

The present consolidated financial statements were signed by the Managing Board of VBW on 17 March 2021 and then subsequently released for distribution to the Supervisory Board for notice.

a) Accounting principles for the Association

The following exceptions to the application of individual IFRS apply to the 2020 and 2019 Association financial statements:

Exceptions affecting the overall scope of consolidation

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

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

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

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

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

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

The key management personnel are:

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

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

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

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

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

2) Presentaion and changes in the scope of consolidation

In the financial year 2020, the fully consolidated company Realitäten Beteiligungs-GmbH was merged into the also fully consolidated parent company Volksbank Oberösterreich AG. This transaction had no effect on the equity capital or the result of the association.

Participation right of the federal government

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

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

According to its contractual obligations towards the federal government, VBW must submit to the Volksbanks a proposal for the total amount to be distributed with respect to the federal government’s participation right by RZG in the subsequent calendar year and for the total amount of the primary banks’ contributions required for this purpose (indirect contributions of the Volksbanks and direct contribution of VBW to RZG) by 30 November of each year. VBW is charged according to the share of its retail segment in the Association of Volksbanks (total assets UGB/BWG). Of the repayment amount of euro 300 million promised to the federal government, euro 76 million have already been repaid as at 31 December 2019. Accordingly, the threshold existing at 31 December 2019 for the minimum repayment in the amount of euro 75 million was already met. The next threshold as of 31 December 2021 will be euro 200 million.

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

Number of consolidated companies

	31 Dec 2020			31 Dec 2019		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Fully consolidated companies						
Credit institutions	9	0	9	9	0	9
Financial institutions	4	0	4	4	0	4
Other companies	14	0	14	15	0	15
Total	**27**	**0**	**27**	**28**	**0**	**28**
Companies measured at equity						
Credit institutions	0	0	0	0	0	0
Other companies	2	0	2	2	0	2
Total	**2**	**0**	**2**	**2**	**0**	**2**

Number of unconsolidated companies

	31 Dec 2020			31 Dec 2019		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Affiliates	27	2	29	33	2	35
Associated companies	6	0	6	7	0	7
Companies total	**33**	**2**	**35**	**40**	**2**	**42**

The unconsolidated companies in their entirety were deemed immaterial to the presentation of a true and fair view of the net assets, liabilities, financial position and profit or loss of the Association. In addition to quantitative criteria like total assets and result after taxes also the effect of consolidation on specific positions as well as on the true and fair view of the consolidated financial statements for the Association is taken into account for the assessment of materiality. The calculation of the quantitative characteristics was based on the latest available financial statements of the companies and the Association's consolidated financial statements for 2020.

The complete list of companies included in the Association's consolidated financial statements, companies measured at equity, as well as the unconsolidated companies including detailed information, is shown at the end of the notes (see note 52), 53), 54), 55)).

3) Accounting principles

The following accounting principles have been applied consistently to all periods presented in these financial statements, except for a change in the presentation of reserves. The adjustment was made due to a standardisation of financial reporting within the Association of Volksbanks.

Furthermore, the following reclassification was carried out in accordance with IAS 8.49

Euro thousand	Retained earnings	Fair value reserve - equity instruments
As at 1 January 2019 reported	**1,825,232**	**-707,277**
Reclassification	237,663	-237,663
As at 1 January 2019	**2,062,895**	**-944,941**

The reclassification is mainly due to the fact that the IFRS 9 conversion resulted in the reporting of a negative fair value reserve, in which deferred taxes were inadvertently taken into account. This resulted in a shift between the fair value reserve and the retained earnings in the amount of euro 237 million, which is, however, balanced out within equity.

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

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

The two following chapters present amended and new accounting standards significant to the consolidated financial statements of the Association. For the accounting and valuation methods relating to COVID-19 (impairments and post-model adjustments), please refer to note 51) Risk report b) Credit Risk.

Initially applied standards and interpretations

Standard	Mandatory application	Significant effects on the Association
Amendments to standards and interpretations		
Amendments to References to the Conceptual Framework	01.01.2020	No
Amendments to IAS 1 and IAS 8: Definition of Material	01.01.2020	No
Amendments to IFRS 3 Business Combinations	01.01.2020	No
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform	01.01.2020	No

Standards and interpretations to be applied in future

Standard	Mandatory application	Significant effects on the Association
Amendment to IFRS 16 Leases COVID-19-Related Rent Concessions	01.06.2020	No
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interes Rate Benchmark Reform - Phase 2	01.01.2021	No
Amendments to IAS 37 - Provisions, Contingent Liabilities Contingent Asset	01.01.2022	No
Annual Improvements 2018 - 2020	01.01.2022	No
Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use	01.01.2022	No
Amendments to IFRS 3 - Reference to Conceptual Framework	01.01.2022	No
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	01.01.2023	No
IFRS 17 - Insurance Contracts	01.01.2023	No
Amendments to IFRS 10 and IAS 28: Sales or Contributions of Assets between an Investor and its Associate/Joint Venture	open	No

BY – business year

a) Initially applied standards and interpretations

Amendments to references to the IFRS Framework

The new Conceptual Framework includes revised definitions of assets and liabilities and new guidance on measurement and derecognition, recognition and disclosures. The new Framework does not constitute a fundamental revision of the document. Instead, the IASB has limited itself to those topics that were previously unregulated or had identifiable deficits that needed to be addressed.

Amendment to IAS 1 and IAS 8 Definition of “Material”

The International Accounting Standards Board (IASB) issued “Definition of Material (Amendments to IAS 1 and IAS 8)” to define the term “Material” more precisely and to harmonise the various definitions in the Framework and in the standards themselves.

Amendment to IFRS 3 Definition of a Business

The narrowly defined amendments to IFRS 3 aim to address the issues that arise when an entity determines whether it has acquired a business or a group of assets. The issues arise because the accounting requirements for goodwill, acquisition costs and deferred taxes for the acquisition of a business are different from those applicable to the acquisition of a group of assets.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

The amendments address financial reporting issues in the period before an existing reference interest rate is replaced by an alternative interest rate and deal with the impact on certain hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement that require forward-looking analysis. (IAS 39 is amended, as is IFRS 9, because entities have an accounting policy choice when they first apply IFRS 9, under which they can continue to apply the hedge accounting requirements of IAS 39.) There are also amendments to IFRS 7 Financial Instruments: Disclosures, with respect to additional information on uncertainty relating to the IBOR reform.

Amendments

The amendments contained in the Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) provide for the following:

- amendment of certain hedge accounting requirements with a view to entities applying those hedge accounting requirements assuming that the reference interest rate on which the hedged cash flows and the cash flows from the hedging instrument are based is not changed by the reform of the reference interest rate;
- mandatory application of the amendments to all hedging relationships affected by the reform of the reference interest rate;
- the amendments do not aim to provide relief in respect of other consequences of the reform of the reference interest rate; if a hedging relationship ceases to comply with the hedge accounting requirements for reasons other than those specified in the amendments, hedge accounting must be discontinued; and
- the requirement of specific disclosures about the extent to which the entities’ hedging relationships are affected by the changes.

The Association of Volksbanks has analysed the possible effects in detail. By far the largest part of existing hedging relationships at VBW is denominated in euro. As the Euribor continues to be used as a benchmark reference, the changeover effect for these transactions is only indirect via the discounting curve used to determine the present value. Depending on the interest rate modality in the underlying collateral agreement, the corresponding discounting must be applied (EONIA vs. ESTR). For the cleared business (LCH, Eurex), the changeover from EONIA to ESTR was already carried out in the past year. The remaining bilateral hedges will be converted in the course of the current year. The conversion of the discounting is carried out concurrently with the conversion of the interest rate of the underlying collateral agreement. The present value effect of the changeover was simulated and is not considered to be significant (especially taking into account any compensation payments).

b) Standards and interpretations to be applied in the future

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments clarify which costs an entity includes when determining the cost of fulfilling a contract to assess whether the contract is onerous. The amendments are applicable in reporting periods beginning on or after 1 January 2022 to contracts in existence at the date of first-time application of the amendments. At the date of first-time application, the cumulative effect of applying the amendments is recognised as an adjustment to the opening balance sheet values in retained earnings or, where appropriate, in other components of equity. The comparative values are not adjusted. The Group has determined that all contracts in place at 31 December 2020 will be settled before the date of first-time application of the amendments.

Reform of reference interest rates – phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that might affect financial reporting as a result of the reform of reference interest rates, including the impact of changes in contractual cash flows or hedging relationships resulting from the replacement of a reference interest rate with an alternative reference interest rate. The amendments provide practical simplifications in relation to certain requirements of IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

At the Association of Volksbanks there is no direct dependence on Ibor interest rates as a reference interest rate for hedging transactions other than Euribor. For a non-significant residual volume with a small residual term, there is an indirect dependency via the discounting curve. In the course of the year, the valuation approach will be adjusted to the capital market conventions prevailing at the relevant time. In any case, the effects to be expected from this changeover are insignificant.

Changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities

The amendments require an entity to reflect a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by the reform of the reference interest rates by updating the effective interest rate of the financial asset or financial liability.

Hedge accounting

The amendment provides exemptions from the hedge accounting requirements. Among other things, it is possible to adjust the designation of a hedging relationship to reflect changes that become necessary as a result of the reform.

Early application of these new regulations is possible; however, the Group has opted against early application of these standards during preparation of the consolidated financial statements.

c) Application of estimates and assumptions

Information about assumptions and estimation uncertainties as at 31 December 2020 that may be associated with a significant risk of causing a material adjustment to the carrying amounts of recognised assets and liabilities within the next financial year is included in the following disclosures:

- Disclosure (see note 17): Alternative valuation methods based on financial mathematics are used to assess the recoverability of financial instruments for which there is no active market. The parameters used to determine the fair value are partly based on forward-looking assumptions.
- Disclosure (see note 17) 20) 21): The assessment of the recoverability of intangible assets, goodwill, investment properties and tangible assets is based on forward-looking assumptions.
- Disclosure (see note 51): The basis for determining expected credit losses is provided by scenarios relating to the expected cash flows of the debt instrument. Thus, in order to determine the impairments, assumptions and projections must be made regarding the payments still to be received from the borrower or from the realisation of the collaterals, and the probability of occurrence of the respective scenario must be estimated.
- Disclosure (see note 37): The assessment of the recoverability of financial instruments measured at amortised cost or at fair value through OCI is based on forward-looking assumptions.
- Disclosure (see note 31): For the valuation of existing social capital obligations, assumptions are used for interest rate, retirement age, life expectancy and future salary increases.
- Disclosure (see note 22) 11): The recognition of deferred tax assets is based on the assumption that sufficient taxable income will be generated in the future to utilize the existing loss carry-forwards; where appropriate, no deferred tax assets are recognised.
- Disclosure (see note 30): Provisions are measured on the basis of cost estimates by contractual partners, empirical values and mathematical calculation methods.

d) Consolidation principles

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

The financial statements of the fully consolidated companies and the companies consolidated using the equity method were prepared on the basis of the reporting date of 31 December 2020.

Owing to the lack of an ultimate controlling parent company, the equity components reported in the financial statements, converted in accordance with the relevant principles of the credit institutions, included, as stated in the list of companies in section 54), are aggregated. When aggregating the included companies' investments in Volksbanks and VBW, the aggregated carrying amounts of the investments are deducted from the aggregated equity components. Consolidation as a group of companies which are legally separate entities, but under unified control without a parent company means that the capital consolidation does not result in any minority interests. Cooperative shares of the member credit institutions are reported under total nominal value of members' shares.

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

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

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

e) Currency translation

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

The individual financial statements of foreign subsidiaries prepared in currencies other than the euro are translated using the modified closing rate method set out in IAS 21. Under this method, all assets and liabilities are translated at the spot exchange mean rate effective on the balance sheet date, while the historical rate is applied for the translation of equity. Differences resulting from this translation are recognised in the currency translation reserve in equity. Any goodwill, disclosed hidden reserves and liabilities arising from the initial consolidation of foreign subsidiaries prior to 1 January 2005 have been translated at historical rates. Any goodwill, disclosed hidden reserves and liabilities arising from business combinations after 1 January 2005 are translated at the spot exchange mean rate. No foreign subsidiary in a foreign currency was included in the consolidated financial statement as of 31 December 2020.

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

f) Net interest income

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

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

Net interest income consists of:

- Interest and similar income from credit and money market transactions (including unwinding effect from risk provisions)
- Interest and similar income from fixed-income securities
- Interest and similar expenses for deposits
- Interest and similar expenses for debts evidenced by certificates and subordinated liabilities
- The interest component of derivatives reported in the investment book
- Interest expenses from leases
- Modifications of financial assets, if they are due to market-induced contract modifications

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

g) Risk provision

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

h) Net fee and commission income

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

i) Net trading income

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

j) Result from financial instruments and investment properties

The result from financial instruments and investment properties consists of:

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

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

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

k) Other operating result

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

l) General administrative expenses

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

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

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

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

m) Financial assets and liabilities

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

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

Financial liabilities

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

Derecognition and modification

Basically, a financial asset is derecognised on the date on which the contractual rights to its cash flows expire. The regulation for the derecognition of bad debts is described in note 3) n) Loans and receivables credit institutions and customers. A financial liability is derecognised once it has been redeemed, i.e. when the liabilities agreed in the contract have either been settled, cancelled or expired.

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

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

A contract amendment may either relate to creditworthiness (e.g. a borrower gets into financial difficulties) or be market-induced (e.g. competitive pressure). The distinction is relevant for accounting treatment:

- changes in the contract due to changes in creditworthiness must be recognised in the risk result
- market-induced contract changes are to be recorded in net interest income

A non-exhaustive catalogue helps account managers to classify the modifications into creditworthiness-related and market-induced modifications.

Offsetting

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

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

Measured at amortised cost

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

Measured at fair value through profit or loss

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

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

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

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

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

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

Derivative financial instruments

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

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

In case of cash flow hedges, the change in fair value of the derivative financial instruments is recognised immediately in the hedging reserve in OCI, taking into 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.

n) Loans and receivables to credit institutions and customers

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

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

o) Risk provision

Based on individual and collective evaluation risk provisions are effected for the special risk of banking business. Risk provisions for off-balance risks are reported under provisions.

Impairments

The impairment model pursuant to IFRS 9 is based on statistically calculated parameters, such as historical default and loss ratios. The methods and parameters used are validated regularly in order to approximate the estimated and actual defaults and losses. The process for determining the impairment is computer-aided, using an impairment tool specifically developed for the purpose. For further details please refer to note 3) m) Financial assets and liabilities and customers, n) Loans and receivables to credit institutions and 51) Risk report b) Credit risk.

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

Scope

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

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

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

General approach

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

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

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

A significant increase in credit risk is measured primarily on the basis of a rating deterioration. Additionally, default of performance of at least 30 days, classification as forborne or the customer's transfer to intensive supervision are interpreted as a significant increase in credit risk.

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

Options

- The option regarding the low credit risk exemption – that is the option available for low-risk instruments to start out from the assumption that the risk of default has not increased significantly since first-time recognition – is exercised. The relevant instruments include loans and receivables to customers and securities with a rating in the investment grade range. In case of securities with several external ratings, the second best rating is used. In this way, we can ensure that at least two rating agencies provide the issuer with an investment grade rating.
- The option to choose a simplified procedure for trade receivables and contractual assets pursuant to IFRS 15 with a significant financing component, as well as lease receivables was not exercised, as such receivables are of minor importance within the VBW Group.

Information regarding the calculation logic

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

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

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

For more detailed information about the impairment model, please refer to the Risk report note 51 b) Credit risk.

p) Assets and liabilities held for trading

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

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

q) Financial investments

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

Classification of securitised debt instruments

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

Measured at amortised cost

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

Measured at fair value through profit or loss

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

Measured at fair value through OCI

Financial investments are measured at fair value through OCI if the asset was allocated to the business model Hold to collect and sell and if the contractual features of the financial asset only provide for interest and redemption payments 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.

r) Investment property

All land and buildings, that meet the definition of investment property as set out in IAS 40 are reported at fair value. Annual measurement is essentially based on RICS standards (Royal Institution of Chartered Surveyors). Following IFRS 13, the RICS defines fair value as the estimated amount for which an investment property could be sold on the date of valuation by a willing seller to a willing buyer in an arm's-length transaction in normal business operations, wherein the parties had each acted knowledgeably, prudently and without coercion. These calculations are earnings calculations, most of which are prepared following the discounted cash flow method based on current rent lists and lease expiry profiles. They are subject to assumptions regarding market developments and interest rates. The returns used are defined by the appraiser and reflect the current market situation as well as the advantages and disadvantages of the specific property.

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

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

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

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

s) Participations and companies measured at equity

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

Companies on which a material influence is exerted are measured according to the equity method. All other participations are reported at fair value, except if their acquisition costs are less than euro 50 thousand and the equity share does not exceed a carrying amount of euro 100 thousand. As these participations are not listed at a stock exchange and no market prices are available on an active market, the participations are measured by means of valuation methods and input factors some of which are not observable. Valuations are effected according to the discounted cash flow method and the peer group approach. Various calculation models are applied. The income approach is used if the Association of Volksbanks controls the company or exercises any management function, and budgets are available accordingly. If the company is not controlled, the fair value calculation is performed on the basis of the dividend paid as well as the annual results of the last five years. In case of companies whose object does not permit any regular income or the result of which is controlled by the parent company through settlements, the net assets are used as valuation criterion. In case of participations in cooperatives, 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 2020 financial year, range between 7.0 - 9.8 % (2019: 6.3 - 9.0 %). The market risk premium used for the calculation is 8.6 % (2019: 7.9 %), the beta values used range between 0.8 - 1.2 (2019: 0.8 - 1.1). Additional country risks did not have to be considered. Discounts due to fungibility and exercise of control in the amount of 10 % in each case are effected for two participating interests.

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

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

t) Intangible and tangible assets

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

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

Rights of use

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

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

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

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

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

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

Office furniture and equipment	up to 10 years
EDP hardware (including calculators, etc.)	up to 5 years
EDP software	up to 4 years
Vehicles	up to 5 years
Customer relationship	up to 20 years
Strongrooms and safes	up to 20 years
Buildings, reconstructed building	up to 50 years
Rights of use	up to 41 years

u) Tax assets and liabilities

Both current and 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 a 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 are recognised for, among other things, unused tax loss carryforwards if it is probable that sufficient taxable profits will be available in the same company in the future or if there are sufficient taxable temporary differences. The assessment period for the recognition of deferred tax assets for unused tax loss carryforwards is four years. Deferred tax assets on loss carryforwards, other assets or liabilities whose realisability is not sufficiently assured are not recognised. Deferred taxes are not discounted.

v) Other assets

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

w) Assets and liabilities held for sale

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

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

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

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

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

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

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

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

In case of a discontinued operation, the result after taxes of the discontinued operation and the result after taxes recognised on the measurement to fair value less cost to sell or on the disposal of the assets or disposal groups constituting the discontinued operation are reported in the statement of comprehensive income. The previous year's income statement is to be adjusted accordingly.

x) Liabilities

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

Lease liability

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

- fixed lease payments, less lease incentives to be provided by the lessor
- variable payments linked to an index or interest rate
- expected residual value payments from residual value guarantees
- the exercise price of a purchase option, provided if the exercise of the option is estimated to be sufficiently certain

- any contractual penalties for terminating the lease, if the lease term takes into account, that a termination option is exercised

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

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

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

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

y) Employee benefits

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

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

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

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

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

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

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

Parameters for calculating employee benefit obligations

	2020	2019	2018	2017
Expected return on provisions for pensions	0.30 %	0.30 %	1.10 %	1.10 %
Expected return on provisions for severance payments	0.40 %	0.40 %	1.10 %	1.10 %
Expected return on anniversary pensions	0.40 %	0.40 %	1.10 %	1.10 %
Expected return on plan assets	0.30 %	0.30 %	1.10 %	1.10 %
Future salary increase	2.50 %	3.00 %	3.00 %	3.00 %
Future pension increase	1.70 %	2.00 %	2.00 %	2.00 %
Fluctuation rate	none	none	none	none

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

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

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

z) Provisions

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

Risk provisions comprise loan loss provisions for contingent liabilities (in particular financial guarantees). Other provisions contain provisions for legal disputes, interest claims from loans with floors and restructuring. The allocation and release of risk provisions are recorded under risk provisions in the income statement. Discounting is carried out for risk provisions.

aa) Other liabilities

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

bb) Subordinated liabilities

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

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

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

cc) Equity

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

Capital management is done on the basis of the supervisory capital. For further details see chapter ee) 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 "putable" – the holder may request redemption at any time, subject to a notice period. If, however, the redemption of shares is fully or partially prohibited, IFRIC 2 permits these shares to be classified as equity. Therefore, shares subject to this prohibition are recognised in subscribed capital. Shares that are redeemable at any time are reported as a separate item alongside equity, because these are included as tier I capital in eligible own funds and capital management takes place on the basis of regulatory capital.

dd) Reserves

The reserves item includes capital reserves, retained earnings and valuation reserves. In accordance with IAS 32, the transaction costs of an equity transaction are accounted 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, untaxed reserves and all other undistributed profits are reported in retained earnings.

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

ee) Own funds

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

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

Regulatory own funds can be broken down into three elements:

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

The first two components comprise the tier I capital.

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

Just like CET1 capital, AT1 capital is available for covering losses on an ongoing basis. Core requirement is the subordination, the sustainability of the capital provision and the full discretion of the issuer, whether distributions are made or not.

Additionally, it must be possible to convert the instruments into CET1 capital, or to write them off, at the latest when the CET1 capital ratio falls below the threshold of 5.125 % in proportion to the risk positions (at the latest).

T2 also includes non-current subordinated liabilities.

The minimum equity ratio (total of tier I and tier II) is 8.0 %. Minimum core capital requirements are 4.5 % for CET1 and 6.0 % for tier I. The Association complied with these relevant supervisory requirements throughout the entire reporting period and its own funds exceeded the minimum requirements.

Apart from the minimum capital requirements pursuant to Article 92 (1) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council, the combined capital buffer requirements as defined in Article 128 (6) of Directive 2013/36/EU, as well as the Pillar 2 capital demands and recommendations from the Supervisory Review and Evaluation Process (SREP) must be taken into account for the Association of Volksbanks. Further explanations regarding the above-mentioned capital and buffer requirements are contained in note 51) Risk report.

Please refer to note 36) Own funds for the presentation of the regulator equtiy capital.

ff) Trustee transaction

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

gg) Repurchase transactions

Under genuine repurchase agreements, the Association sells assets to a contractual partner and simultaneously undertakes to repurchase these assets at the agreed price on a predefined date. The assets remain in the consolidated balance sheet, as no 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.

hh) Contingent liabilities

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

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

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

ii) Cash flow statement

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

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

4) Net interest income

Euro thousand	2020	2019
Interest and similar income from	505,649	525,414
Liquid funds	3,958	0
Credit and money market transactions with credit institutions	3,824	4,308
Credit and money market transactions with customers	450,335	464,308
Fixed-income securities	38,618	43,413
Derivative instruments	8,915	13,385
Interest and similar expenses for	-92,556	-103,042
Liquid funds	-5,239	-5,552
Deposits from credit institutions (including central banks)	-3,184	-4,339
Deposits from customers	-10,724	-17,348
Debts evidenced by certificates	-16,309	-16,328
Subordinated liabilities	-15,202	-16,797
Derivative instruments	-27,539	-30,968
Lease liabilities	-3,300	-3,021
Valuation result - modification	-11,118	-8,806
Valuation result - derecognition	60	116
Net interest income	**413,094**	**422,371**

Net interest income according to IFRS 9 categories

Euro thousand	2020	2019
Interest and similar income from	505,649	525,414
Financial assets measured at amortised cost	488,688	497,384
Financial assets measured at fair value through OCI	1,590	5,757
Financial assets measured at fair value through profit or loss - obligatory	6,456	8,888
Derivative instruments	8,915	13,385
Interest and similar expenses for	-92,556	-103,042
Financial liabilities measured at amortised cost	-51,288	-60,270
Financial liabilities measured at fair value through OCI	0	0
Financial liabilities measured at fair value through profit or loss - designated	-2,671	-3,115
Derivative instruments	-27,539	-30,968
Valuation result - modification	-11,118	-8,806
Valuation result - derecognition	60	116
Net interest income	**413,094**	**422,371**

Due to the trend of money market interest rates towards negative reference rates, interest income of euro 4,852 thousand (2019: euro 2,357 thousand) and interest expenses of euro 7,239 thousand (2019: euro 7,293 thousand) were realised in the 2020 business year. Negative interest income is reported in interest expenses and negative interest expenses are reported in interest income, so that all results from negative interest rates are shown gross.

Interest and similar income from financial assets measured at amortised cost and measured at fair value through OCI in the amount of euro 486,320 thousand (2019: euro 503,141 thousand) is calculated by using the effective interest rate method.

5) Risk provision

Euro thousand	2020	2019
Changes in risk provision	-109,446	-23,081
Changes in provision for risks	-14,502	-693
Direct write-offs of loans and receivables	-8,873	-6,000
Income from loans and receivables previously written off	8,912	9,205
Valuation result modification/derecognition	-2,141	-1,482
Risk provision	**-126,049**	**-22,050**

6) Net fee and commission income

Euro thousand	2020	2019
Fee and commission income	263,109	257,681
Lending business	22,929	18,613
Securities and custody business	84,424	76,787
Payment transactions	113,210	118,612
Foreign exchange, foreign notes and coins and precious metals transactions	1,565	1,664
Financial guarantees	6,749	6,840
Other services	34,232	35,164
Fee and commission expenses	-23,971	-28,113
Lending business	-3,272	-5,551
Securities and custody business	-8,806	-9,202
Payment transactions	-11,011	-12,361
Foreign exchange, foreign notes and coins and precious metals transactions	0	-8
Financial guarantees	-475	-355
Other services	-407	-635
Net fee and commission income	**239,138**	**229,568**

Management fees for trust agreements were recognised in fee and commission income in the amount of euro 93 thousand (2019: euro 178 thousand).

7) Net trading income

Euro thousand	2020	2019
Equity related transactions	-12	25
Exchange rate related transactions	2,805	3,462
Interest rate related transactions	-3,263	-4,425
Net trading income	**-470**	**-937**

8) Result from financial instruments and investment properties

Euro thousand	2020	2019
Other result from financial instruments	**1,214**	**25,547**
Result from financial investments and other financial assets and liabilities measured at fair value through profit or loss	2,381	9,110
Valuation measured at fair value through profit or loss - obligatory	2,799	10,777
Loans and receivables credit institutions and customers	680	5,997
Securities	2,119	4,780
Result from other derivative instruments	-3,013	13,791
Valuation measured at fair value through profit or loss - designated	-872	-3,173
Debts evidenced by certificates	-872	-3,173
Income from equities and other variable-yield securities	454	1,506
Result from financial investments and other financial assets and liabilities measured at amortised cost	90	4,851
Realised gains from disposal	250	4,851
Realised losses from disposal	-159	0
Result from financial investments and other financial assets and liabilities measured at fair value through OCI	2,573	2,507
Realised gains from disposal	9	338
Realised losses from disposal	-9	-339
Income from participations	2,573	2,507
Result from fair value hedge	-818	-4,711
Valuation of underlying instruments	34,084	73,506
Valuation of derivatives	-34,901	-78,217
Result from investment properties	**4,683**	**3,882**
Rental income from investment property and operating lease	3,298	3,803
Valuation investment properties	1,385	79
Result from financial instruments and investment properties	**5,897**	**29,430**

9) Other operating result

Euro thousand	2020	2019
Other operating income	53,842	24,036
Other operating expenses	-10,309	-8,277
Deconsolidation result from consolidated affiliates	-1,344	43,990
Taxes and levies on banking business	-4,855	-4,580
Other operating result	**37,334**	**55,169**

Other taxes include the bank levy in the amount of euro -3,391 thousand (2019: euro -2,982 thousand).

Detailed description of other operating income and other operating expenses

Euro thousand	2020	2019
Income from allocation of costs	5,353	6,300
Realised gains from disposal of fixed assets and security properties	34,638	8,448
Rental and lease income	2,935	3,376
Others	10,916	5,912
Other operating income	**53,842**	**24,036**

Euro thousand	2020	2019
Allocation of costs	-6,499	-2,619
Realised losses from disposal of fixed assets and security properties	-1,499	-3,021
Allocation/release of provision for negative interest	6,528	3,508
Allocation/release of provision for legal risks	-1,504	-44
Expenses for buildings	-1,797	-1,247
Valuation of assets held for sale	-241	-167
Others	-5,297	-4,685
Other operating income	**-10,309**	**-8,277**

10) General administrative expenses

Euro thousand	2020	2019
Staff expenses	-297,666	-311,449
Wages and salaries	-224,311	-233,647
Expenses for statutory social security	-59,104	-61,460
Fringe benefits	-3,680	-3,269
Expenses for retirement benefits	-8,209	-7,308
Allocation to provision for severance payments and pension funds	-2,362	-5,764
Administrative expenses	-181,826	-190,832
Office space expenses	-16,040	-19,801
Office supplies and communication expenses	-5,447	-6,848
Advertising, PR and promotional expenses	-13,280	-16,595
Legal, advisory and consulting expenses	-22,979	-30,878
IT expenses	-79,608	-75,320
Contribution to the deposit guarantee	-23,746	-13,431
Single Resolution Fund	-6,866	-5,776
Other administrative expenses (including training expenses)	-13,859	-22,183
Depreciation and reversal of impairment	-32,334	-31,908
Depreciation	-22,743	-22,601
Impairment/reversal of impairment	-1,066	-1,863
Right of use - lease depreciation	-8,520	-7,360
Right of use - lease impairment	-4	-83
General administrative expenses	**-511,826**	**-534,188**

Staff expenses include payments for defined contribution plans totalling euro 6,664 thousand (2019: euro 6,960 thousand).

Other administrative expenses include expenses for managing contracts for investment properties to the amount of euro 161 thousand (2019: euro 377 thousand).

Expenses for short-term leases in the amount of euro 97 thousand (2019: euro 706 thousand) and for low-value assets in the amount of euro 1,521 thousand (2019: euro 1,128 thousand) are included in the administrative expenses.

For the business year, expenses for the auditor KPMG Austria GmbH Wirtschaftsprüfung und Steuerberatungsgesellschaft amounted to euro 1,726 thousand. Thereof euro 1,081 thousand fall upon the audit of the consolidated financial statements including financial statements of fully consolidated companies and joint ventures, euro 600 thousand upon other advisory services and euro 45 thousand upon other audit services. The auditor does not provide any tax advice.

Information on compensation to board members

Euro thousand	2020	2019
Total compensation		
Supervisory board VBW	296	474
Managing board VBW	1,686	1,578
Member of the managing board / Managing directors Volksbanks	5,069	5,167
Expenses for severance payments and pension		
Supervisory board VBW	0	16
Managing board VBW	263	497
Member of the managing board / Managing directors Volksbanks	602	370

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

Number of staff employed during the business year

	Average number of staff		Number of staff at end of period	
	2020	2019	31 Dec 2020	31 Dec 2019
Domestic	3,362	3,598	3,268	3,496
Abroad	0	6	0	0
Total number of staff	**3,362**	**3,604**	**3,268**	**3,496**

	Average number of staff		Number of staff at end of period	
	2020	2019	31 Dec 2020	31 Dec 2019
Employees	3,352	3,570	3,252	3,476
Workers	10	34	16	20
Total number of staff	**3,362**	**3,604**	**3,268**	**3,496**

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

11) Income taxes

Euro thousand	31 Dec 2020	31 Dec 2019
Current income taxes	-26,966	-23,722
Deferred income taxes	-5,123	-3,784
Income taxes for the current fiscal year	**-32,089**	**-27,506**
Income taxes from previous periods continued operation	-4,688	-3,524
Income taxes from previous periods	-4,688	-3,524
Income taxes	**-36,777**	**-31,030**

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

Euro thousand	31 Dec 2020	31 Dec 2019
Annual result before taxes - continued operation	56,791	179,482
Annual result before taxes - total	**56,791**	**179,482**
Imputed income tax 25 %	14,198	44,870
Tax relief resulting from		
Tax-exempt investment income	-443	-11,088
Investment allowances	3	-1
Other tax-exempt earnings	-356	-2,830
Dividend distribution on AT1 capital	-4,263	-2,131
Measurement of participation	-971	-18,631
Non-inclusion of deferred tax assets	24,670	6,511
Different foreign tax rates	0	-158
Other differences	-749	10,963
Income taxes for the current fiscal year	**32,089**	**27,506**
Income taxes from previous periods	4,688	3,524
Reported income taxes	**36,777**	**31,030**
Effective tax rate - continued operations	**65**	17

The effective tax rates differ from the statutory tax rate applicable in Austria, in particular due to deferred tax assets not being offset against tax loss carry-forwards.

The following effects from deferred taxes can be found in other comprehensive income

Euro thousand	31 Dec 2020 Result before tax	Income taxes	Result after tax	31 Dec 2019 Result before tax	Income taxes	Result after tax
Valuation of obligation of defined benefit plans	21,273	-5,318	15,955	-13,898	3,475	-10,424
Revaluation reserve	0	0	0	1,270	-317	952
Fair value reserve - equity instruments	-2,631	658	-1,973	22,741	-5,685	17,056
Valuation of own credit risk	-142	35	-106	-563	141	-422
Currency reserve	0	0	0	-12,498	0	-12,498
Fair value reserve - debt instruments	354	-89	266	-657	164	-493
Change in deferred taxes of untaxed reserve	0	4	4	0	0	0
Change from companies measured at equity	-1,382	346	-1,037	4,810	-1,203	3,608
Other comprehensive income total	**17,473**	**-4,364**	**13,109**	**1,205**	**-3,426**	**-2,221**

Notes to the consolidated statement of financial positions

12) Liquid funds

Euro thousand	31 Dec 2020	31 Dec 2019
Cash in hand	193,366	206,986
Balances with central banks	3,750,394	1,864,726
Liquid funds	**3,943,760**	**2,071,712**

VBW participated in the June 2020 tranche of the TLTRO III programme with euro 1.5 billion on behalf of the association of credit institutions. On the one hand, the funds raised served as a substitute for a planned covered bond issue in the first quarter of 2021 and, on the other hand, enabled an improvement in the liquidity structure within the Association. Participation has significantly increased the liquidity coverage ratio (194 % as at 31 December 2020 compared to 142 % as at 31 December 2019).

The actual cost of this refinancing depends on a threshold being reached for a loan portfolio defined by the ECB. To qualify for the special interest rate of 50 bp below the average interest rate on the deposit facility for the period from 24 June 2020 to 23 June 2022, the outstanding balance of the defined loan portfolio as at 29 February 2020 and 31 October 2020 respectively, must be exceeded as at 31 March 2021 and 31 December 2021, respectively. As at 31 December 2020, the outstanding balance of the defined loan portfolio in the association of credit institutions was above these thresholds.

Transition from liquid funds to cash and cash equivalents

Euro thousand	31 Dec 2020	31 Dec 2019
Liquid funds	3,943,760	2,071,712
Restricted cash and cash equivalents	-20,328	-20,328
Cash and cash equivalents	**3,923,432**	**2,051,384**

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

13) Loans and receivables credit institutions and customers

Euro thousand	31 Dec 2020	31 Dec 2019
Loans and receivables credit institutions		
Amortised cost	437,725	430,387
Fair value through OCI	0	0
Fair value through profit or loss	419	770
Gross carrying amount	438,144	431,157
Risk provision	-38	-48
Net carrying amount	**438,106**	**431,109**
Loans and receivables customers		
Amortised cost	21,254,202	21,060,083
Fair value through OCI	0	0
Fair value through profit or loss	397,077	476,748
Gross carrying amount	21,651,279	21,536,832
Risk provision	-363,957	-286,185
Net carrying amount	**21,287,322**	**21,250,646**
Loans and receivables credit institutions and customers	**21,725,429**	**21,681,755**

Breakdown by residual term

Euro thousand	31 Dec 2020	31 Dec 2019
On demand	31,975	31,831
Up to 3 months	364,004	349,967
Up to 1 year	50	432
Up to 5 years	2,758	7,376
More than 5 years	39,357	41,552
Loans and receivables credit institutions (gross)	**438,144**	**431,157**

Euro thousand	31 Dec 2020	31 Dec 2019
On demand	674,576	782,963
Up to 3 months	585,437	612,652
Up to 1 year	1,535,884	1,736,405
Up to 5 years	5,314,638	5,273,596
More than 5 years	13,540,744	13,131,216
Loans and receivables customers (gross)	**21,651,279**	**21,536,832**

Finance lease disclosures

Euro thousand	Until 1 year	Until 5 years	More than 5 years	Total
2020				
Total gross investment	27,052	168,204	24,019	219,276
Less paid non-interest-bearing deposits	-2,476	-11,864	-183	-14,524
Less unearned financial income	-1,136	-4,222	-403	-5,761
Present value of minimum lease payments	**23,440**	**152,118**	**23,433**	**198,991**
Total unguaranteed residual value				**7,382**
2019				
Total gross investment	30,306	179,072	19,750	229,128
Less paid non-interest-bearing deposits	-3,681	-21,509	-3,707	-28,896
Less unearned financial income	-1,236	-6,974	-837	-9,047
Present value of minimum lease payments	**25,389**	**150,589**	**15,206**	**191,184**
Total unguaranteed residual value				**9,623**

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

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

Sensivity analysis

Loans and receivables credit institutions and customers measured at fair value

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

Loans and receivables credit institutions
31 Dec 2020

Euro thousand	Positive change in fair value	Negative change in fair value
Change in risk markup +/- 10 bp	1	-1
Change in risk markup +/- 100 bp	9	-8
Change in rating 1 stage down / up	0	0
Change in rating 2 stages down / up	0	-1

Loans and receivables credit institutions
31 Dec 2019

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

Loans and receivables customers
31 Dec 2020

Euro thousand	Positive change in fair value	Negative change in fair value
Change in risk markup +/- 10 bp	2,064	-2,065
Change in risk markup +/- 100 bp	22,120	-20,022
Change in rating 1 stage down / up	215	-340
Change in rating 2 stages down / up	355	-857

Loans and receivables customers
31 Dec 2019

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

14) Risk provision

Risk provision – loans and receivables credit institutions

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 01 Jan 2019	69	1	0	69
Increases due to origination and acquisition	2	0	0	2
Decreases due to derecognition	-23	0	0	-23
Changes due to change in credit risk	0	2	0	1
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	-1	0	-1
As at 31 Dec 2019	47	1	0	48
Increases due to origination and acquisition	2	0	0	2
Decreases due to derecognition	-3	-1	0	-4
Changes due to change in credit risk	-7	-1	0	-8
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	-1	0	0	-1
As at 31 Dec 2020	**38**	**0**	**0**	**38**

Risk provision – loans and receivables customers

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 01 Jan 2019	21,075	34,663	236,902	292,640
Increases due to origination and acquisition	7,474	1,848	7,197	16,519
Decreases due to derecognition	-3,555	-7,944	-17,004	-28,503
Changes due to change in credit risk	-96,017	64,607	68,827	37,417
Thereof transfer to stage 1	13,190	-12,421	-769	0
Thereof transfer to stage 2	-28,591	33,523	-4,932	0
Thereof transfer to stage 3	-37,644	-16,493	54,137	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	0	0	0	0
Decrease in allowance account due to write-offs	0	0	-32,357	-32,357
Other adjustments	91,711	-45,172	-46,070	469
As at 31 Dec 2019	20,687	48,002	217,495	286,185
Increases due to origination and acquisition	4,045	1,710	3,046	8,801
Decreases due to derecognition	-1,132	-3,018	-6,879	-11,029
Changes due to change in credit risk	5,183	26,420	-824	30,779
Thereof transfer to stage 1	11,192	-6,428	-4,764	0
Thereof transfer to stage 2	-8,442	9,063	-621	0
Thereof transfer to stage 3	-110	-3,747	3,857	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	52,417	29,971	0	82,388
Decrease in allowance account due to write-offs	0	0	-33,200	-33,200
Other adjustments	-2,310	-5,986	8,329	33
As at 31 Dec 2020	**78,890**	**97,099**	**187,968**	**363,957**

Risk provision – financial investments measured at cost

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 01 Jan 2019	474	0	0	474
Increases due to origination and acquisition	32	0	0	32
Decreases due to derecognition	-2	0	0	-2
Changes due to change in credit risk	-53	0	0	-53
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	0	0	0
As at 31 Dec 2019	451	0	0	451
Increases due to origination and acquisition	23	0	0	23
Decreases due to derecognition	-6	0	0	-6
Changes due to change in credit risk	322	0	0	322
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	0	0	0
As at 31 Dec 2020	**791**	**0**	**0**	**791**

Risk provision – financial investments measured at fair value through OCI

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 01 Jan 2019	30	0	0	30
Increases due to origination and acquisition	2	0	0	2
Decreases due to derecognition	-2	0	0	-2
Changes due to change in credit risk	-20	0	0	-20
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	0	0	0
As at 31 Dec 2019	9	0	0	9
Increases due to origination and acquisition	0	0	0	0
Decreases due to derecognition	-3	0	0	-3
Changes due to change in credit risk	2	0	0	2
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	0	0	0
As at 31 Dec 2020	**8**	**0**	**0**	**8**

15) Assets held for trading

Euro thousand	31 Dec 2020	31 Dec 2019
Fixed-income securities	1,697	663
Positive fair values of derivative instruments	54,273	55,381
Exchange rate related transactions	28	28
Interest rate related transactions	54,245	55,353
Assets held for trading	**55,970**	**56,044**

Breakdown by residual term

Euro thousand	31 Dec 2020	31 Dec 2019
Up to 3 months	7	0
Up to 1 year	0	45
Up to 5 years	868	607
More than 5 years	823	11
Fixed-income securities	**1,697**	**663**

VBW as the CO maintains a trading book. The volume of the trading book as at 31 December 2020 amounts to euro 1,677,450 thousand (2019: euro 3,048,018 thousand).

16) Financial investments

Euro thousand	31 Dec 2020	31 Dec 2019
Financial investments		
Amortised cost	2,455,531	2,299,832
Fair value through OCI	72,107	168,880
Fair value through profit or loss	108,981	110,714
Gross carrying amount	2,636,620	2,579,427
Risk provision	-791	-451
Net carrying amount	**2,635,829**	**2,578,976**

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

Financial investments measured at fair value through profit or loss include equity instruments in the amount of euro 103.961 thousand (2019: euro 102.573 thousand).

Breakdown by residual term

Euro thousand	31 Dec 2020	31 Dec 2019
Up to 3 months	20,281	48,225
Up to 1 year	68,721	143,821
Up to 5 years	1,021,357	907,316
More than 5 years	1,422,300	1,377,493
Fixed-income securities	**2,532,659**	**2,476,854**

Breakdown of debt securities in accordance with the Austrian Banking Act

Euro thousand	31 Dec 2020	31 Dec 2019
Listed securities	2,142,111	2,132,640
Fixed-income securities	2,142,111	2,132,131
Equity and other variable-yield securities	0	509
Securities allocated to fixed assets	2,264,346	2,188,218
Securities eligible for rediscounting	2,085,643	2,075,572

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

17) Investment property

Euro thousand	Investment properties
Costs as at 01 Jan 2019	48,247
Reclassification	1,483
Additions	117
Disposals	-3,142
Assets held for sale	0
Costs as at 31 Dec 2019	46,706
Reclassification	913
Additions	55
Disposals	-4,931
Assets held for sale	-5,121
Costs as at 31 Dec 2020	**37,621**

Euro thousand	Investment properties
Cumulative valuation 01 Jan 2019	-1,150
Reclassification	497
Disposals	1,402
Assets held for sale	0
Valuation losses	-1,063
Valuation gains	1,142
Cumulative valuation 31 Dec 2019	828
Reclassification	-228
Disposals	594
Assets held for sale	777
Valuation losses	-863
Valuation gains	2,248
Cumulative valuation 31 Dec 2020	**3,356**

Euro thousand	Investment properties
Carrying amount 01 Jan 2019	47,097
Carrying amount 31 Dec 2019	47,533
Carrying amount 31 Dec 2020	40,977

Valuations shown in the table above are included within result from financial instruments and investment properties. These valuations include investment properties to the amount of euro 1,048 thousand (2019: euro -134 thousand) still held at the reporting date.

In 2020, investment properties with a carrying amount of euro 4,337 thousand (2019: euro 1,740 thousand) were disposed of.

Investment properties contain 31 completed properties (2019: 42) with a carrying amount of euro 27,395 thousand (2019: euro 33,387 thousand), as well as undeveloped land with a carrying amount of euro 13,582 thousand (2019: euro 14,146 thousand). These properties are located in Austria. In 2020 business year as well as 2019, there was no property under construction. At reporting date, all investment properties are measured at fair value.

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

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

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

Completed properties

	2020			2019		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	28	4,460	981	13	4,450	795
Rentable space in sqm	38	5,060	1,537	17	5,060	1,374
Occupancy rate	34.58 %	100.00 %	89.23 %	0.00 %	100.00 %	86.32 %
Discount rate	2.00 %	7.00 %	4.94 %	2.00 %	7.00 %	4.99 %

Sensitivity analysis

Euro thousand	Changes in the carrying amount	
31 Dec 2020	if assumption is increased	if assumption is decreased
Discount rate (0.25 % change)	-1,513	1,675
Discount rate (0.50 % change)	-2,887	3,538
31 Dec 2019		
Discount rate (0.25 % change)	-1,594	1,762
Discount rate (0.50 % change)	-3,043	3,721

Undeveloped land

	2020			2019		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	26	2,850	995	25	2,850	1,010
Plot size in sqm	540	48,263	14,136	540	48,263	14,174
Value per sqm	5	718	175	5	718	176

Sensitivity analysis

Euro thousand	Changes in the carrying amount	
31 Dec 2020	if assumption is increased	if assumption is decreased
Land value (10 % change)	1,393	-1,393
Land value (5 % change)	696	-696
31 Dec 2019		
Land value (10 % change)	1,415	-1,415
Land value (5 % change)	707	-707

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

18) Companies measured at equity

Euro thousand	Associates
Carrying amount as at 01 Jan 2019	88,499
Additions	8
Comprehensive income proportional	3,097
Reversal of impairment	630
Carrying amount as at 31 Dec 2019	92,234
Additions	0
Comprehensive income proportional	-1,503
Reversal of impairment	139
Carrying amount as at 31 Dec 2020	**90,870**

Associates

The Association holds 44.8 % (2019: 44.7 %) of the shares in VB Wien Beteiligungs eG. The company is located in Vienna and holds participations in companies within the financial sector. The equity interest rate decreased mainly due to the deconsolidation of VB Horn.

In addition, the Association holds 77.7 % (2019: 77.7 %) of shares in Verbund Beteiligung eG (VBW Bet). The company is located in Vienna and holds participations in companies within the financial sector.

None of these companies is listed on the stock exchange.

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

Additional information regarding associates

Euro thousand	2020	2019
Assets		
Loans and receivables credit institutions	38,146	36,786
Other assets	110,728	114,584
Total assets	**148,874**	**151,371**
of which current assets	128,874	131,371
Liabilities and Equity		
Amounts owed to credit institutions	7,157	7,193
Other liabilities	2,338	2,536
Equity	139,379	141,641
Total liabilities and equity	**148,874**	**151,371**
of which current liabilities	2,338	2,536
Statement of comprehensive income		
Interest and similar income	337	272
Interest and similar expense	-269	-455
Net interest income	68	-183
Result before taxes	-784	-588
Income taxes	-16	-333
Result after taxes	-800	-921
Other comprehensive income	-1,374	4,216
Comprehensive income	**-2,175**	**3,295**

Reconciliation

Euro thousand	2020	2019
Equity	139,379	141,641
Equity interest	n.a.	n.a.
Equity proportional	96,228	97,731
Cumulative impairment and reversals	-5,670	-5,809
Not recognised proportional loss	0	0
Valuation previous years	312	312
Transfer carrying amount	0	0
Carrying amount as at 31 Dec 2020	90,870	92,234

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

19) Participations

Euro thousand	31 Dec 2020	31 Dec 2019
Investments in unconsolidated affiliates	15,708	15,145
Investments in companies with participating interest	6,806	6,799
Investments in other companies	105,625	108,534
Participations	**128,139**	**130,479**

A list of unconsolidated affiliates can be found in note 55). Participations with a carrying amount of euro 222 thousand (2019: euro 2,345 thousand) were disposed of during the business year.

The most significant participation in Other participations is Volksbanken Holding eGen with a carrying amount of euro 83,837 thousand (2019: euro 83,837 thousand), Oesterreichische Kontrollbank Aktiengesellschaft with a carrying amount of euro 4,051 thousand (2019: euro 4,129 thousand) and PSA Payment Services Austria GmbH with a carrying amount of euro 3,298 thousand (2019: euro 5,884 thousand). The dividends of the participations are included in the income statement in the item Result from financial instruments and investment properties.

All participations are valued at fair value through OCI.

Sensitivity analysis

Participations valued by DCF method

Euro thousand		**Interest rate**		
31 Dec 2020		**-0.50 %**	**Actual**	**0.50 %**
	-10.00 %	15,164	14,399	13,717
Income component	**Actual**	16,654	**15,548**	15,046
	10.00 %	18,144	17,208	16,375
31 Dec 2019				
	-10.00 %	18,633	17,602	16,738
Income component	**Actual**	20,514	**19,356**	18,332
	10.00 %	22,394	21,119	19,995

Participations valued by net assets

	Proportional market value		
Euro thousand	**If assumption**		**If assumption**
31 Dec 2020	**is decreased**	**Actual**	**is increased**
Net assets (10 % change)	15,656	**17,199**	19,135
31 Dec 2019			
Net assets (10 % change)	13,407	**14,897**	16,386

Participations valued by external appraisals

Euro thousand	**Proportional market value**		
31 Dec 2020	**Lower band**	**Actual**	**Upper band**
Proportional market value	79,203	**88,114**	97,021
31 Dec 2019			
Proportional market value	79,699	**88,544**	97,390

20) Intangible assets

Euro thousand	Software	Goodwill	Others	Total
Costs as at 01 Jan 2019	40,319	866	650	41,835
Change in the scope of consolidation	-44	0	0	-44
Currency translation	44	0	0	44
Reclassification	0	0	0	0
Additions	3,262	0	0	3,262
Disposals	-2,643	0	-77	-2,720
Costs as at 31 Dec 2019	40,938	866	573	42,377
Change in the scope of consolidation	0	0	0	0
Currency translation	0	0	0	0
Reclassification	18	0	-18	0
Additions	156	0	0	156
Disposals	-22,571	0	0	-22,571
Costs as at 31 Dec 2020	**18,542**	**866**	**555**	**19,962**

Euro thousand	Software	Goodwill	Others	Total
Cumulative valuation 01 Jan 2019	-39,666	-866	-305	-40,837
Change in the scope of consolidation	54	0	0	54
Currency translation	-37	0	0	-37
Reclassification	0	0	0	0
Disposals	2,642	0	72	2,714
Depreciation	-877	0	-17	-894
Cumulative valuation 31 Dec 2019	-37,885	-866	-249	-38,999
Change in the scope of consolidation	0	0	0	0
Currency translation	0	0	0	0
Reclassification	-7	0	7	0
Disposals	22,565	0	0	22,565
Depreciation	-921	0	-17	-937
Cumulative valuation 31 Dec 2020	**-16,247**	**-866**	**-259**	**-17,371**

Euro thousand	Software	Goodwill	Others	Total
Carrying amount 01 Jan 2019	653	0	345	998
Carrying amount 31 Dec 2019	3,054	0	324	3,377
Thereof with unlimited useful life		0		0
Thereof with limited useful life	3,054	0	324	3,377
Carrying amount 31 Dec 2020	2,295	0	296	2,591
Thereof with unlimited useful life		0		0
Thereof with limited useful life	2,295	0	296	2,591

21) Tangible assets

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Costs as at 01 Jan 2019	549,833	30,782	184,201	4,340	769,156
Change in the scope of consolidation	-362	-50	-82	-22	-516
Currency translation	360	49	75	14	497
Reclassification	-1,181	-11	-664	373	-1,483
Additions	8,171	2,856	10,621	1,178	22,825
Disposals	-38,335	-9,329	-13,633	-750	-62,047
Assets held for sale	-13,867	0	-231	0	-14,098
Costs as at 31 Dec 2019	504,619	24,296	180,286	5,133	714,334
Change in the scope of consolidation	0	0	0	0	0
Currency translation	0	0	0	0	0
Reclassification	848	-7,035	5,197	78	-913
Additions	4,575	395	9,479	421	14,870
Disposals	-29,029	-2,335	-14,056	-1,120	-46,540
Assets held for sale	-6,439	0	0	0	-6,439
Costs as at 31 Dec 2020	**474,573**	**15,321**	**180,905**	**4,512**	**675,312**

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Cumulative valuation 01 Jan 2019	-255,421	-28,447	-155,263	-2,779	-441,911
Change in the scope of consolidation	142	61	78	19	300
Currency translation	-125	-36	-69	-12	-241
Reclassification	773	0	181	-181	773
Disposals	22,101	9,318	12,791	643	44,853
Assets held for sale	7,215	0	0	0	7,215
Depreciation	-12,426	-1,496	-7,020	-765	-21,707
Impairment	-1,837	0	-27	0	-1,863
Reversal of impairment	0	0	0	0	0
Cumulative valuation 31 Dec 2019	-239,577	-20,599	-149,329	-3,076	-412,581
Change in the scope of consolidation	0	0	0	0	0
Currency translation	0	0	0	0	0
Reclassification	-1,002	5,102	-3,432	-76	592
Disposals	19,407	2,325	13,298	863	35,892
Assets held for sale	2,912	0	0	0	2,912
Depreciation	-11,724	-865	-8,537	-680	-21,806
Impairment	-1,088	0	0	0	-1,088
Reversal of impairment	22	0	0	0	22
Cumulative valuation 31 Dec 2020	**-231,051**	**-14,036**	**-147,999**	**-2,969**	**-396,056**

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Carrying amount 01 Jan 2019	294,412	2,335	28,938	1,561	327,245
Carrying amount 31 Dec 2019	265,041	3,697	30,957	2,058	301,753
Carrying amount 31 Dec 2020	243,522	1,284	32,906	1,543	279,256

Right of use

Euro thousand	Vehicles	Branches	Administration buildings	Total
31 Dec 2019				
Amortised cost	78	153,655	33,821	187,554
Additions	0	12,193	33,821	46,014
Depreciation	-36	-7,094	-313	-7,443
Carrying amount	**42**	**146,560**	**33,508**	**180,111**
31 Dec 2020				
Amortised cost	77	149,054	31,207	180,337
Additions	0	16,164	0	16,164
Depreciation	-30	-6,628	-1,866	-8,525
Carrying amount	**10**	**135,332**	**29,028**	**164,369**

At the Association of Volksbanks buildings were sold, and the branches located therein were subsequently leased back again. This transction leads to an insignificant impact on the result and to a cash inflow in the amount of euro 7,883 thousand (2019: euro 13,315 thousand).

22) Tax assets and liabilities

	31 Dec 2020		31 Dec 2019	
Euro thousand	**Tax assets**	**Tax liabilities**	**Tax assets**	**Tax liabilities**
Current tax	7,265	21,899	10,239	17,486
Deferred tax	109,284	3,526	119,779	3,843
Tax total	**116,549**	**25,425**	**130,018**	**21,329**

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

Euro thousand	31 Dec 2020		31 Dec 2019		Net deviation 2020		
	Tax assets	**Tax liabilities**	**Tax assets**	**Tax liabilities**	**Total**	**In income statement**	**In other comprehen-sive income**
Loans and receivables credit institutions	509	134	13	149	512	512	0
Loans and receivables customers	64,718	37,472	38,052	36,365	25,558	25,558	0
Assets held for trading	4	0	33	0	-29	-29	0
Financial investments	1,089	91,742	938	80,404	-11,187	-11,099	-89
Investment property	0	4,001	510	4,294	-217	-217	0
Participations	7,565	5,084	9,294	5,695	-1,118	-1,775	658
Intangible and tangible assets	44,667	43,298	43,294	47,705	5,780	5,780	0
Amounts owed to customers	24	2,630	32	0	-2,638	-2,638	0
Debts evidenced by certificates and subordinated liabilities	27,088	235	20,332	198	6,720	6,684	35
Lease liabilities	42,472	0	45,825	0	-3,353	-3,353	0
Provisions for pensions, severance payments and other provisions	32,098	4,991	37,353	10,237	-10	5,309	-5,318
Other assets and liabilities	109,315	36,448	92,419	28,531	8,979	8,979	0
Other balance sheet items	0	219	0	223	4	0	4
Tax loss carryforwards	2,462	0	41,642	0	-39,180	-39,180	0
Deferred taxes before netting	**332,012**	**226,254**	**329,737**	**213,800**	**-10,178**	**-5,469**	**-4,710**
Offset between deferred tax assets and deferred tax liabilities	-222,728	-222,728	-209,958	-209,958	0	0	0
Reported deferred taxes	**109,284**	**3,526**	**119,779**	**3,843**	**-10,178**	**-5,469**	**-4,710**

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

Deferred tax assets were recognised to the extent they can likely by realised within a reasonable period. A period of 4 years, in line with the Group's tax planning, was used as a basis for the examination of the utilisation of tax loss carry-forwards. The realisation of other deferred tax assets is based on long-term planning with an appropriate planning period.

For tax loss carryforwards in the amount of euro 344,757 thousand (2019: euro 253,791 thousand) no deferred taxes were recognised. Of these taxable loss carryforwards euro 344,757 thousand (2019: euro 253,791 thousand) can be carried forward without restriction and are mainly attributable to VBW. In 2020 deferred tax assets for tax loss carryforwards (tax base) in the amount of euro 98,679 thousand (2019: euro 19,717 thousand) were not recognised.

In accordance with IAS 12.39 deferred tax liabilities for temporary differences regarding participations in subsidiaries in the amount of euro 60,402 thousand (2019: euro 69,849 thousand) as well as deferred tax assets in the amount of euro 18,238 thousand (2019: euro 17,449 thousand) were not recognised as a reversal is not expected soon.

23) Other assets

Euro thousand	31 Dec 2020	31 Dec 2019
Deferred items	3,391	3,314
Other receivables and assets	59,287	77,308
Positive fair values of derivative instruments	115,803	87,505
Other assets	**178,481**	**168,127**

Other receivables and assets essentially consist auxiliary accounts of the banking business and other allocations amounting to euro 25,678 thousand (2019: euro 33,474 thousand), deferrals of euro 10,516 thousand (2019: euro 20,249 thousand), receivables against employees in the amount of euro 5,017 thousand (2019: euro 4,396 thousand) and receivables from property sales in the amount of euro 3,345 thousand (2019: euro 266 thousand).

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

Euro thousand	31 Dec 2020 Fair value hedge	31 Dec 2019 Fair value hedge
Interest rate related transactions	68,864	48,214
Positive fair values of derivative instruments	**68,864**	**48,214**

24) Assets held for sale

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

Euro thousand	31 Dec 2020	31 Dec 2019
Loans and receivables credit institutions	21	0
Investment property	4,344	0
Tangible assets	3,361	53,554
Other assets	318	0
Assets held for sale	**8,044**	**53,554**

As at 31 December 2019, the carrying amount of the former head office in 1090 Vienna, Kolingasse, is reported in assets available for sale. The property was sold by 3V-Immobilien Errichtungs-GmbH, a subsidiary of VOLKSBANK WIEN AG, to the Kolingasse 14-16 Liegenschaftsverwaltung GmbH. The sale becoming effective in January 2020, the result derived from it is now reported in the other operating result.

25) Amounts owed to credit institutions

Euro thousand	31 Dec 2020	31 Dec 2019
Central banks	1,588,920	83,437
Other credit institutions	294,953	328,753
Amounts owed to credit institutions	**1,883,873**	**412,189**

Amounts owed to credit institutions are measured at amortised cost.

The change in liabilities to central banks in the amount of euro 1.5 billion results from participation in the TLTRO III programme.

Breakdown by residual term

Euro thousand	31 Dec 2020	31 Dec 2019
On demand	183,357	198,746
Up to 3 months	53,674	48,094
Up to 1 year	1,515,233	66,653
Up to 5 years	16,060	26,797
More than 5 years	115,550	71,900
Amounts owed to credit institutions	**1,883,873**	**412,189**

26) Amounts owed to customers

Euro thousand	31 Dec 2020	31 Dec 2019
Savings deposits	7,618,074	8,201,339
Other deposits	14,535,380	13,527,750
Amounts owed to customers	**22,153,454**	**21,729,089**

Amounts owed to customers are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2020	31 Dec 2019
On demand	19,527,686	17,504,625
Up to 3 months	676,674	874,300
Up to 1 year	1,246,716	1,896,987
Up to 5 years	600,559	1,208,510
More than 5 years	101,820	244,668
Amounts owed to customers	**22,153,454**	**21,729,089**

27) Debts evidenced by certificates

Euro thousand	31 Dec 2020	31 Dec 2019
Bonds	1,442,836	1,432,724
Amortised cost	1,352,961	1,322,415
Fair value through profit or loss - designated	89,875	110,308
Medium-term notes	11,758	27,122
Others	15,330	22,072
Debts evidenced by certificates	**1,469,924**	**1,481,917**

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

For the purpose of optimizing the portfolio of ECB-eligible collaterals, VBW as CO of the Association of Volksbanks issued an 8-year covered bond with variable interest rate (interest rate period equal to 3-month Euribor) and a Moody's rating of Aaa in March. The volume amounted to euro 250 million and was meant, among others, to replace 2 issues retained at the same time, with a total volume of euro 120 million.

Breakdown by residual term

Euro thousand	31 Dec 2020	31 Dec 2019
On demand	0	0
Up to 3 months	13,650	7,282
Up to 1 year	26,000	21,875
Up to 5 years	310,028	302,576
More than 5 years	1,120,247	1,150,185
Debts evidenced by certificates	**1,469,924**	**1,481,917**

28) Lease liabilities

Euro thousand	31 Dec 2020	31 Dec 2019
Up to 3 months	1,969	1,346
Up to 1 year	5,576	5,359
Up to 5 years	32,590	34,008
More than 5 years	129,754	142,586
Lease liabilities	**169,889**	**183,300**

Cash inflow and cash outflow of the lease liabilities

EUR Tsd	Lease liabilities
As at 1.1.2019	**153,355**
Cash inflow	0
Cash outflow	-5,698
Non-cash changes	
Changes in the scope of consolidation	0
Others	35,643
Total non-cash changes	35,643
As at 31.12.2019	**183,300**
Cash inflow	0
Cash outflow	-6,693
Non-cash changes	
Changes in the scope of consolidation	0
Others	-6,718
Total non-cash changes	-6,718
As at 31.12.2020	**169,889**

29) Liabilities held for trading

Euro thousand	31 Dec 2020	31 Dec 2019
Negative fair values of derivative instruments		
Exchange rate related transactions	1	4
Interest rate related transactions	61,517	76,865
Liabilities held for trading	**61,518**	**76,868**

30) Provisions

Provisions for off-balance risks

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 01 Jan 2019	2,856	3,304	9,370	15,530
Increases due to origination and acquisition	2,102	423	1,185	3,709
Decreases due to derecognition	-973	-1,048	-4,105	-6,126
Changes due to change in credit risk	-17,751	17,578	3,208	3,035
Thereof transfer to stage 1	1,161	-1,057	-104	0
Thereof transfer to stage 2	-3,240	3,341	-100	0
Thereof transfer to stage 3	-2,806	-242	3,048	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	0	0	0	0
Other adjustments	16,924	-14,344	-2,591	-11
As at 31 Dec 2019	3,157	5,913	7,067	16,137
Increases due to origination and acquisition	1,339	2,011	340	3,690
Decreases due to derecognition	-263	-354	-1,346	-1,963
Changes due to change in credit risk	-426	970	1,250	1,794
Thereof transfer to stage 1	540	-540	0	0
Thereof transfer to stage 2	-662	665	-3	0
Thereof transfer to stage 3	-10	-102	112	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	7,719	3,144	0	10,863
Other adjustments	242	-287	42	-3
As at 31 Dec 2020	**11,769**	**11,397**	**7,353**	**30,519**

Other provisions

Euro thousand	Restructuring	Interest claims in connection with loans with floors	Possible repayments from drawdowns of guarantees	Others	Total
As at 01 Jan 2019	7,035	12,092	6,723	4,844	30,693
Reclassification	0	0	107	9	116
Unwinding	0	0	0	12	12
Utilisation	-3,036	-201	-2,045	-217	-5,499
Release	-1,056	-3,905	-1,770	-820	-7,550
Addition	1,926	2,828	1,350	3,473	9,577
As at 31 Dec 2019	4,869	10,813	4,366	7,300	27,349
Reclassification	0	0	0	0	0
Unwinding	0	0	0	3	3
Utilisation	-1,071	-172	-595	-1,609	-3,447
Release	-1,326	-7,014	-1,858	-1,901	-12,100
Addition	1,406	2,002	1,366	4,525	9,300
As at 31 Dec 2020	**3,879**	**5,629**	**3,279**	**8,318**	**21,105**

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

The reorganisation provisions related to the Adler programme that started in the fourth quarter of 2018 and is meant to result in efficiency increases and cost reductions in subsequent years. The project is expected to be fully completed by the end of 2022.

31) Long-term employee provisions

Euro thousand	Provision for pensions	Provision for severance payments	Provision for anniversary bonuses	Total
Net present value as at 01 Jan 2019	53,561	133,726	22,205	209,492
Currency translation	176	0	0	176
Changes in the scope of consolidation	-4,898	0	0	-4,898
Current service costs	194	5,946	1,490	7,631
Interest costs	547	1,536	250	2,333
Payments	-4,258	-9,750	-767	-14,774
Actuarial gains or losses arising from changes in financial assumptions	5,374	8,524	-238	13,660
Net present value as at 31 Dec 2019	50,696	139,984	22,941	213,621
Current service costs	138	6,127	1,760	8,026
Interest costs	154	584	99	837
Payments	-5,524	-9,890	-828	-16,242
Actuarial gains or losses arising from changes in financial assumptions	-2,284	-18,989	-3,945	-25,219
Net present value as at 31 Dec 2020	**43,180**	**117,816**	**20,027**	**181,023**

Net present value of plan assets

Euro thousand	Provision for pensions
Net present value of plan assets as at 01 Jan 2019	5,014
Currency translation	154
Changes in the scope of consolidation	-4,286
Result from plan assets	49
Contributions to plan assets	39
Payments	0
Actuarial gains or losses arising from changes in financial assumptions	0
Net present value of plan assets as at 31 Dec 2019	971
Currency translation	0
Changes in the scope of consolidation	0
Result from plan assets	15
Contributions to plan assets	2
Payments	0
Actuarial gains or losses arising from changes in financial assumptions	0
Net present value of plan assets as at 31 Dec 2020	**987**

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

Contribution payments to plan assets are expected in the amount of euro 4 thousand in 2021 (2019: euro 4 thousand).

Euro thousand	Provision for pensions	Provision for severance payments	Provision for anniversary bonuses	Total
31 Dec 2019				
Long-term employee provision	50,696	139,984	22,941	213,621
Net present value of plan assets	-971	0	0	-971
Net liability recognised in balance sheet	**49,725**	**139,984**	**22,941**	**212,650**
31 Dec 2020				
Long-term employee provision	43,180	117,816	20,027	181,023
Net present value of plan assets	-987	0	0	-987
Net liability recognised in balance sheet	**42,193**	**117,816**	**20,027**	**180,036**

Historical information

Euro thousand	2020	2019	2018	2017	2016
Net present value of obligations	181,023	213,621	209,492	225,161	240,101
Net present value of plan assets	987	971	5,014	8,605	9,101

Composition of plan assets

			31 Dec 2020			31 Dec 2019
Euro thousand	**Plan assets - quoted**	**Plan assets - non-quoted**	**Plan assets - total**	**Plan assets - quoted**	**Plan assets - non-quoted**	**Plan assets - total**
Bond issues regional administra-	155	0	155	285	0	285
Bond issues credit institutions	48	0	48	44	0	44
Other bond issues	289	0	289	209	0	209
Shares EU countries	131	0	131	103	0	103
Shares USA and Japan	99	0	99	120	0	120
Other shares	82	0	82	73	0	73
Derivatives	23	27	50	32	26	58
Real estate	0	72	72	0	63	63
Fixed deposit	0	3	3	0	4	4
Cash in hand	0	59	59	0	11	11
Total	**826**	**161**	**987**	**866**	**105**	**971**

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

Sensitivity analysis

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

	Change in the present value	
Euro thousand	**increase of assumption**	**decrease of assumption**
31 Dec 2019		
Discount rate (0.75 % modification)	-17,270	19,909
Future wage and salary increases (0.50 % modification)	9,968	-9,205
Future pension increases (0.25 % modification)	1,522	-1,335
Future mortality (1 year modification)	3,160	-3,024
31 Dec 2020		
Discount rate (0.75 % modification)	-13,725	16,191
Future wage and salary increases (0.50 % modification)	8,262	-7,286
Future pension increases (0.25 % modification)	1,164	-1,109
Future mortality (1 year modification)	2,642	-2,533

As of 31 December 2020, the weighted average term of defined-benefit obligations for pensions was 10.4 years (2019: 10.9 years) and for severance payments 12.5 years (2019: 13.2 years).

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

32) Other liabilities

Euro thousand	31 Dec 2020	31 Dec 2019
Deferred items	1,627	1,027
Other liabilities	88,867	100,494
Negative fair values of derivative instruments	442,770	386,427
Other liabilities	**533,264**	**487,948**

Other liabilities essentially consist of deferrals and trade payables in the amount of euro 25,489 thousand (2019: euro 27,001 thousand), taxes and fiscal liabilities in the amount of euro 21,984 thousand (2019: euro 24,540 thousand), liabilities to employees in the amount of euro 17,243 thousand (2019: euro 17,282 thousand) as well as auxiliary accounts of the banking business in the amount of euro 14,917 thousand (2019: euro 16,976 thousand).

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

Euro thousand	31 Dec 2020 Fair value hedge	31 Dec 2019 Fair value hedge
Exchange rate related transactions	1,732	11,646
Interest rate related transactions	412,738	358,351
Negative fair values of derivative instruments	**414,471**	**369,996**

33) Liabilities held for sale

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

Euro thousand	31 Dec 2020	31 Dec 2019
Other liabilities	122	0
Liabilities held for sale	**122**	**0**

34) Subordinated liabilities

Euro thousand	31 Dec 2020	31 Dec 2019
Subordinated capital	501,819	502,808
Supplementary capital	74,991	94,734
Subordinated liabilities	**576,811**	**597,542**

Subordinated liabilities are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2020	31 Dec 2019
Up to 3 months	5,443	3,780
Up to 1 year	16,210	7,715
Up to 5 years	55,692	79,854
More than 5 years	499,466	506,193
Subordinated liabilities	**576,811**	**597,542**

Cash inflow and cash outflow of subordinated liabilities

Euro thousand	Subordinated liabilities
As at 01 Jan 2019	**634,052**
Cash inflow	8,695
Cash outflow	-45,425
Non-cash changes	
Others	220
Total non-cash changes	220
As at 31 Dec 2019	**597,542**
Cash inflow	1,736
Cash outflow	-22,711
Non-cash changes	
Others	243
Total non-cash changes	243
As at 31 Dec 2020	**576,811**

The issued open amount of every subordinated emission is less than 10 % of the total volume of subordinated liabilities. In subordinated liabilities with a residual term of more than five years a volume of euro 12,230 thousand (2019: euro 12,270 thousand) is included without a determined residual term. Every subordinated emission has the possibility of termination or repayment soonest after five years with the prior consent of the FMA in accordance with article 77 CRR.

35) Equity

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

Additional tier 1 capital

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

The following table shows the breakdown and development of the retained earnings and other reserves

		Other reserves						
Euro thousand	**Retained earnings**	**IAS 19 reserve**	**Revaluation reserve**	**Currency reserve**	**Fair value reserve - equity instruments**	**Fair value reserve - debt instruments**	**Own credit risk reserve**	**Retained earnings and other reserves**
As at 01 Jan 2019	**2,062,895**	**-44,934**	**1,282**	**12,498**	**-944,941**	**1,290**	**2,523**	**1,090,613**
Consolidated net income	148,431							148,431
Other comprehensive income	-4,645	-10,423	952	-12,498	25,309	-493	-422	-2,221
Dividends paid	-9,236							-9,236
Change in treasury stocks	209							209
Reclassification fair value reserve due to sale	968				-968			0
Change due to reclassification shown under non-controlling interest, capital increases and deconsolidation	286							286
As at 31 Dec 2019	**2,198,910**	**-55,358**	**2,234**	**0**	**-920,600**	**798**	**2,100**	**1,228,084**
Consolidated net income	20,026							20,026
Other comprehensive income	-163	15,948			-2,843	266	-106	13,102
Dividends paid	-17,750							-17,750
Reclassification fair value reserve due to sale	-3,383				3,383			0
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation	-851							-851
As at 31 Dec 2020	**2,196,789**	**-39,409**	**2,234**	**0**	**-920,060**	**1,063**	**1,994**	**1,242,612**

Return on total assets

The return on total assets for the business year 2020 was 0.07 % (2019: 0.54 %) and was calculated as the ratio of the annual result after taxes to total assets as at the reporting date.

Non-controlling interest

Company names	Minority interest 2020	2019	Assignment
3V-Immobilien Errichtungs-GmbH; Vienna	< 0.001 %	< 0.001 %	Other companies
Gärtnerbank Immobilien GmbH; Vienna	< 0.001 %	< 0.001 %	Other companies
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Vienna	< 0.001 %	< 0.001 %	Other companies
VB Services für Banken Ges.m.b.H.; Vienna	1.110 %	1.110 %	Other companies
VB Verbund-Beteiligung Region Wien eG in Liqu.; Vienna	9.370 %	9.460 %	Other companies
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	1.000 %	1.000 %	Other companies
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Vienna	0.005 %	0.005 %	Other companies

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

Additional information non-controlling interest

Euro thousand	Other companies 2020	2019
Assets		
Loans and receivables credit institutions	84,782	38,628
Loans and receivables customers	314	335
Financial investments	285	287
Other assets	19,605	76,079
Total assets	**104,986**	**115,329**
Liabilities and Equity		
Amounts owed to credit institutions	6,775	49,076
Amounts owed to customers	0	4
Other liabilities	45,836	15,169
Equity	52,375	51,081
Total liabilities	**104,986**	**115,329**
Statement of comprehensive income		
Interest and similar income	23	60
Interest and similar expense	-718	-1,793
Net interest income	-695	-1,733
Rental income from investment property and operating lease	489	3,868
Result before taxes	33,175	426
Income taxes	-2,066	647
Result after taxes	31,109	1,074
Other comprehensive income	592	-41
Comprehensive income	31,701	1,032

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

36) Own funds

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

Euro thousand	31 Dec 2020	31 Dec 2019
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	782,055	775,917
Retained earnings	1,402,016	1,404,457
Accumulated other comprehensive income (and other reserves)	-165,543	-180,525
Amount of capital instruments subject to phase out from CET1	1,259	7,358
Common tier I capital before regulatory adjustments	2,019,787	2,007,208
Common tier I capital: regulatory adjustments		
Regulatory value adjustments	0	0
Intangible assets (net of related tax liability)	-2,591	-3,377
Value adjustments due to the requirement for prudent valuation	-1,473	-1,537
Regulatory adjustments - transitional provisions	100,135	0
Adjustments to be made due to transitional regulations under IFRS9	100,135	0
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	0
Additional CET1 deductions pursuant to article 3 CRR	-113,509	-94,771
Total regulatory adjustments	-17,438	-99,685
Common equity tier I capital - CET1	**2,002,349**	**1,907,522**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	220,000	223,570
Additional tier I capital before regulatory adjustments	220,000	223,570
Additional tier I capital: regulatory adjustments		
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**220,000**	**223,570**
Tier I capital (CET1 + AT1)	**2,222,349**	**2,131,092**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts	456,144	467,896
Capital instruments subject to phase out from tier II	37,998	38,548
Tier II capital before regulatory adjustments	494,142	506,443
Tier II capital: regulatory adjustments		
Total regulatory adjustments	0	0
Tier II capital - T2	**494,142**	**506,443**
Own funds total - TC (T1 + T2)	**2,716,491**	**2,637,536**
Common equity tier I capital ratio	14.13 %	12.88 %
Tier I capital ratio	15.68 %	14.39 %
Equity ratio	19.16 %	17.81 %
each in relation to total risk exposure amount		

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

Euro thousand	31 Dec 2020	31 Dec 2019
Risk weighted exposure amount - credit risk	12,903,051	13,450,162
Total risk exposure amount for position, foreign exchange and commodities	37,895	84,611
Total risk exposure amount for operational risk	1,183,790	1,230,771
Total risk exposure amount for credit valuation adjustment (cva)	49,981	44,462
Total risk exposure amount	**14,174,717**	**14,810,005**

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

Euro thousand	31 Dec 2020	31 Dec 2019
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	782,055	775,917
Retained earnings	1,402,016	1,404,457
Accumulated other comprehensive income (and other reserves)	-165,543	-180,525
Common tier I capital before regulatory adjustments	2,018,528	1,999,850
Common tier I capital: regulatory adjustments		
Regulatory value adjustments	0	0
Goodwill (net of related tax liability)	0	0
Intangible assets (net of related tax liability)	-2,591	-3,377
Value adjustments due to the requirement for prudent valuation	-1,473	-1,537
Additional CET1 deductions pursuant to article 3 CRR	-113,509	-94,771
Total regulatory adjustments	-117,573	-99,685
Common equity tier I capital - CET1	**1,900,955**	**1,900,164**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	220,000	223,570
Additional tier I capital before regulatory adjustments	220,000	223,570
Additional tier I capital: regulatory adjustments		
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**220,000**	**223,570**
Tier I capital (CET1 + AT1)	**2,120,955**	**2,123,734**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts	456,827	472,420
Tier II capital before regulatory adjustments	456,827	472,420
Tier II capital: regulatory adjustments		
Total regulatory adjustments	0	0
Tier II capital - T2	**456,827**	**472,420**
Own funds total - TC (T1 + T2)	**2,577,782**	**2,596,154**
Common equity tier I capital ratio	13.48 %	12.83 %
Tier I capital ratio	15.04 %	14.34 %
Equity ratio	18.28 %	17.53 %
each in relation to total risk exposure amount		

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

Euro thousand	31 Dec 2020	31 Dec 2019
Risk weighted exposure amount - credit risk	12,832,077	13,450,162
Total risk exposure amount for position, foreign exchange and commodities	37,895	84,611
Total risk exposure amount for operational risk	1,183,790	1,230,771
Total risk exposure amount for credit valuation adjustment (cva)	49,981	44,462
Total risk exposure amount	**14,103,742**	**14,810,005**

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

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

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

In 2020, 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.

37) Financial assets and liabilities

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

Euro thousand	Amortised cost	Fair value through OCI	Fair value through profit or loss	Carrying amount - total	Fair value
31 Dec 2020					
Liquid funds	3,943,760	0	0	3,943,760	3,943,760
Loans and receivables credit institutions (gross)	437,725	0	419	438,144	
Loans and receivables credit institutions less individual loan loss provision	437,725	0	419	438,144	435,287
Loans and receivables customers (gross)	21,254,202	0	397,077	21,651,279	
Individual loan loss provision	-187,968	0	0	-187,968	
Loans and receivables customers less individual loan loss provision	21,066,234	0	397,077	21,463,312	22,276,253
Assets held for trading	0	0	55,970	55,970	55,970
Financial investments (gross)	2,455,531	72,107	108,981	2,636,620	
Financial investments less individual loan loss provision	2,455,531	72,107	108,981	2,636,620	2,677,834
Participations	0	128,139	0	128,139	128,139
Derivative instruments	0	0	115,803	115,803	115,803
Financial assets held for sale	21	0	0	0	21
Financial assets total	**27,903,272**	**200,246**	**678,252**	**28,781,770**	**29,633,068**
Amounts owed to credit institutions	1,883,873	0	0	1,883,873	1,874,393
Amounts owed to customers	22,153,454	0	0	22,153,454	22,178,127
Debts evidenced by certificates	1,380,049	0	89,875	1,469,924	1,479,796
Lease liabilities	169,889	0	0	169,889	169,889
Liabilities held for trading	0	0	61,518	61,518	61,518
Derivative instruments	0	0	442,770	442,770	442,770
Subordinated liabilities	576,811	0	0	576,811	578,367
Financial liabilities total	**26,164,077**	**0**	**594,163**	**26,758,239**	**26,784,860**

Euro thousand	Amortised cost	Fair value through OCI	Fair value through profit or loss	Carrying amount - total	Fair value
31 Dec 2019					
Liquid funds	2,071,712	0	0	2,071,712	2,071,712
Loans and receivables credit institutions (gross)	430,387	0	770	431,157	
Loans and receivables credit institutions less individual loan loss provision	430,387	0	770	431,157	430,053
Loans and receivables customers (gross)	21,060,083	0	476,748	21,536,832	
Individual loan loss provision	-217,495	0	0	-217,495	
Loans and receivables customers less individual loan loss provision	20,842,588	0	476,748	21,319,336	21,617,101
Assets held for trading	0	0	56,044	56,044	56,044
Financial investments (gross)	2,299,832	168,880	110,714	2,579,427	
Financial investments less individual loan loss provision	2,299,832	168,880	110,714	2,579,427	2,605,000
Participations	0	130,479	0	130,479	130,479
Derivative instruments	0	0	87,505	87,505	87,505
Financial assets held for sale	0	0	0	0	0
Financial assets total	**25,644,519**	**299,359**	**731,782**	**26,675,660**	**26,997,894**
Amounts owed to credit institutions	412,189	0	0	412,189	410,075
Amounts owed to customers	21,729,089	0	0	21,729,089	21,773,709
Debts evidenced by certificates	1,371,609	0	110,308	1,481,917	1,498,259
Lease liabilities	183,300	0	0	183,300	183,300
Liabilities held for trading	0	0	76,868	76,868	76,868
Derivative instruments	0	0	386,427	386,427	386,427
Subordinated liabilities	597,542	0	0	597,542	618,463
Financial liabilities total	**24,293,729**	**0**	**573,603**	**24,867,333**	**24,947,101**

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

Euro thousand	Level 1	Level 2	Level 3	Total
31 Dec 2020				
Loans and receivables credit institutions	0	0	419	419
Loans and receivables customers	0	0	397,077	397,077
Assets held for trading	1,697	54,273	0	55,970
Financial investments	76,102	26,842	78,145	181,089
Fair value through profit or loss	5,021	25,816	78,145	108,981
Fair value through OCI	71,081	1,026	0	72,107
Participations	0	0	127,757	127,757
Fair value through OCI - designated	0	0	127,757	127,757
Derivative instruments	0	115,803	0	115,803
Financial assets total	**77,799**	**196,918**	**603,398**	**878,116**
Debts evidenced by certificates	0	0	89,875	89,875
Liabilities held for trading	0	61,518	0	61,518
Derivative instruments	0	442,770	0	442,770
Financial liabilities total	**0**	**504,288**	**89,875**	**594,163**
31 Dec 2019				
Loans and receivables credit institutions	0	0	770	770
Loans and receivables customers	0	0	476,748	476,748
Assets held for trading	597	55,447	0	56,044
Financial investments	174,260	29,508	75,826	279,595
Fair value through profit or loss	6,986	27,903	75,826	110,714
Fair value through OCI	167,275	1,606	0	168,880
Participations	0	0	129,566	129,566
Fair value through OCI - designated	0	0	129,566	129,566
Derivative instruments	0	87,505	0	87,505
Financial assets total	**174,857**	**172,461**	**682,911**	**1,030,228**
Debts evidenced by certificates	0	0	110,308	110,308
Liabilities held for trading	0	76,868	0	76,868
Derivative instruments	0	386,427	0	386,427
Financial liabilities total	**0**	**463,295**	**110,308**	**573,603**

Please refer to note 3) s) Participations and companies measured at equity for a description of the valuation procedures used for participations. Due to immateriality participations in the amount of euro 382 thousand (2019: euro 913 thousand) are measured at cost as their fair value cannot be reliably determined.

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

In 2020, as in the previous year, there were no reclassifications of financial instruments between Levels 1 and 2.

Development of Level 3 fair values of financial assets

Euro thousand	Loans and receivables credit institutions	Loans and receivables customers	Financial investments	Partici-pations	Financial assets total	Debts evidenced by certificates	Financial liabilities total
As at 01 Jan 2019	**1,072**	**576,017**	**75,101**	**107,543**	**759,734**	**106,575**	**106,575**
Reallocation to level 3	0	0	0	-223	-223	0	0
Additions	0	11,583	131	1,999	13,713	0	0
Disposals	-300	-116,851	-3,258	-2,395	-122,805	-3	-3
Valuation							
Through profit or loss	-2	5,999	3,852	0	9,849	3,173	3,173
Through OCI	0	0	0	22,643	22,643	563	563
As at 31 Dec 2019	**770**	**476,748**	**75,826**	**129,566**	**682,911**	**110,308**	**110,308**
Reallocation to level 3	0	0	0	0	0	0	0
Additions	0	23,014	40	1,070	24,125	0	0
Disposals	-349	-103,366	-412	-248	-104,376	-21,447	-21,447
Valuation							
Through profit or loss	-2	681	2,690	0	3,370	872	872
Through OCI	0	0	0	-2,631	-2,631	142	142
As at 31 Dec 2020	**419**	**397,077**	**78,145**	**127,757**	**603,398**	**89,875**	**89,875**

The valuations shown in the table above are included in the item income from financial instruments and investment properties (income statement) or fair value reserve (other comprehensive income). The valuations recorded in the income statement include holdings of financial assets and liabilities in the amount of euro 3,834 thousand (2019: euro 8,494 thousand) at the reporting date.

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

As at 31 December 2020 financial investments include participation certificates with a carrying amount of euro 78,145 thousand (2019: euro 75,826 thousand) which are allocated to level 3 of the fair value hierarchy. They are not traded on any active market and only allow for alternative measurement by means of unobservable input parameters.

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

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

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

31 Dec 2020 Euro thousand	Positive change in fair value	Negative change in fair value
Change in maturity + 1 year	0	-3,836
Change in markup +/- 100 BP	695	-687
Change in redemption - 5 %	0	-3,877

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

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

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

31 Dec 2020 Euro thousand	Positive change in fair value	Negative change in fair value
Change in markup +/- 30 bp	2,514	-2,422

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

The sensitivity analyses for the fair values of loans and recaivables credit institutions and customers is described in note 13) loans and receivables credit institutions and customers.

The sensitivity analyses for the fair values of investment property (IAS 40) is described in note 17) Investment property.

The sensitivity analyses for the fair values of participations is described in note 19) Participations.

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

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

Euro thousand	Level 1	Level 2	Level 3	Fair value total	Carrying amount
31 Dec 2020					
Liquid Funds	0	3,943,760	0	3,943,760	3,943,760
Loans and receivables credit institutions (gross)					437,725
Loans and receivables credit institutions less individual loan loss provision	0	0	434,868	434,868	437,725
Loans and receivables customers					21,254,202
Individual loan loss provision					-187,968
Loans and receivables customers less individual loan loss provision	0	0	21,879,176	21,879,176	21,066,234
Financial investments (gross)					2,455,531
Financial investments less individual loan loss provision	2,466,083	30,662	0	2,496,746	2,455,531
Financial assets held for sale	0	0	21	21	21
Financial assets total	**2,466,083**	**3,974,422**	**22,314,065**	**28,754,570**	**27,903,272**
Amounts owed to credit institutions	0	0	1,874,393	1,874,393	1,883,873
Amounts owed to customers	0	0	22,178,127	22,178,127	22,153,454
Debts evidenced by certificates	0	0	1,389,921	1,389,921	1,380,049
Lease liabilities	0	0	169,889	169,889	169,889
Subordinated liabilities	0	0	578,367	578,367	576,811
Financial liabilities total	**0**	**0**	**26,190,697**	**26,190,697**	**26,164,077**

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

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

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

Fair value hierarchy

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

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

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

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

38) Derivatives

Derivative financial instruments

2020			Face value			Fair Value
Euro thousand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Total	31 Dec 2020
Interest related transactions	241,045	239,344	1,038,951	3,765,510	5,284,850	-328,604
Caps & Floors	91,392	50,667	62,442	153,895	358,396	-360
Futures - interest related	4,100	0	0	0	4,100	0
Interest rate swaps	145,553	188,677	976,509	3,611,615	4,922,355	-328,243
Exchange rate related transactions	186,633	81,323	455,571	186,230	909,757	4,786
Cross currency interest rate swaps	0	0	455,571	186,230	641,801	5,469
FX swaps	184,108	73,775	0	0	257,883	-683
Forward exchange transactions	2,525	7,548	0	0	10,073	0
Other transactions	7,564	3,187	12,274	102,941	125,966	-10,394
Options	7,564	3,187	12,274	102,941	125,966	-10,394
Total	**435,242**	**323,854**	**1,506,796**	**4,054,682**	**6,320,574**	**-334,212**

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

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

The following table shows fair values divided into balance sheet items

2020 Euro thousand	Assets	Liabilities	Total
Interest related transactions	54,245	61,517	-7,272
Exchange rate related transactions	28	1	27
Trading portfolio	**54,273**	**61,518**	**-7,245**
Interest related transactions	106,295	427,627	-321,332
Exchange rate related transactions	8,160	3,400	4,760
Other transactions	1,348	11,743	-10,394
Other assets / liabilities	**115,803**	**442,770**	**-326,967**
Total	**170,076**	**504,288**	**-334,212**
Sum interest related transactions	160,540	489,144	-328,604
Sum exchange rate related transactions	8,187	3,401	4,786
Sum other transactions	1,348	11,743	-10,394

2019 Euro thousand	Assets	Liabilities	Total
Interest related transactions	55,353	76,865	-21,512
Exchange rate related transactions	28	4	24
Trading portfolio	**55,381**	**76,868**	**-21,487**
Interest related transactions	85,753	358,400	-272,647
Exchange rate related transactions	651	21,592	-20,941
Other transactions	1,102	6,435	-5,334
Other assets / liabilities	**87,505**	**386,427**	**-298,922**
Total	**142,886**	**463,295**	**-320,409**
Sum interest related transactions	141,106	435,265	-294,159
Sum exchange rate related transactions	678	21,595	-20,917
Sum other transactions	1,102	6,435	-5,334

39) Hedging

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

In the financial year 2020, no single hedging relationship needed to be adjusted by rebalancing.

The profit and loss recorded in fair value hedge accounting amounts to euro -818 thousand (2019: euro -4,711 thousand) in Association of Volksbanks for the fiscal year 2020. The amount results from the ineffectiveness of the hedging relationships. Given the size of the hedged instruments in terms of principal in the amount of euro 3,531,207 thousand (2019: euro 3,219,139 thousand) as of 31 December 2020, the ineffectiveness is equal to only 0.02 % (2019: 0.2 %) of the hedged portfolio. The hedging strategy applied by the Association of Volksbanks is, thus, highly effective.

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

31 Dec 2020

Euro thousand Interest rate swaps	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Total
Loans and receivables customers	0	0	85,950	1,019,630	1,105,580
Financial investments	0	5,000	172,700	990,462	1,168,162
Debts evidenced by certificates	0	10,000	195,000	1,030,000	1,235,000

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

31 Dec 2019

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

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

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

Euro thousand	Face value	Carrying amount assets	Carrying amount liabilities	Line item in the statement of financial position where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness for the current year	Ineffectiveness recognised in profit or loss	Line item in the income statement that includes hedge ineffectiveness
31 Dec 2020							
Loans and receivables customers measured at amortised cost	1,105,580	25	40,538	Positive/negative fair values of derivative instruments	-18,802	-88	Result from fair value hedge
Financial investments measured at amortised cost	1,168,162	0	372,200	Positive/negative fair values of derivative instruments	-44,311	3,816	Result from fair value hedge
Financial investments measured at fair value through OCI	0	0	0	Positive/negative fair values of derivative instruments	849	-676	Result from fair value hedge
Debts evidenced by certificates - bonds measured at amortised cost	1,235,000	68,839	0	Positive/negative fair values of derivative instruments	26,588	-3,722	Result from fair value hedge
Interest rate swaps total	**3,508,742**	**68,864**	**412,738**		**-35,677**	**-670**	

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

The following table shows a breakdown of the corresponding hedged items

Euro thousand	Carrying amount assets	Carrying amount liabilities	Basis adjustment	Line item in the statement of financial position in which the hedged item is included	Changes in value used for calculating hedge ineffectiveness for the current year	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
31 Dec 2020						
Loans and receivables customers measured at amortised cost	1,105,572	0	39,919	Loans and receivables customers	18,714	0
Financial investments measured at amortised cost	1,317,142	0	365,173	Financial investments	48,127	1,024
Financial investments measured at fair value through OCI	0	0	0	Financial investments	-1,525	0
Debts evidenced by certificates - bonds measured at amortised cost	0	1,228,962	63,961	Debts evidenced by certificates	-30,310	12,517
Hedged items of interest rate swaps total	**2,422,715**	**1,228,962**	**469,053**		**35,007**	**13,542**

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

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

Euro thousand	Face value	Carrying amount assets	Carrying amount liabilities	Line item in the statement of financial position where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness for the current year	Ineffectiveness recognised in profit or loss	Line item in the income statement that includes hedge ineffectiveness
31 Dec 2020							
Loans and receivables customers measured at amortised cost	0	0	0	Positive/negative fair values of derivative instruments	321	-688	Result from fair value hedge
Financial investments measured at amortised cost	14,870	0	1,732	Positive/negative fair values of derivative instruments	455	541	Result from fair value hedge
Financial investments measured at fair value through OCI	0	0	0	Positive/negative fair values of derivative instruments	0	0	Result from fair value hedge
Debts evidenced by certificates - bonds measured at amortised cost	0	0	0	Positive/negative fair values of derivative instruments	0	0	Result from fair value hedge
Cross currency interest rate swaps total	**14,870**	**0**	**1,732**		**776**	**-147**	

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

The following table shows a breakdown of the corresponding hedged items

Euro thousand	Carrying amount assets	Carrying amount liabilities	Basis adjustment	Line item in the statement of financial position in which the hedged item is included	Changes in value used for calculating hedge ineffectiveness for the current year	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
31 Dec 2020						
Loans and receivables customers measured at amortised cost	0	0	0	Loans and receivables customers	-1,009	0
Financial investments measured at amortised cost	15,243	0	1,142	Financial investments	86	0
Financial investments measured at fair value through OCI	0	0	0	Financial investments	0	0
Debts evidenced by certificates - bonds measured at amortised cost	0	0	0	Debts evidenced by certificates	0	0
Hedged items of cross currency interest rate swaps total	**15,243**	**0**	**1,142**		**-923**	**0**

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

40) Assets and liabilities denominated in foreign currencies

At balance sheet date, assets denominated in foreign currencies totalled euro 891,454 thousand (2019: euro 1,015,073 thousand), whereas liabilities denominated in foreign currencies amounted euro 195,919 thousand (2019: euro 160,916 thousand).

41) Trust transactions

Euro thousand	31 Dec 2020	31 Dec 2019
Trust assets		
Loans and receivables customers	79,030	67,957
Trust liabilities		
Amounts owed to customers	79,030	67,957

42) Subordinated assets

Euro thousand	31 Dec 2020	31 Dec 2019
Loans and receivables customers	1,107	1,100

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

Euro thousand	31 Dec 2020	31 Dec 2019
Assets pledged as collateral		
Loans and receivables customers	399,200	381,104
Financial investments	14,027	14,625
Liabilities for which assets have been pledged as collateral		
Amounts owed to credit institutions	399,200	381,104
Amounts owed to customers	14,027	14,625

In the context of corporate funding via Oesterreichische Kontrollbank (OeKB), loans and receivables to customers in the amount of euro 72 million (2019: euro 81 million) have been provided as collateral. These loans and receivables are guaranteed by means of Austrian government default guarantees, private insurance policies and draft guarantees. OeKB may not repledge or sell these loans and receivables to customers if the Group performs in accordance with the contract.

Loans and receivables to customers of euro 327 million were provided as collateral for OeNB refinancing in the 2020 business year (2019: euro 300 million).

Within the scope of gilt-edged savings deposits, financial investments in the amount of euro 14 million (2019: euro 15 million) are held as securities.

44) Contingent liabilities and credit risks

Euro thousand	31 Dec 2020	31 Dec 2019
Contingent liabilities		
Liabilities arising from guarantees	837,509	906,085
Guaranteed letter of credit	0	1,984
Others (amounts guaranteed)	62,068	58,088
Commitments		
Unutilised loan commitments	3,423,502	3,227,363

If the management estimates a cash outflow for financial guarantees, a stage 3 provision is built for off-balance risks to the amount of the probable cash outflow under consideration of possible available collaterals. Therefore, the provision amounts to euro 7,353 thousand (2019: euro 7,067 thousand).

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

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

45) Repurchase transactions and other transferred assets

As at 31 December 2020, the Association as pledgor had buy-back commitments under genuine repurchase agreements in the amount of euro 21,525 thousand (2019: euro 21,245 thousand).

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

46) Related party disclosures

Euro thousand	Unconsolidated affiliates	Companies in which the Group has a participating interest	Companies measured at equity	Companies which exercise a Significant influence on the parent as shareholders
31 Dec 2020				
Loans and receivables customers	17,317	11,788	7,401	0
Fixed-income securities	0	0	0	476,479
Amounts owed to customers	15,651	7,362	59,466	0
Provisions	5	8	20	0
Contingent liabilities arising from guarantees	1,586	0	17,125	0
Transactions	32,298	16,152	62,992	0
Administrative expenses	-1,442	-68,887	0	0
Other operating income	329	1,354	167	0
Other operating expenses	-154	0	0	0
31 Dec 2019				
Loans and receivables customers	21,482	11,935	7,099	0
Fixed-income securities	0	0	0	524,703
Amounts owed to customers	10,379	4,123	57,547	0
Provisions	0	3	8	0
Contingent liabilities arising from guarantees	1,604	0	11,792	0
Transactions	42,362	15,951	67,460	0
Administrative expenses	-1,915	-63,765	0	0
Other operating income	587	1	188	0
Other operating expenses	-589	-104	0	0

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

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

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

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

Euro thousand	31 Dec 2020	31 Dec 2019
Outstanding loans and receivables	1,456	2,310
Redemptions	411	500
Interest payments	7	10

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

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

Euro thousand	Covering loans	Coverage requirements debts evidenced by certificates	Surplus cover
31 Dec 2020			
Covered bonds			
Amortised cost	3,362,311	2,535,720	826,591
Fair value through profit or loss	89,001	62,220	26,781
Total	**3,451,312**	**2,597,940**	**853,372**
31 Dec 2019			
Covered bonds			
Amortised cost	2,936,644	2,405,058	531,586
Fair value through profit or loss	102,127	83,640	18,487
Total	**3,038,771**	**2,488,698**	**550,073**

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

48) Branches

	31 Dec 2020	31 Dec 2019
Branches domestic	**249**	**267**

49) Events after the balance sheet date

On 15 March 2021, the placement of a senior non-preferred bond with an issue volume of euro 500 million under the value date of 23 March 2021 was successfully completed. The bonds serve to comply with the statutory MREL provisions and meet the requirements of section 131 para 3 lines 1 to 3 of the Federal Act on the Recovery and Resolution of Banks (BaSAG). The term of the bond is 5 years. The fixed interest rate was set at 0.875 % p.a. and is payable annually on 23 March.

50) Segment reporting

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

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

CO

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

The syndicated financing division, including large-scale house-building, belongs to this profit centre. VBW provides its services as a syndicate partner for large loan commitments held by commercial clients of the Volksbanks. This item also includes the results of VB Services für Banken Gesellschaft m.b.H., which provides the Volksbanks with services in the area of technical processing of payment transactions and securities, loan processing and other back office services, and VB Infrastruktur und Immobilien GmbH, which provides facility management and infrastructure services.

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

Regional banks

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

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

ÖÄAB

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

Consolidation

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

1-12/2020

Euro thousand	CO	Vienna	Lower Austria	Styria	Carinthia
Net interest income	8,879	97,181	61,579	47,623	26,190
Risk provision	-7,749	-18,857	-16,360	-18,959	-7,071
Net fee and comission income	-4,466	61,349	31,464	25,469	14,185
Net trading income	-1,530	274	617	72	26
Result from financial instruments and investment properties	-1,249	1,281	926	1,146	607
Other operating result	176,654	9,185	1,680	1,138	1,166
General administrative expenses	-141,618	-131,482	-72,528	-57,010	-34,081
Result from companies measured at equity	0	-408	81	0	0
Result before taxes	**28,920**	**18,522**	**7,459**	**-521**	**1,021**
Income taxes	-4,693	-14,229	-2,706	-5,151	-170
Result after taxes	**24,227**	**4,294**	**4,753**	**-5,672**	**851**
31 Dec 2020					
Total assets	**9,145,488**	**6,679,483**	**3,547,709**	**2,728,167**	**1,509,140**
Loans and receivables customers	150,760	5,250,844	2,872,233	2,290,827	1,165,847
Companies measured at equity	15	42,457	7,200	4,577	5,742
Amounts owed to customers	1,233,026	5,546,177	3,033,876	1,880,229	1,344,775
Debts evidenced by certificates, including subordinated liabilities	1,768,619	103,074	12,205	11,011	20,321

1-12/2019

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

Upper Austria	Salzburg	Tyrol	Vorarlberg	ÖÄAB	Consolidation	Total
37,574	49,970	45,773	25,413	12,939	-26	413,094
-9,173	-19,023	-21,428	-2,525	-4,905	0	-126,049
26,198	27,414	32,362	18,002	7,027	135	239,138
-48	-39	27	66	82	-18	-470
1,521	176	106	1,722	-42	-296	5,897
384	-669	1,666	-1,911	-161	-151,797	37,334
-54,586	-57,648	-59,759	-35,433	-19,921	152,243	-511,826
0	0	0	0	0	0	-327
1,870	**180**	**-1,253**	**5,333**	**-4,981**	**240**	**56,791**
-4,179	-1,057	-2,233	-3,090	790	-60	-36,777
-2,308	**-877**	**-3,485**	**2,243**	**-4,191**	**180**	**20,014**
2,462,179	**3,014,570**	**3,400,057**	**1,887,393**	**990,570**	**-5,994,491**	**29,370,265**
1,934,254	2,389,899	2,838,514	1,600,520	807,841	-14,218	21,287,322
15,682	10,297	26	20	4,854	0	90,870
2,169,871	2,406,958	2,586,791	1,177,794	916,594	-142,637	22,153,454
21,382	53,320	26,638	50,337	5,648	-25,821	2,046,735

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

51) Risk report

General

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

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

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

Current developments

In 2020, the Association of Volksbanks was again subjected to the annual SREP (Supervisory Review and Evaluation Process) within the scope of the Single Supervisory Mechanism (SSM) of the ECB. In May, the ECB announced that a pragmatic approach would be taken for the 2020 SREP. In the course of this, VBW received an “operational letter” in November 2020 in its capacity as the CO of the Association of Volksbanks, which constitutes a simplified procedure for communicating the regulators’ expectations. Furthermore, the ECB announced that the level of the Pillar 2 requirement (2.5 %) and the Pillar 2 Guidance (1.0 %) would only be adjusted in exceptional circumstances.

Based on the ECB’s pragmatic approach to the 2020 SREP and taking into account the capital requirements currently applicable to the Association of Volksbanks, it was decided by the ECB not to issue a new decision for the 2020 SREP cycle. Hence the ECB’s December 2019 decision and, accordingly, the level of capital requirements remain in force.

The ECB’s April 2020 decision changed the composition of capital requirements in response to the outbreak of the coronavirus pandemic. Capital instruments that do not qualify as CET1 capital may be used to partially satisfy the Pillar 2 requirement. The Pillar 2 requirement no longer needs to be met 100 % with CET1, but at least 56.25 % must be held as Common Equity Tier 1 capital and at least 75 % as Tier 1 capital. The changed composition of the Pillar 2 requirement has increased the need for AT1. The resulting AT1 shortfall is covered by CET1. The amount of the total capital requirement remains unchanged at 14 %. This results in the following capital ratios for the Association of Volksbanks as at 31 December 2020:

The CET1 demand, as determined for the Association of Volksbanks, amounts to 10.41 % and comprises the following: Pillar 1 CET1 requirement of 4.5 %, Pillar 2 requirement of 1.41 %, capital conservation buffer of 2.5 %, systemic risk buffer of 1.0 %, buffer for systemically important institutions of 1.0 %, and Pillar 2 Guidance of 1.0 %. This means that the CET1 demand has fallen by 1.09 percentage points due to the change in the composition of the Pillar 2 requirement. Any AT1/Tier 2 shortfall will increase the CET1 requirement accordingly.

The Tier 1 capital requirement amounts to 11.38 % (Pillar 1 requirement of 6.0 %, Pillar 2 requirement of 1.88 %, capital conservation buffer of 2.5 %, systemic risk buffer of 1.0 %, buffer for systemically important institutions of 1.0 %) and has decreased by 0.62 percentage points due to the change in the composition of the Pillar 2 requirement.

The total capital requirement amounts to 14.00 % (Pillar 1 requirement of 8.0 %, Pillar 2 requirement of 2.50 %, capital conservation buffer of 2.5 %, systemic risk buffer of 1.0 %, buffer for systemically important institutions of 1.0 %) and accordingly has remained unchanged.

As of December 2020, the higher requirement of systemic risk buffer and buffer for systemically important institutions must be maintained. The entry into force of the amendment to the Austrian Banking Act, which requires the systemic risk buffer and the buffer for systemically important institutions to be held in aggregate, is expected to lead to a reduction in the ratios.

Risk policy principles

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

Organisation of risk management

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

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

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

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

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

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

Regulatory requirements

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

Pillar 1: Minimum own funds requirements

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

Pillar 2: Internal Capital & Liquidity Adequacy Assessment

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

Pillar 3: Disclosure

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

Risk management across the Association

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

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

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

a) Internal Capital Adequacy Assessment Process

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

The individual elements of the cycle are performed at varying intervals (e.g. daily for market risk / trading book risk measurement, quarterly for the risk-bearing capacity calculation, annually for risk inventory and determination of the risk strategy). All the activities described within the cycle are reviewed for up-to-dateness and adequacy at least annually, and adjusted to the respective current environment if necessary; they are approved by the Managing Board of the CO. A comprehensive revision of the Internal Capital Adequacy Assessment Process took place in 2019, due to the ECB Guide published in November 2018 for the internal capital adequacy assessment process. In that respect, the risk-bearing capacity statement and the internal stress test were enhanced.

Risk inventory

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

Risk strategy

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

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

Risk Appetite Statement (RAS) and limit system

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

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

- Capital ratios (e.g. CET1 ratio, T1 ratio, TC ratio, RBC)
- Credit risk ratios (e.g. NPL ratio, coverage ratio, exposures to foreign customers, net allocation ratio for risk provisions)
- Interest rate risk ratios (e.g. EBA interest rate risk coefficient, OeNB interest rate risk coefficient, PVBP)
- Liquidity risk ratios (e.g. LCR, NSFR, survival period)
- Ratios relating to operational risk (e.g. OpRisk losses in proportion to CET1, ICS implementation rate)
- Other risk-relevant ratios (e.g. CIR, leverage ratio, compliance risk)

Risk-bearing capacity calculation

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

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

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

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

The economic perspective contributes to ensuring the continued existence of the Association of Volksbanks by foregrounding the economic value within the assessment of the capital adequacy. The risk-bearing capacity under the economic perspective derives from a comparison of economic risks with internal capital. Economic risks are risks that may impair the economic value of the institution, and hence may negatively affect the capital adequacy under an economic perspective. For the quantification of economic risks, internal procedures that is largely Value at Risk (VaR) with a level of confidence of 99.9 % and a time horizon of one year are applied. In the process, all quantifiable risks that were identified as significant within the scope of risk inventory process are taken into account. Hidden reserves, the annual result achieved in the current business year, as well as the own funds available for loss absorption under a going-concern perspective are recognised as internal capital. The aggregate bank risk limit is set at 95 % of the available internal capital. The prerequisite for the capital adequacy under an economic perspective is that the internal capital is sufficient to cover the risks and to support the strategy on an ongoing basis.

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

Stress testing

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

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

EU-wide stress tests across risk types are being carried out by the EBA/ECB every two years, with the Association of Volksbanks participating. The next EBA/ECB stress test is going to take place in 2021. The results of the stress tests are used by the ECB to assess the capital demand within the SREP. In the years between the EBA/ECB stress tests across risk types, the supervisory authority performs risk-specific stress tests. Therefore, the Association of Volksbanks participated in the liquidity stress test in 2019.

Risk reporting

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

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

Recovery and resolution planning

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

b) Credit Risk

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

Credit risk management organisation

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

Operational credit risk management

Lending principles

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

Decision-making process

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

Monitoring of exposures and collaterals

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

Limits

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

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

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

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

Intensified credit risk management

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

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

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

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

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

Problem Loan Management

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

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

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

Management of the COVID-19 crisis

In Austria, in mid-March 2020 and in the course of the second wave of infections that began in early November 2020, strict containment measures were put in place, temporarily reducing economic activity drastically, coupled with income and sales losses for employees, the self-employed and businesses, as well as a sharp rise in unemployment, which was partially cushioned by a short-time work programme. The long-term effects on the economy and the labour market are currently difficult to assess.

The strong relationship of the Association of Volksbanks with its customers and its close ties within the region have manifested themselves also in times of the COVID-19 crisis. A great number of customers were granted relief measures due to COVID-19 in order to counter liquidity bottlenecks and to cope with existence-threatening circumstances. These measures include various kinds and forms of deferments, term extensions, bridging loans, and increases of overdraft facilities for existing customers. The majority of bridging finance and increased overdraft facilities are secured by guarantees from the government package of measures, while deferments are largely subject to the conditions of the EBA Guidelines on legislative and non-legislative moratoria on loan repayments and the statutory moratorium for private customers and micro-entrepreneurs adopted by the Austrian government. The Association of Volksbanks and thus VBW participated in the private moratorium of the Austrian banking sector for Retail and Corporate customers.

Accounts with COVID-19-related measures are flagged, and the COVID-19-induced portfolio is monitored closely on an ongoing basis. A separate monitoring process has been set up in the Association of Volksbanks for borrowers whose accounts show COVID-19 concessions. In addition to reviews within the scope of the early warning system or problem loan management and the standard annual credit review for the monitoring of large customers in standard servicing, a risk-oriented individual customer review of the coronavirus portfolio was introduced. In addition, the processes regarding rating updates for Corporate customers were honed in connection with the management of the coronavirus crisis.

Quantitative credit risk management and credit risk control

Measurement and control of credit risk

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

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

Rating systems

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

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

Credit Value at Risk

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

Concentrations

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

Counterparty default risk

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

Credit risk mitigation

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

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

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

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

Rating systems

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

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

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

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

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

Lifetime Probability of Default

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

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

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

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

Forward-looking information

The bank takes account of forward-looking information, both in assessing whether the credit risk of any instrument has increased significantly since its initial recognition, and in measuring ECL. The forward-looking information includes both macroeconomic projections and existing information at individual customer level. Information at the individual customer level, such as new and/or expected changes in the borrower's financial situation that are not reflected in the most recent financial statements, are recorded and evaluated as part of the rating process

The ECB's macroeconomic projections are used as an anchor for determining the real economic scenarios. Based on the analysis carried out by analysts of the bank's research department and taking into account various market data, the bank formulates:

- a base case scenario for the future development of the relevant economic variables. The base case scenario represents the most likely outcome and is broadly consistent with the ECB's baseline scenario. The scenario is also reconciled with information used by the bank for other purposes, such as strategic planning and budgeting; and
- two further possible prognostic scenarios that constitute one optimistic and one pessimistic outcome of the relevant economic variables.

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

Consideration of forward-looking information

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

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

Definition of stage transfer and default

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

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

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

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

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

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

The further qualitative indicators for allocation to Stage 2 are:

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

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

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

Measurement of Expected Credit Loss (ECL)

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

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

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

Performing portfolio

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

The most important model parameters for ECL measurement are:

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

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

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

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

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

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

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

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

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

Defaulted exposures

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

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

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

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

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

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

Risk provisions in relation to COVID-19

Impairment Stages 1 and 2 prior to post-model adjustments

Taking account of regulatory requirements (a.o. the EBA guidelines published on 25 March and 2 April 2020), the COVID-19-related measures, unless borrower-specific, are not necessarily / automatically interpreted as a significant increase of credit risk and assignment to Stage 2. The processes and rules for identifying borrower-specific forbearance measures were reviewed and adjusted in the course of the COVID-19 crisis. The result of the review was that, so far, all moratoriums introduced in Austria have met the conditions defined in the EBA guidelines. In some cases, the facilities granted were classified as borrower-specific, and accordingly a transfer from Stage 1 to Stage 2 was carried out.

For this purpose, the Association of Volksbanks uses internal rating systems to distinguish between borrowers whose credit rating was not significantly impaired by the current situation in the long term and those who are very seriously affected, making it unlikely that their credit rating will be restored to the level before the crisis. This rating downgrade and the associated allocations to risk provisions correlate with the customers' level of creditworthiness before the crisis, on the one hand, and with the COVID-19-related measures, on the other hand. As a result, higher risk provisions tended to be formed for loans where customers already had weaker credit ratings before the crisis.

In response to the COVID-19 crisis, the ECB published recommendations to banks regarding the formation of impairments in April 2020. Banks are called upon to put greater weight on long-term risk assessments during determination of the risk parameters, in order to avoid any excessive formation of risk provisions. Moreover, a central scenario published by the ECB must be taken into account. In this context, the goals addressed by the ECB were the application of neutral macroeconomic forecast figures, which are neither too optimistic nor excessively conservative, on the one hand, and ensuring a higher degree of consistency for risk provisions among EU banks, on the other hand. The Association of Volksbanks has implemented these recommendations in full.

Based on the ECB's macroeconomic forecasts of June 2020 and the standard methodology of the Association of Volksbanks, an increase in the previous level of risk provisions in Stage 1 by approximately 50 % and by approximately 30 % in Stage 2 was taken into account in the consolidated financial statements. Allocations to Stage 1 and 2 before post-model adjustments in the total amount of euro 35.3 million were taken into account, of which approximately euro 30.0 million are attributable to the deterioration in macroeconomic indicators. The December 2020 update of the ECB's macroeconomic projections points to a slight reduction in the expected losses, mainly due to the unemployment rate developing better than expected at present. In addition, it is important to note that government support measures, in particular short-time work, may distort macroeconomic data in terms of unemployment. Due to effects being immaterial, no adjustment of the risk parameters to the latest ECB projections was made.

Post-Model Adjustments Stage 1 and 2

Under IFRS 9, expected credit losses are determined using future-oriented information, models and data.

If the solely model-based determination does not yield any proper result, for instance because certain developments are not (yet) reflected in the model or in the available data, the result of the model-based determination will be adjusted to account for these developments (post-model adjustments).

The serious consequences of the COVID-19 pandemic for the general economic environment and the currently high degree of uncertainty tend to increase the need for post-model adjustments when determining expected credit losses.

In the consolidated financial statements, post-model adjustments (allocation to impairments) for customers designated as "Performing" (Stages 1 and 2) were accounted for in the total amount of euro 12.9 million. In doing so, individual sources of risk and/or uncertainty were identified, the exposures concerned were determined on individual transaction level, and the required allocation to risk provisions was quantified using statistical, business management or simulation-based models.

Defaults immediately imminent, but not recognised yet

The standard model of the Association of Volksbanks assumes that the effects of the crisis will only materialise downstream in 2021. In particular, the effects of the deterioration in macroeconomic factors in 2020 are postponed by one year and already taken into account in risk provisions before post-model adjustments. However, the portfolio of Volksbank also includes, among others, customers who were already almost insolvent before the crisis and who were only "saved" temporarily from default due to the COVID-19 concessions or the state aid measures. To promptly account also for these customers during formation of the risk provisions, allocations amounting to euro 71.5 million were effected as post-model adjustments.

For customers under intensive supervision, an automated business analysis was carried out for this purpose, on the basis of debt and income ratios, then compared to and supplemented by qualitative single case analyses. As a result, the probability of an imminent classification as "unlikely-to-pay" and assignment to Stage 3 was estimated for each customer. For the remainder of the portfolio, the observed default rate was set in relation to default rates projected using the model. In the case of sub-portfolios that show a particularly high deviation from the default rates projected by the model, the required additional allocations were determined statistically and mathematically. Regional as well as rating and portfolio quality differences were taken into account when determining the additional allocations. A post-model adjustment was made for customers with strong credit ratings in order to compensate for the unusually low default rates in 2020. In the case of customers with weak credit ratings or customers from economically weaker regions, it was also assumed that the effects of the crisis would not only become apparent in 2021 but already in 2020; higher post-model adjustments were therefore made for defaults not recognised in 2020. The honing of the definition of default in the CRR, effective from 1 January 2021, was also included in the estimate of losses expected in 2021 (but not yet recognised in 2020).

Non-updated ratings

Especially in case of Corporates, the business records that can be used as a basis for the rating usually reflect the company's financial situation during the previous year. Hence, the effects of the COVID-19 crisis are not yet reflected in the rating systems. In order to adequately take account of rating downgrades during the formation of risk provisions, those customers were identified who may be seriously affected by the crisis, with any sustainable restoration to pre-COVID-19 sales revenues appearing unlikely. Apart from customers with COVID-19 relief measures, the sub-portfolio also includes customers with weaker balance sheet ratios, higher unsecured shares and customers with internal account conduct scores deteriorating since the beginning of the crisis. When determining the thresholds for assignment, a distinction was made between different industry sectors. For these customers, the specifications for the scheduled rating update were toughened and customer-specific forward-looking information was taken into account in the rating process. A post-model adjustment in the amount of euro 11.9 million was made to reflect the expected rating downgrade and allocation to risk provisions for those customers who were not (yet) re-rated in accordance with the toughened rules at the balance sheet date. This involved calibrating an across-the-board rating downgrade based on the rating migrations observed in Q4/2020 (after implementation of the toughened specifications).

Unrecognised stage transfers

Accompanied by government support measures (tax deferments, fixed cost subsidy, short-time working model, etc.), the liquidity and account conduct ratios of many companies and private customers are currently showing a positive trend. This development makes it difficult to detect a significant increase in credit risk in a timely manner, especially in the case of scheduled risk assessment of private and SME customers and companies that currently show no or hardly any loss or decline in turnover in their balance lists due to the government measures. On the basis of portfolio analyses, including information for groups of economically related customers, potential indications for a Stage 2 allocation were found for approximately 10 % of the customer exposure in Stage 1. In view of the uncertainties associated with the crisis, allocations in the amount of the lifetime ECL less the Stage 1 risk provisions already formed in the system were made as post-model adjustments for these customers (euro 9.8 million).

Impairments Stage 3

The positive developments in the sphere of defaulted customers have continued in spite of the COVID-19 crisis. The NPL portfolio was further reduced and the NPL ratio reduced; for many NPL exposures, resolution was carried out successfully and/or the previously formed risk provisions were released in profit or loss. In the consolidated financial statements, an reversal to impairments for NPL (Stage 3) customers in the total amount of euro 7.6 million was accounted for. An appropriate approach was taken to the formation of risk provisions in Stage 3 with regard to the COVID-19 crisis. An allocation of approximately euro 6.4 million was made for customers with an NPL period of more than 3 years, in the 'restructuring' category.

Sensitivity analyses of risk provisions in the wake of the COVID-19 crisis

Sensitivities are indicated to quantify the estimation uncertainties of the models for ECL measurement in the current novel situation.

Staging is always made at the individual customer or individual account level and presupposes that the bank can adequately perform an individual customer credit assessment. In the course of determining the post-model adjustment, rating migrations and stage transfers were simulated, among other things. In order to illustrate the effects of estimation uncertainties in the underlying assumptions, the PMA from unidentified stage transfers and not yet updated ratings is compared with a hypothetical assignment of the total portfolio of loans and receivables to customers to Stage 2 or Stage 1.

	in euro million	in % of risk provisions Portfolio (Performing)
Risk provisions Portfolio Performing (Actual)	199.0	100.0 %
Of which PMA staging and rating update	21.7	10.1 %
All receivables transferred to Stage 1	-45.8	-23.0 %
All receivables transferred to Stage 2	106.4	53.40 %

In addition to the ECB baseline scenario of June 2020 as an anchor point, the two other ECB scenarios (“mild” and “severe”) are also used to determine the lifetime PD parameters and each weighted at 20 %. The effects of a different weighting of the scenarios and the application of a more recent ECB scenario set (December 2020) are estimated to be as follows:

	in euro million	in % of risk provisions Portfolio (Performing)
Risk provisions Portfolio Performing (Actual)	199.4	100.0 %
Weighting 100 % Mild	-9.6	-4.8 %
Weighting 100 % Severe	9.6	4.8 %
ECB scenario set 12/2020	-0.3	-0.1 %

The ECL measurement for Stage 3 customers uses current estimates for the fair values of the collaterals. Sensitivities with regard to these fair values are presented. In addition, customers subject to restructuring tend to have lower risk provisions than those subject to debt enforcement (workout). The effects of a transition following the workout of the Bank’s restructuring portfolio are also presented as part of the sensitivities in the NPL area.

	in euro million	in basis points Coverage Ratio I
Risk provisions NPL portfolio (actual)	195.4	39.4 %
Depreciation by 15 %	39.4	7.9 %
Depreciation by 25 %	56.7	11.4 %
All NPL customers in workout	24.2	4.9 %

Regulatory risk provision – NPL backstop

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

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

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

The difference between economic risk provisions under IFRS 9 and regulatory risk provisions within the scope of the regulations described above must be recorded directly in equity. With respect to the anticipated effect on equity, processes were developed in the course of 2019 to further reduce the durations in the NPL status, as well as a backstop reporting process for existing NPEs and refined in 2020.

Credit risk reporting

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

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

The following analyses are part of the monthly report:

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

For the COVID-19-induced portfolio, weekly monitoring based on daily updated data was set up in order to continuously track developments and implement measures in a timely manner.

Development of the credit risk-related portfolio in 2020

Definition of credit risk-related portfolio

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

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

- Financial investments: here, too, only fixed-income securities are included. Equities are excluded, as they do not include any credit risk in the narrower sense
- Contingent liabilities: liabilities arising from guarantees, contingencies and letters of credit are included, other liabilities are excluded
- Credit risks: include commitments not utilised yet

The following table shows the credit risk-related portfolio as at 31 December 2020 compared to the previous year. The relevant figure is the gross value before deduction of any impairments, collaterals or other credit risk mitigating effects.

Credit-risk-relevant portfolio

Euro thousand	31 Dec 2020	31 Dec 2019
Liquid funds	3,750,394	1,864,726
Loans and receivables to credit institutions	438,144	431,157
At amortised cost	437,725	430,387
At fair value	419	770
Loans and receivables to customers	21,651,279	21,536,832
At amortised cost	21,254,202	21,060,083
At fair value	397,077	476,748
Assets held for trading - fixed-income securities	1,697	663
At fair value	1,697	663
Financial investments - fixed-income securities	2,532,659	2,476,854
At amortised cost	2,455,531	2,299,832
At fair value	77,128	177,022
Contingent liabilities	837,509	947,568
Credit risks	3,423,502	3,227,363
Total	**32,635,186**	**30,485,163**

As at 31 December 2020, the total credit risk-related portfolio amounted to euro 32,635,186 thousand (2019: euro 30,485,163 thousand). Loans and receivables to customers constitute the biggest group of receivables, which corresponds to the business model of classic lending business with a focus on Private and SME customers. As at 31 December 2020, the loans and receivables to customers include receivables from finance leases in the amount of euro 198,991 thousand (2019: euro 191,184 thousand). Due to the low share of 0.9 % (2019: 0.6 %) of total loans and receivables to customers, the lease portfolio is not presented separately.

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

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

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

Development by customer segments[1]

The following tables show the distribution of the credit risk-related portfolio by balance sheet items and customer segments. As at 31 December 2020, the largest customer segment of the credit risk-relevant items is the SME segment in the amount of euro 13,538,551 thousand (2019 euro 13,376,148 thousand) that is internally broken down into SME Retail, SME and SME Corporate followed by the private customer segment.

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

Portoflio diveded by customer segments

31 Dec 2020

Euro thousand	Banks	Retail private	SME	Corporates	Public sector	Others	Total
Liquid funds	0	0	0	0	3,750,394	0	3,750,394
Loans and receivables to credit institutions	438,144	0	0	0	0	0	438,144
At amortised cost	437,725	0	0	0	0	0	437,725
At fair value	419	0	0	0	0	0	419
Loans and receivables to customers	0	8,684,704	10,940,551	528,396	282,156	1,215,472	21,651,279
At amortised cost	0	8,423,430	10,855,031	527,044	274,375	1,174,321	21,254,202
At fair value	0	261,274	85,521	1,352	7,781	41,151	397,077
Assets held for trading - fixed-income securities	16	0	0	1,682	0	0	1,697
At fair value	16	0	0	1,682	0	0	1,697
Financial investments - fixed-income securities	1,038,816	0	0	76,251	1,417,592	0	2,532,659
At amortised cost	989,937	0	0	75,237	1,390,357	0	2,455,531
At fair value	48,879	0	0	1,014	27,235	0	77,128
Contingent liabilities	14,480	61,973	721,369	33,536	194	5,958	837,509
Credit risks	1,197	968,466	1,876,630	182,593	215,458	179,158	3,423,502
Total	**1,492,653**	**9,715,143**	**13,538,551**	**822,458**	**5,665,794**	**1,400,587**	**32,635,186**

31 Dec 2019

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

Development by currencies

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

Portoflio distribution by currencies

31 Dec 2020

Euro thousand	EUR	CHF	Others	Total
Liquid funds	3,750,394	0	0	3,750,394
Loans and receivables to credit institutions	426,786	4,948	6,411	438,144
At amortised cost	426,366	4,948	6,411	437,725
At fair value	419	0	0	419
Loans and receivables to customers	20,867,281	750,697	33,301	21,651,279
At amortised cost	20,470,651	750,250	33,301	21,254,202
Thereof Retail private	7,871,319	536,738	15,373	8,423,430
Thereof SME	10,629,895	207,834	17,302	10,855,031
Thereof Corporates	521,188	5,229	627	527,044
Thereof Others	1,448,248	448	0	1,448,696
At fair value	396,630	447	0	397,077
Thereof Retail private	260,827	447	0	261,274
Thereof SME	85,521	0	0	85,521
Thereof Corporates	1,352	0	0	1,352
Thereof Others	48,931	0	0	48,931
Assets held for trading - fixed-income securities	1,697	0	0	1,697
At fair value	1,697	0	0	1,697
Financial investments - fixed-income securities	2,132,444	0	400,215	2,532,659
At amortised cost	2,055,317	0	400,215	2,455,531
Thereof Banks	989,937	0	0	989,937
Thereof Corporates	75,237	0	0	75,237
Thereof Public sector	990,142	0	400,215	1,390,357
Thereof Others	0	0	0	0
At fair value	77,128	0	0	77,128
Thereof Banks	48,879	0	0	48,879
Thereof Corporates	1,014	0	0	1,014
Thereof Public sector	27,235	0	0	27,235
Thereof Others	0	0	0	0
Contingent liabilities	835,381	1,996	133	837,509
Thereof Banks	14,480	0	0	14,480
Thereof Retail private	60,424	1,549	0	61,973
Thereof SME	720,789	447	133	721,369
Thereof Corporates	33,536	0	0	33,536
Thereof Others	6,152	0	0	6,152
Credit risks	3,419,232	1,968	2,303	3,423,502
Thereof Banks	1,195	0	2	1,197
Thereof Retail private	968,177	268	21	968,466
Thereof SME	1,872,727	1,700	2,203	1,876,630
Thereof Corporates	182,517	0	76	182,593
Thereof Others	394,616	0	0	394,616
Total	**31,433,215**	**759,609**	**442,362**	**32,635,186**

31 Dec 2019

Euro thousand	EUR	CHF	Others	Total
Liquid funds	1,864,726	0	0	1,864,726
Loans and receivables to credit institutions	417,250	1,493	12,414	431,157
At amortised cost	416,480	1,493	12,414	430,387
At fair value	770	0	0	770
Loans and receivables to customers	20,542,618	941,291	52,922	21,536,832
At amortised cost	20,066,316	940,845	52,922	21,060,083
Thereof Retail private	7,644,659	642,920	18,974	8,306,554
Thereof SME	10,525,531	262,826	32,820	10,821,177
Thereof Corporates	522,257	5,778	1,129	529,163
Thereof Others	1,373,869	29,321	0	1,403,190
At fair value	476,302	446	0	476,748
Thereof Retail private	334,489	446	0	334,935
Thereof SME	85,982	0	0	85,982
Thereof Corporates	1,659	0	0	1,659
Thereof Others	54,172	0	0	54,172
Assets held for trading - fixed-income securities	663	0	0	663
At fair value	663	0	0	663
Financial investments - fixed-income securities	2,459,833	0	17,021	2,476,854
At amortised cost	2,282,811	0	17,021	2,299,832
Thereof Banks	1,024,492	0	0	1,024,492
Thereof Corporates	72,831	0	0	72,831
Thereof Public sector	1,185,488	0	17,021	1,202,509
Thereof Others	0	0	0	0
At fair value	177,022	0	0	177,022
Thereof Banks	50,198	0	0	50,198
Thereof Corporates	1,074	0	0	1,074
Thereof Public sector	125,750	0	0	125,750
Thereof Others	0	0	0	0
Contingent liabilities	944,585	2,396	587	947,568
Thereof Banks	14,171	0	0	14,171
Thereof Retail private	95,392	1,906	0	97,299
Thereof SME	789,541	448	505	790,494
Thereof Corporates	40,932	41	82	41,055
Thereof Others	4,549	0	0	4,549
Credit risks	3,222,050	2,194	3,119	3,227,363
Thereof Banks	1,679	0	0	1,679
Thereof Retail private	979,050	653	30	979,734
Thereof SME	1,674,070	1,541	2,884	1,678,495
Thereof Corporates	137,622	0	204	137,826
Thereof Others	429,630	0	0	429,630
Total	**29,451,726**	**947,374**	**86,063**	**30,485,163**

Development of repayment vehicle and foreign currency loans

As at 31 December 2020, the total borrowings under repayment vehicle and foreign currency loans amounted to euro 1,034,746 thousand (2019: euro 1,249,929 thousand).

Development by countries

The main business activity of the Association of Volksbanks focuses on the Austrian market. This is also evident from the following tables. As at 31 December 2020, Austrian exposures accounted for 90.0 % of the credit risk-related portfolio (2019: 89.7 %).

Portfolio distribution by countries

31 Dec 2020 Euro thousand	Austria	Germany	Others	Total
Liquid funds	3,750,394	0	0	3,750,394
Loans and receivables to credit institutions	26,700	162,636	248,809	438,144
At amortised cost	26,281	162,636	248,809	437,725
At fair value	419	0	0	419
Loans and receivables to customers	20,648,970	724,278	278,031	21,651,279
At amortised cost	20,267,468	717,227	269,507	21,254,202
Thereof Retail private	8,096,079	206,213	121,138	8,423,430
Thereof SME	10,388,509	353,902	112,620	10,855,031
Thereof Corporates	449,773	49,621	27,651	527,044
Thereof Others	1,333,107	107,491	8,098	1,448,696
At fair value	381,503	7,051	8,523	397,077
Thereof Retail private	249,404	3,495	8,375	261,274
Thereof SME	81,816	3,556	148	85,521
Thereof Corporates	1,352	0	0	1,352
Thereof Others	48,931	0	0	48,931
Assets held for trading - fixed-income securities	1,697	0	0	1,697
At fair value	1,697	0	0	1,697
Financial investments - fixed-income securities	788,616	235,101	1,508,942	2,532,659
At amortised cost	757,160	209,587	1,488,785	2,455,531
Thereof Banks	281,115	162,573	546,249	989,937
Thereof Corporates	12,333	1,000	61,905	75,237
Thereof Public sector	463,712	46,015	880,630	1,390,357
Thereof Others	0	0	0	0
At fair value	31,456	25,514	20,157	77,128
Thereof Banks	13,457	25,514	9,908	48,879
Thereof Corporates	1,014	0	0	1,014
Thereof Public sector	16,985	0	10,250	27,235
Thereof Others	0	0	0	0
Contingent liabilities	827,381	7,750	2,378	837,509
Thereof Banks	14,372	108	0	14,480
Thereof Retail private	60,288	573	1,111	61,973
Thereof SME	714,050	6,950	369	721,369
Thereof Corporates	32,519	119	898	33,536
Thereof Others	6,152	0	0	6,152
Credit risks	3,317,907	92,151	13,444	3,423,502
Thereof Banks	1,195	0	2	1,197
Thereof Retail private	951,494	11,961	5,011	968,466
Thereof SME	1,817,649	50,956	8,026	1,876,630
Thereof Corporates	170,638	11,555	400	182,593
Thereof Others	376,931	17,680	5	394,616
Total	**29,361,667**	**1,221,917**	**2,051,603**	**32,635,186**

31 Dec 2019 Euro thousand	Austria	Germany	Others	Total
Liquid funds	1,864,726	0	0	1,864,726
Loans and receivables to credit institutions	13,786	205,905	211,467	431,157
At amortised cost	13,016	205,905	211,467	430,387
At fair value	770	0	0	770
Loans and receivables to customers	20,447,861	757,650	331,320	21,536,832
At amortised cost	19,996,011	744,844	319,228	21,060,083
Thereof Retail private	7,960,104	218,549	127,901	8,306,554
Thereof SME	10,335,150	367,069	118,958	10,821,177
Thereof Corporates	468,690	26,247	34,227	529,163
Thereof Others	1,232,068	132,978	38,143	1,403,190
At fair value	451,850	12,807	12,092	476,748
Thereof Retail private	319,264	4,196	11,475	334,935
Thereof SME	84,770	595	616	85,982
Thereof Corporates	1,659	0	0	1,659
Thereof Others	46,156	8,015	0	54,172
Assets held for trading - fixed-income securities	663	0	0	663
At fair value	663	0	0	663
Financial investments - fixed-income securities	952,618	156,750	1,367,486	2,476,854
At amortised cost	869,762	136,405	1,293,665	2,299,832
Thereof Banks	299,834	125,704	598,955	1,024,492
Thereof Corporates	12,744	0	60,087	72,831
Thereof Public sector	557,183	10,702	634,624	1,202,509
Thereof Others	0	0	0	0
At fair value	82,857	20,345	73,821	177,022
Thereof Banks	15,358	20,345	14,496	50,198
Thereof Corporates	1,074	0	0	1,074
Thereof Public sector	66,425	0	59,325	125,750
Thereof Others	0	0	0	0
Contingent liabilities	935,905	8,248	3,414	947,568
Thereof Banks	14,063	108	0	14,171
Thereof Retail private	94,346	1,883	1,070	97,299
Thereof SME	783,684	6,014	796	790,494
Thereof Corporates	39,389	119	1,548	41,055
Thereof Others	4,424	124	0	4,549
Credit risks	3,135,974	80,249	11,140	3,227,363
Thereof Banks	1,679	0	0	1,679
Thereof Retail private	958,618	15,574	5,541	979,734
Thereof SME	1,628,305	44,658	5,532	1,678,495
Thereof Corporates	130,859	6,967	0	137,826
Thereof Others	416,514	13,050	66	429,630
Total	**27,351,535**	**1,208,802**	**1,924,826**	**30,485,163**

***Development by sectors*[2]**

The most important sector within loans and receivables to customers of the Association of Volksbanks are private households with 40.1 % as at 31 December 2020 (2018: 40.1 %). As at 31 December 2020, the largest commercial sector in loans and receivables to customers within the Association of Volksbanks is the real estate sector. It accounts for a share of 26.8 % (2019: 26.4 %). As at 31 December 2020, the largest commercial sector within loans and receivables to customers in the SME segment is the real estate sector, accounting for 41.6 % (2019: 40.7 %), followed by the tourism sector with a share of 14.8 % (2019: 14.4 %). As at 31 December 2020, the largest commercial sector within loans and receivables to customers in the Corporate segment is again the real estate sector, accounting for 32.9 % (2019: 32.7 %).

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

Portfolio distribution by sectors

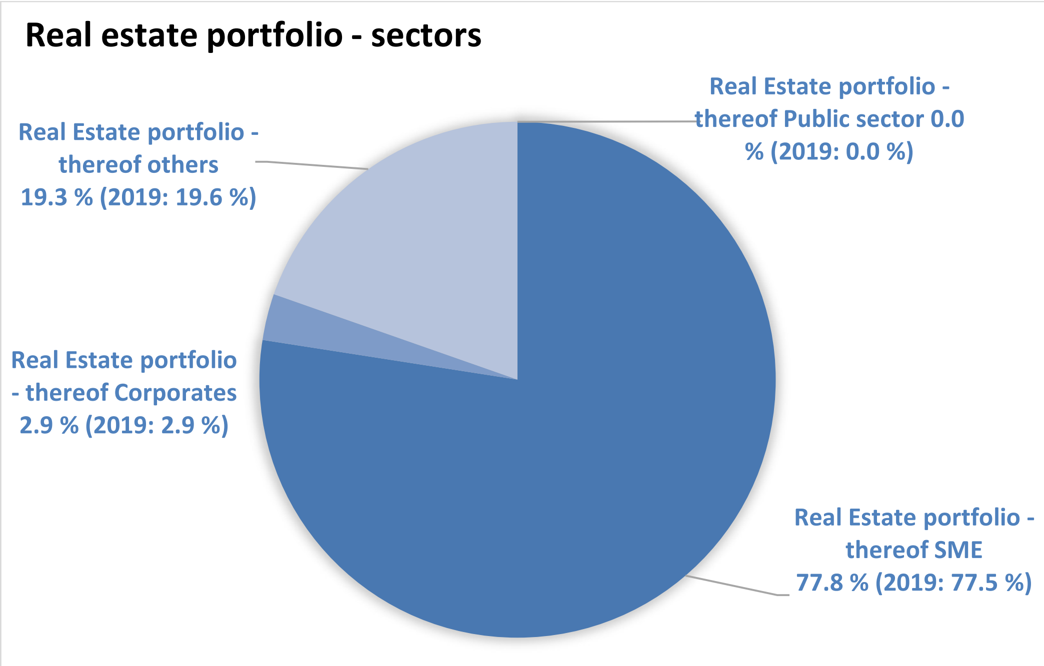
31 Dec 2020 Euro thousand	Private households	Financial services incl. Banks	Public authorities	Real estate	Construction industry
Liquid funds	0	0	3,750,394	0	0
Loans and receivables to credit institutions	0	438,144	0	0	0
At amortised cost	0	437,725	0	0	0
At fair value	0	419	0	0	0
Loans and receivables to customers	8,684,701	195,490	282,156	5,806,356	643,287
At amortised cost	8,423,428	195,229	274,375	5,738,175	639,362
At fair value	261,274	262	7,781	68,180	3,925
Assets held for trading - fixed-income securities	0	0	0	827	459
At fair value	0	0	0	827	459
Financial investments - fixed-income securities	0	1,028,184	1,393,076	0	0
At amortised cost	0	979,305	1,365,940	0	0
At fair value	0	48,879	27,136	0	0
Contingent liabilities	62,559	134,076	194	60,666	113,444
Credit risks	952,639	46,766	215,458	599,954	291,404
Total	**9,699,899**	**1,842,661**	**5,641,278**	**6,467,803**	**1,048,594**

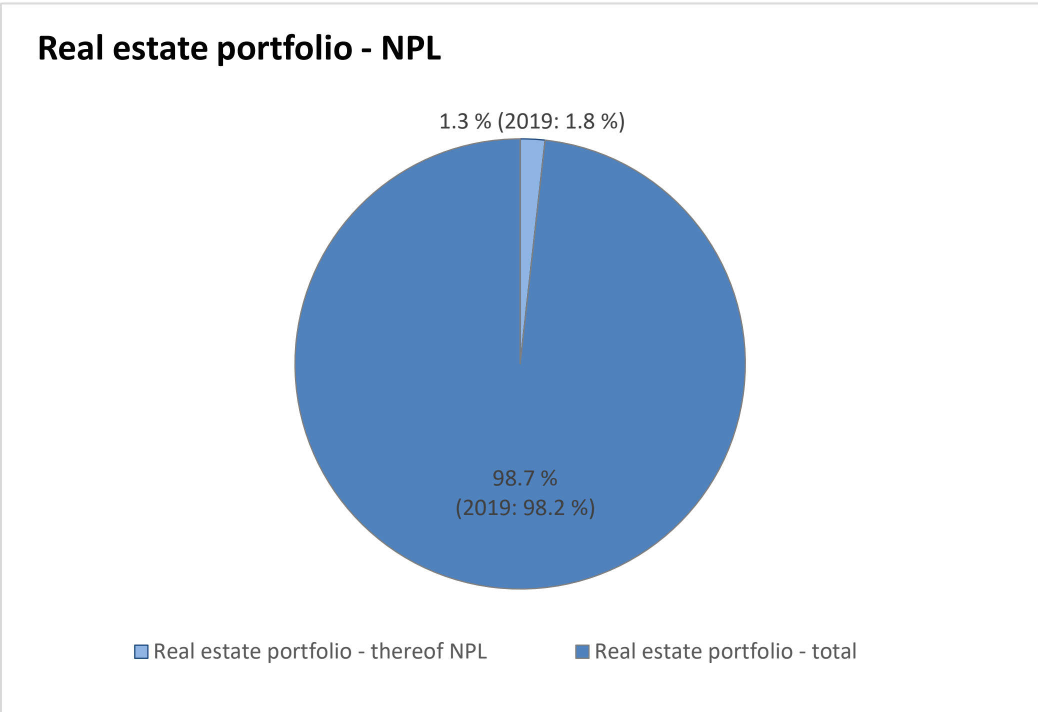
31 Dec 2020 Euro thousand	Tourism	Trade and reparis	Physicians/ healthcare	Food/ agriculture an forestry	Others	Total
Liquid funds	0	0	0	0	0	3,750,394
Loans and receivables to credit institutions	0	0	0	0	0	438,144
At amortised cost	0	0	0	0	0	437,725
At fair value	0	0	0	0	0	419
Loans and receivables to customers	1,664,352	930,050	766,255	675,199	2,003,433	21,651,279
At amortised cost	1,648,938	919,721	764,313	663,111	1,987,549	21,254,202
At fair value	15,414	10,329	1,942	12,087	15,884	397,077
Assets held for trading - fixed-income securities	0	0	0	0	411	1,697
At fair value	0	0	0	0	411	1,697
Financial investments - fixed-income securities	0	0	0	5,045	106,354	2,532,659
At amortised cost	0	0	0	5,045	105,241	2,455,531
At fair value	0	0	0	0	1,113	77,128
Contingent liabilities	139,574	66,645	9,614	13,737	237,001	837,509
Credit risks	138,122	334,673	94,504	111,841	638,142	3,423,502
Total	**1,942,048**	**1,331,367**	**870,373**	**805,822**	**2,985,342**	**32,635,186**

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

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

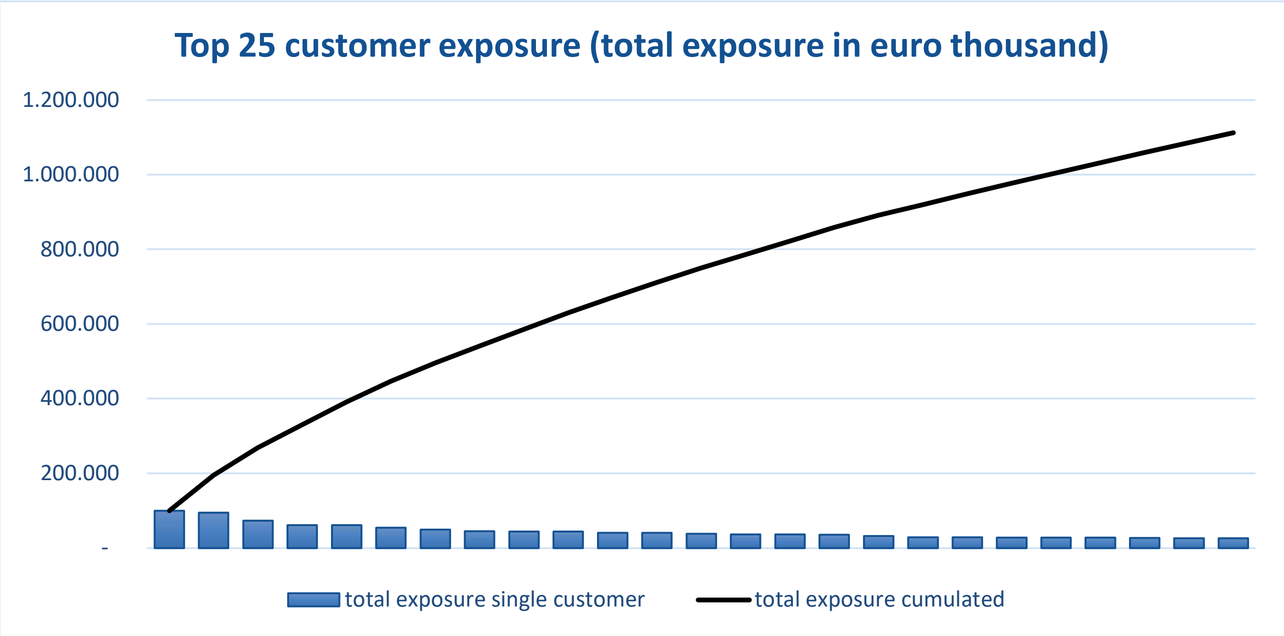
The following charts show the distribution of the real estate portfolio by segments, and the proportion of non-performing loans within the real estate portfolio. The major part of the real estate portfolio is found in the SME segment, with 77.8 % (2019: 77.5 %); at 1.3 % (2019: 1.8 %), the NPL ratio as at 31 December 2020 in the real estate portfolio is below the NPL ratio of internal risk control for the Association of Volksbanks, with 1.89 % (2019: 2.26 %).





Presentation of the Top 25 exposures

The following chart shows the Top 25 loans and receivables to customers within the Association of Volksbanks as at 31 December 2020 with the total exposure per individual customer as well as the cumulative total exposure of euro 1,112,577 thousand (2019: euro 1,040,045 thousand) and reflects the business model of the Association with a focus on small-volume private and SME customers. The Top 25 loans and receivables to customers correspond to some 4.3 % (2019: 4.1 %) of total loans and receivables to customers within the Association (Top no. 1 customer: 0.4 % of total loans and receivables to customers). The values are shown in line with the internal risk perspective, i.e. loans and receivables to customers as well as credit risks and contingent liabilities to customers excluding internal transactions within the Association.



Development by ratings

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

Portfolio distribution by ratings and stages

31 Dec 2020	Risk category						
Euro thousand	1 (1A - 1E)	2 (2A - 2E)	3 (3A - 3E)	4 (4A - 4E)	5 (5A - 5E)	6 (NR)	Total
Liquid funds	3,750,394	0	0	0	0	0	3,750,394
Loans and receivables to credit institutions	70,370	362,568	5,207	0	0	0	438,144
At amortised cost	70,370	362,148	5,207	0	0	0	437,725
Thereof Stage 1	70,370	361,879	5,168	0	0	0	437,416
Thereof Stage 2	0	270	40	0	0	0	309
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	0	419	0	0	0	0	419
Loans and receivables to customers	650,111	7,339,601	12,008,784	1,165,342	470,419	17,023	21,651,279
At amortised cost	621,074	7,144,975	11,861,820	1,154,837	454,015	17,480	21,254,202
Thereof Stage 1	618,291	7,017,253	10,269,244	254,319	0	15,564	18,174,672
Thereof Stage 2	2,783	127,721	1,592,576	900,518	0	1,916	2,625,514
Thereof Stage 3	0	0	0	0	454,015	0	454,015
At fair value	29,036	194,626	146,964	10,505	16,403	-458	397,077
Assets held for trading - fixed-income securities	0	828	870	0	0	0	1,697
At fair value	0	828	870	0	0	0	1,697
Financial investments - fixed-income securities	1,673,765	848,909	9,986	0	0	0	2,532,659
At amortised cost	1,610,302	835,244	9,986	0	0	0	2,455,531
Thereof Stage 1	1,610,302	835,244	9,986	0	0	0	2,455,531
Thereof Stage 2	0	0	0	0	0	0	0
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	63,463	13,665	0	0	0	0	77,128
Contingent liabilities	10,833	285,317	488,879	41,800	9,328	1,352	837,509
Thereof Stage 1	10,736	278,655	435,987	9,501	0	1,229	736,108
Thereof Stage 2	98	6,662	52,892	32,298	0	124	92,073
Thereof Stage 3	0	0	0	0	9,328	0	9,328
Credit risks	534,985	918,768	1,872,950	81,571	8,961	6,268	3,423,502
Thereof Stage 1	527,011	883,462	1,684,945	35,176	0	2,522	3,133,115
Thereof Stage 2	7,973	35,306	188,006	46,395	0	3,746	281,426
Thereof Stage 3	0	0	0	0	8,961	0	8,961
Total	**6,690,457**	**9,755,990**	**14,386,676**	**1,288,713**	**488,708**	**24,643**	**32,635,186**

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

Effects from contract amendments

For the year 2020, the effect on the income statement from changes in contracts for financial instruments is euro -13,184 thousand (2019: euro -10,123 thousand), of which euro -2,138 thousand are attributable to COVID-19 concessions. Within the Association of Volksbanks, this concerns loans and receivables to customers exclusively.

Development of NPL portfolio

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

As at 31 December 2020, the NPL ratio within internal risk control amounted to 1.89 % for the Association (2019: 2.26 %).

The NPL coverage ratio through risk provisions or Coverage Ratio I for internal reporting amounts to 40.08 % for the Association as at 31 December 2020 (2019: 38.58 %).

The NPL coverage ratio through risk provisions or Coverage Ratio III for internal reporting amounts to 107.13 % for the Association as at 31 December 2020 (2019: 104.41 %). These ratios under the internal risk perspective exclusively refer to loans and receivables to customers as well as credit risks and contingent liabilities to customers. The values shown in the following table reflect the balance sheet perspective and differ slightly from the key figures according to the internal risk view.

Portfolio distribution NPL portfolio

31 Dec 2020 Euro thousand	Loan volume - total	NPL	NPL Ratio	Risk provisions for NPL	NPL coverage ratio (Loan loss allowance)	Collateral for NPL	NPL coverage ratio (Loan loss allowance + collateral)
Liquid funds	3,750,394	0	0.00 %	0	0.00 %	0	0.00 %
Loans and receivables to credit institutions	438,144	0	0.00 %	0	0.00 %	0	0.00 %
At amortised cost	437,725	0	0.00 %	0	0.00 %	0	0.00 %
At fair value	419	0	0.00 %	0	0.00 %	0	0.00 %
Loans and receivables to customers	21,651,279	470,419	2.17 %	187,968	39.96 %	323,504	108.73 %
At amortised cost	21,254,202	454,015	2.14 %	187,968	41.40 %	310,790	109.85 %
Thereof Retail private	8,423,430	116,744	1.39 %	54,590	46.76 %	80,118	115.39 %
Thereof SME	10,855,031	320,020	2.95 %	127,183	39.74 %	217,734	107.78 %
Thereof Corporates	527,044	244	0.05 %	75	30.61 %	196	110.68 %
Thereof Others	1,448,696	17,007	1.17 %	6,120	35.98 %	12,742	110.90 %
At fair value	397,077	16,403	4.13 %	0	0.00 %	12,714	77.51 %
Thereof Retail private	261,274	11,855	4.54 %	0	0.00 %	8,994	75.87 %
Thereof SME	85,521	2,462	2.88 %	0	0.00 %	2,046	83.08 %
Thereof Corporates	1,352	0	0.00 %	0	0.00 %	0	0.00 %
Thereof Others	48,931	2,085	4.26 %	0	0.00 %	1,674	80.26 %
Assets held for trading - fixed-income securities	1,697	0	0.00 %	0	0.00 %	0	0.00 %
At amortised cost	0	0	0.00 %	0	0.00 %	0	0.00 %
At fair value	1,697	0	0.00 %	0	0.00 %	0	0.00 %
Financial investments - fixed-income securities	2,532,659	0	0.00 %	0	0.00 %	0	0.00 %
At amortised cost	2,455,531	0	0.00 %	0	0.00 %	0	0.00 %
At fair value	77,128	0	0.00 %	0	0.00 %	0	0.00 %
Other assets	0	0	0.00 %	0	0.00 %	0	0.00 %
Contingent liabilities	837,509	9,328	1.11 %	4,913	52.67 %	5,866	115.55 %
Credit risks	3,423,502	8,961	0.26 %	2,443	27.26 %	0	27.26 %
Total	**32,635,186**	**488,708**	**1.50 %**	**195,324**	**39.97 %**	**329,370**	**107.36 %**
Loans and receivables to customers, contingent liabilities, credit risks	25,912,291	488,708	1.89 %	195,324	39.97 %	329,370	107.36 %
Liquid funds, loans and receivables to credit institutions and customers	25,839,818	470,419	1.82 %	187,968	39.96 %	323,504	108.73 %

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

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

Development NPL portfolio

Euro thousand	Total
NPL 01.01.2019	580,401
Classified as impaired during the year	171,783
Transferred to not-impaired during the year	-45,876
Account coverage and write-offs NPL	-168,615
Net repayments and other movements	-49,059
NPL 31.12.2019	580,401
NPL 01.01.2020	580,401
Classified as impaired during the year	128,400
Transferred to not-impaired during the year	-23,864
Account coverage and write-offs NPL	-158,543
Net repayments and other movements	-37,686
NPL 31.12.2020	**488,708**

Development forbearance portfolio

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

With respect to customer loans, forbearance was agreed for a total carrying amount of euro 828,118 thousand (2019: euro 360,646 thousand) for financial reasons. This amount relates to performing forborne credit exposures in the amount of euro 649,824 thousand (2019: euro 163,906 thousand) and non-performing forborne credit exposures in the amount of euro 178,294 thousand (2019: euro 176,740 thousand).

In the course of the COVID-19 crisis, an increase in the forbearance portfolio by euro 581,081 thousand was observed in 2020 due to crisis-related concessions in accordance with economic risk reporting, which was offset to a small extent by the discontinuation of older forbearance measures. The conditions of the EBA Guidelines on legislative and non-legislative loan repayments moratoria regarding the “forborne” classification were applied.

COVID-19-induced portfolio

To address the liquidity shortfalls that arose during the COVID-19 crisis and to cope with circumstances that threatened the existence of businesses, customers were granted COVID-19-related measures and the corresponding loan accounts were flagged. Up to 31 December 2020, a total of approximately 18,520 financing solutions of some 12,140 customers with a loan volume of approximately euro 3,727,540 thousand were aligned with the customers’ resources within the scope of COVID-19 measures, in accordance with economic risk reporting; deferment measures were agreed for 14,280 accounts with a loan volume of approximately euro 3,213,520 thousand, while in approximately 4,240 cases with a loan volume of approximately euro 514,000 thousand, overdraft facilities were increased and/or bridging loans granted as well. At the Association of Volksbanks a separate monitoring process has been set up for borrowers whose loan accounts show COVID-19 concessions.

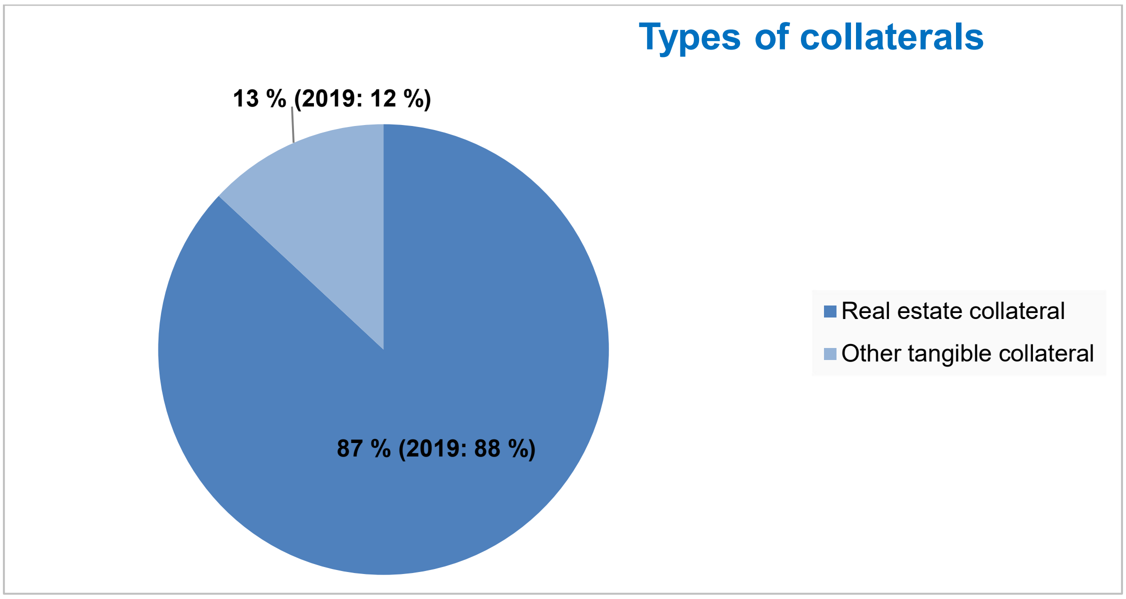
In terms of customer loans, loan exposures with a total loan volume of approximately euro 1,138,090 thousand in accordance with economic risk reporting still have active[1] COVID-19-related measures as at 31 December 2020. This amount concerns

- loan exposures with statutory or private moratoria (33.9 %)
- loan exposures with deferment agreements outside the statutory or private moratorium period (30.6 %)
- loan exposures with bridge financing or overdraft facility increases (34.1 %)
- loan exposures with other measures (1.5 %)

Development of the collaterals portfolio

The following diagram and table show the development of the portfolio of collaterals, with real estate collaterals accounting for the major part within the Association. The values reported represent the credited value of the collaterals (after measurement and cap based on the amount of the receivable secured). Other collaterals include an imputed collateral value of euro 313,915 thousand from guarantees from the government package of measures in the wake of the COVID-19 crisis.

In the 2020 business year, no significant changes to the principles – applicable across the Association – for the management of loan collaterals occurred.



[1] Active COVID-19-related measures: refers, for example, to instalment payments that are still deferred as at the reporting date or to bridge financing or increases of overdraft facilities not matured yet as at the reporting date.

31 Dec 2020 Euro thousand	Loan volume - total	Allowable collateral amount - total	Real estate collateral	Other tangible collateral	Loan loss allowances	Provisions	Loan volume - total, deducted by collateral and risk provision
Liquid funds	3,750,394	0	0	0	0	0	3,750,394
Loans and receivables to credit institutions	438,144	363,481	0	363,481	38	0	74,625
At amortised costs	437,725	363,385	0	363,385	38	0	74,302
At fair value	419	96	0	96	0	0	323
Loans and receivables to customers	21,651,279	18,741,159	16,659,731	2,081,428	363,957	0	2,546,163
At amortised cost	21,254,202	18,399,468	16,341,927	2,057,542	363,957	0	2,490,776
Thereof Retail private	8,423,430	7,602,737	7,079,349	523,388	78,846	0	741,848
Thereof SME	10,855,031	9,325,945	7,946,579	1,379,366	273,013	0	1,256,073
Thereof Corporates	527,044	343,035	224,252	118,784	834	0	183,175
Thereof Others	1,448,696	1,127,752	1,091,747	36,005	11,265	0	309,679
At fair value	397,077	341,690	317,804	23,886	0	0	55,387
Thereof Retail private	261,274	226,603	208,761	17,842	0	0	34,671
Thereof SME	85,521	73,803	70,691	3,112	0	0	11,718
Thereof Corporates	1,352	1,407	1,284	122	0	0	-55
Thereof Others	48,931	39,878	37,068	2,810	0	0	9,053
Assets held for trading - fixed-income securities	1,697	0	0	0	0	0	1,697
At amortised costs	0	0	0	0	0	0	0
At fair value	1,697	0	0	0	0	0	1,697
Financial investments	2,532,659	0	0	0	791	0	2,531,868
At amortised costs	2,455,531	0	0	0	791	0	2,454,740
At fair value	77,128	0	0	0	0	0	77,128
Contingent liabilities	837,509	336,433	243,316	93,117	0	21,076	480,000
Credit risks	3,423,502	0	0	0	0	9,443	3,414,060
Total	**32,635,186**	**19,441,073**	**16,903,047**	**2,538,026**	**364,786**	**30,519**	**12,798,808**

31 Dec 2019 Euro thousand	Loan volume - total	Allowable collateral amount - total	Real estate collateral	Other tangible collateral	Loan loss allowances	Provisions	Loan volume - total, deducted by collateral and risk provision
Liquid funds	1,864,726	0	0	0	0	0	1,864,726
Loans and receivables to credit institutions	431,157	327,961	0	327,961	48	0	103,147
At amortised costs	430,387	327,440	0	327,440	48	0	102,898
At fair value	770	521	0	521	0	0	249
Loans and receivables to customers	21,536,832	18,205,078	16,329,203	1,875,876	286,185	0	3,045,568
At amortised cost	21,060,083	17,794,813	15,951,084	1,843,728	286,185	0	2,979,086
Thereof Retail private	8,306,554	7,379,832	6,804,217	575,615	89,127	0	837,594
Thereof SME	10,821,177	8,975,234	7,850,067	1,125,166	188,414	0	1,657,529
Thereof Corporates	529,163	314,728	215,214	99,514	2,836	0	211,599
Thereof Others	1,403,190	1,125,019	1,081,586	43,433	5,808	0	272,363
At fair value	476,748	410,265	378,118	32,147	0	0	66,483
Thereof Retail private	334,935	279,858	256,725	23,133	0	0	55,077
Thereof SME	85,982	79,348	73,567	5,781	0	0	6,634
Thereof Corporates	1,659	1,686	1,567	119	0	0	-26
Thereof Others	54,172	49,373	46,258	3,115	0	0	4,799
Assets held for trading - fixed-income securities	663	0	0	0	0	0	663
At amortised costs	0	0	0	0	0	0	0
At fair value	663	0	0	0	0	0	663
Financial investments	2,476,854	0	0	0	451	0	2,476,403
At amortised costs	2,299,832	0	0	0	451	0	2,299,381
At fair value	177,022	0	0	0	0	0	177,022
Contingent liabilities	947,568	349,088	246,744	102,344	0	9,457	589,022
Credit risks	3,227,363	0	0	0	0	6,680	3,220,683
Total	**30,485,163**	**18,882,128**	**16,575,947**	**2,306,181**	**286,685**	**16,137**	**11,300,213**

Acquisition of real estate collaterals

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

Development of the netting positions

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

31 Dec 2020
Euro thousand

Derivatives	Assets	Liabilities	Net values
Investment book	115,361	-364,074	-248,712
Trading book	52,657	-128,356	-75,699
Cash collaterals	**Pledged**	**Received**	**Net values**
Investment book	387,903	-45,040	342,864
Total			**18,452**

31 Dec 2019
Euro thousand

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

c) Market risk

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

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

Interest rate risk in the banking book

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

The interest rate risk in the banking book comprises all interest-bearing transactions reported and not reported in the balance sheet, except for transactions in the trading book. The interest rate risk position associated with the retail business of the Association of Volksbanks mainly arises from index-linked lending business and variable-interest deposits (in the form of sight and savings deposits), as well as from implicit floors, in both the assets and the liabilities side retail business. In lending business, a shift from index-linked positions towards fixed-interest positions takes place, as increasingly fixed-interest loans are granted within new business. By controlling the growth of fixed-interest volumes, the gradual development of a rolling fixed-interest position is ensured. Other decisive factors are bond positions of the bank's own portfolio, own issues and the interest-rate swaps used to control the interest rate position. Variable-interest customer transactions are included in the modelling by way of replication assumptions, in order to show price sensitivity to interest rate changes (e.g. for sight/savings deposits, overdrawing of advances on current accounts, loans “until further notice” etc.). Both layer hedges for fixed-interest loan portfolios and micro hedges for securities positions, issues and individual loans can be used for management purposes – under both IFRS and the Austrian Business Code (UGB).

Interest rate risk is controlled within the scope of dual control, both under a present-value perspective and under a periodic/income statement perspective. The same interest rate scenarios are used consistently for both perspectives. In doing so, implicit floors in retail banking are also taken into account in both perspectives, as said floors constitute material risk drivers considering the currently low interest rate level.

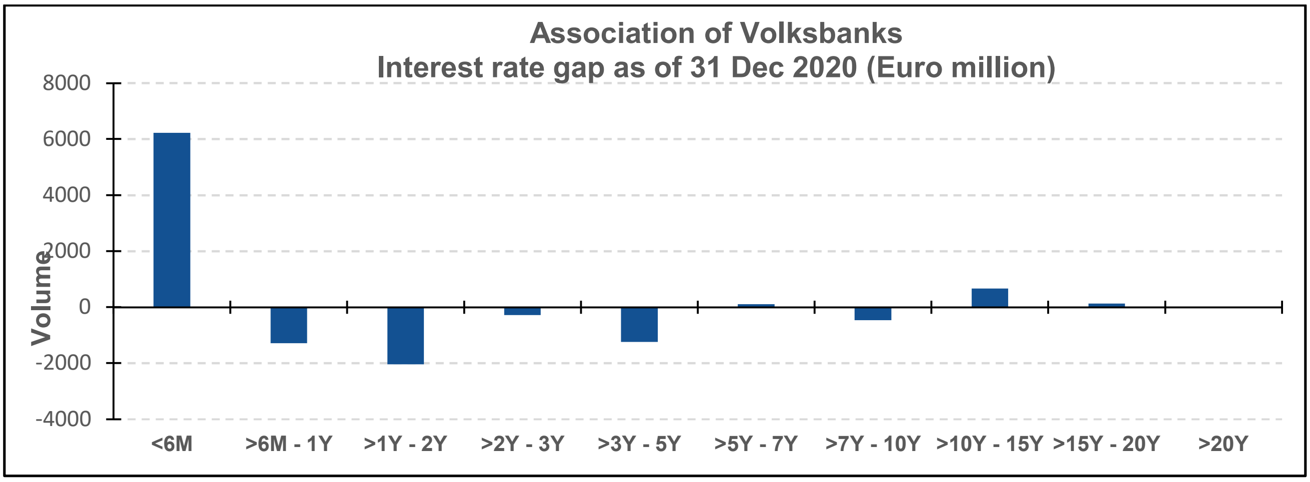
At the end of 2020, the Association of Volksbanks reports a positive term transformation. The present-value interest rate risk, measured using the OeNB interest rate risk coefficient according to VERA was under 7 % in 2020 which is clearly below the regulatory outlier definition of 20 %. The EBA interest rate risk coefficient in 2020 was under 9 % and clearly below the notifiable limit of 15 %. The EBA coefficient represents the bottleneck factor in the control system.

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

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

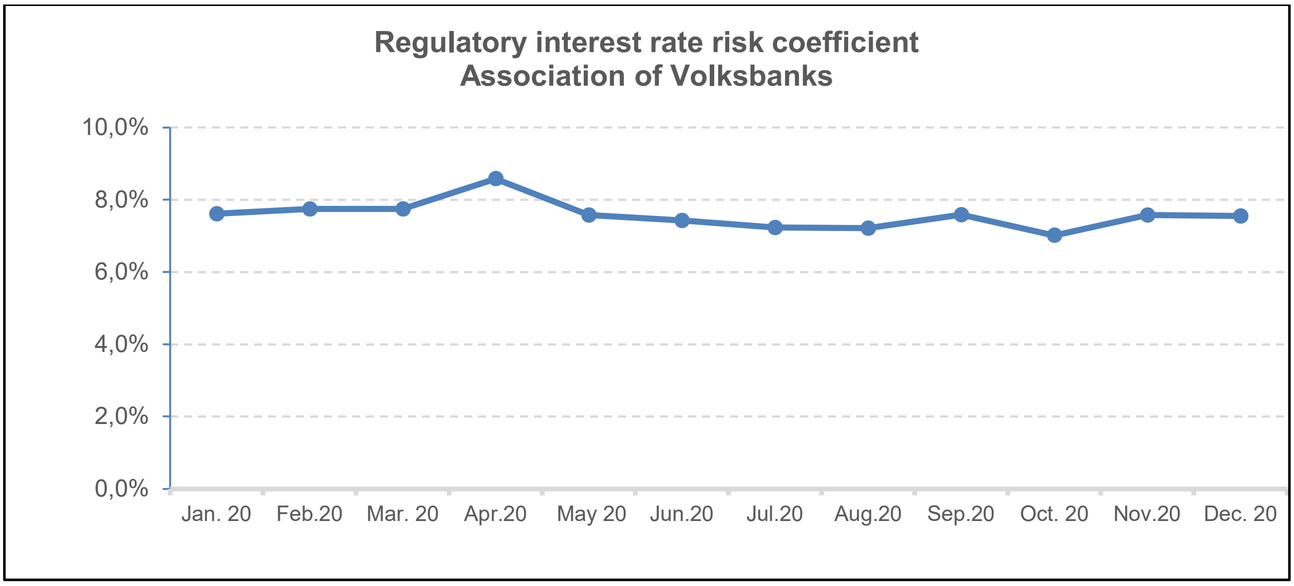
In both perspectives (present value and periodic), positions with indefinite interest rate periods (e.g. in the form of sight and savings deposits, current account facilities) are included consistently in the risk measurement process by assuming replication and/or rolling. The assumptions are determined on the basis of statistical analyses, supplemented by expert opinions. Modelling aims to describe the development of customer interest rates depending on market interest rates. This is done on the basis of historically observed correlations (minimising the volatility of the margin compared to a combination of reference interest rates). The modelling of an interest rate floor for savings deposits and current account receivables was also included in this modelling in 2020, as their interest rates cannot fall below 0 %. Due to the high proportion of positions with indefinite interest rate periods on the balance sheet, replication modelling has a significant impact on the measurement of interest rate risk, in particular present value interest rate risk measurement.

Interest rate gap of the Association of Volksbanks as at 31 Dec 2020



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

EBA interest rate risk coefficient of the Association of Volksbanks in 2020



Compared to the end of 2019, the coefficient has increased slightly due to continued fixed-interest loan growth. Growth in fixed-interest loans was hedged in part. The aforementioned model extension of the interest rate replicates to include interest rate floors in May 2020 shows a stabilisation of the coefficient, as it is now much less dependent on the interest rate level.

The interest income risk as at 31 December 2020 of euro 23 million (for the next 12 months) still constitutes the risk of falling interest rates, in particular short-term interest rates, and is relatively low due to the already very low level of interest rates, as EBA scenarios involving further interest rate cuts are limited.

Concentration risk

No concentration risks exist within interest rate risk.

Credit spread risk

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

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

Risk measurement is mainly effected via credit spread VaR and the sensitivity to any increase in credit spreads by 100 bps. The calculation of the credit spread VaR is based on a historical simulation for a 99.9 % confidence level. In the process, the portfolio is divided into 25 risk clusters, depending on credit rating, branch of industry, type of product and seniority. The plausibility and reliability of the VaR indicators are reviewed by way of reverse comparisons (backtesting) and regularly validated by group independent from the modelling department.

The following risk indicators are derived for the Association

31 Dec 2020 Euro thousand	At fair value	At fair value through OCI	At fair value through p&l	Total
Section 30a of the Austrian Banking Act	-169,999	-2,635	-1,546	-174,180

31 Dec 2019 Euro thousand	At fair value	At fair value through OCI	At fair value through p&l	Total
Section 30a of the Austrian Banking Act	-163,610	-2,769	-1,516	-167,895

The major part of the portfolio is allocated to the AC category (amortised cost) under IFRS 9. Therefore, the credit spread risk that affects the income statement and the OCI is low. An increase in all credit spreads by +100 bp would reduce equity by euro 4,1 million and generate hidden charges of euro 170 million.

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

Concentration risk

Concentration risks can only arise on the level of issuers or risk clusters in the sense of similar issuers. Within credit spread risk, risk clusters are monitored. As at 31 December 2020, within the securities portfolio, the biggest concentrations currently exist in the covered bonds risk cluster with 39 % and in the Republic of Austria risk cluster with 26 %. Concentrations with individual issuers are limited by the issuer lines within credit risk.

Portfolio distribution by credit rating

Euro thousand	31 Dec 2020	31 Dec 2019
Risk category 1 (1A - 1E)	2,045,291	2,017,509
Risk category 2 (2A - 2E)	485,389	484,278
Risk category 3 (3A - 3E)	808	858
Risk category 4 (4A - 4E)	0	0
Risk category 5 (5A - 5E)	0	0
Risk category 6 (NR)	0	0
Total	**2,531,488**	**2,502,645**

Top 10 balance sheet exposures in the public sector

31 Dec 2020 Euro thousand	Amortised cost Carrying amount	Fair value through OCI Carrying amount	Fair value through profit or loss Carrying amount	Total Carrying amount
Covered EUR AAA	961,527	35,553	0	997,080
Sovereigns Austria	627,777	15,130	24,345	667,252
Sovereigns Italy	172,551	0	0	172,551
Sovereigns Poland	74,771	0	0	74,771
Other Sovereigns EUR AA	72,102	0	0	72,102
Sovereigns Belgium	67,541	0	0	67,541
Sovereigns France	62,757	0	0	62,757
Sovereigns Portugal	61,976	0	0	61,976
Sovereigns Spain	59,199	0	0	59,199
Sovereigns Slovakia	46,083	0	0	46,083
Total	**2,206,283**	**50,683**	**24,345**	**2,281,311**

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

Portfolio structure according to IFRS 9 categories

31 Dec 2020 Euro thousand	Bond	Syndicated loan & SSD	Fund & Equity	Total
Amortised cost	2,430,352	0	0	2,430,352
Fair value through OCI	72,027	0	0	72,027
Fair value through profit or loss	4,962	0	24,147	29,109
Total	**2,507,339**	**0**	**24,147**	**2,531,488**

31 Dec 2019 Euro thousand	Bond	Syndicated loan & SSD	Fund & Equity	Total
Amortised cost	2,275,281	28,286	0	2,303,567
Fair value through OCI	166,289	0	0	166,289
Fair value through profit or loss	8,571	0	24,218	32,789
Total	**2,450,139**	**28,286**	**24,218**	**2,502,645**

Market risk in the trading book

The market risk in the trading book of the Association of Volksbanks is of minor importance. The trading book is kept centrally at the CO. The affiliated banks do not keep any trading book. The main function of the trading book is that of a transformer, where smaller batches from retail banking are collected and dynamically hedged in the market. Additionally, Treasury takes market risks within the scope of the limits approved, in order to produce corresponding income. In 2020, the trading book volume was significantly reduced. It is now permanently below the regulatory threshold of euro 500 million (Article 325 CRR). The reduction was achieved through an inventory adjustment. In the process, internal transactions from previous years were reclassified to the banking book and are now no longer carried in the trading book.

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

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

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

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

Euro thousand	Interest +1 basis point	Interest volatility +1 %	Credit spread +1 basis
31 Dec 2020			
Trading book	1	-6	-1
31 Dec 2019			
Trading book	-1	-9	0

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

Foreign exchange risk (open FX positions)

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

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

Currency Euro thousand	31 Dec 2020	31 Dec 2019
CHF	889	3,892
USD	216	347
CZK	-201	-168
JPY	-35	-163
GBP	15	-16
Others	527	539
Total	**1,411**	**4,432**

Other valuation risks (IFRS fair value change)

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

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

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

31 Dec 2020 Euro thousand	Market liquidity costs +10 basis points	Interest rate +10 basis points
Fair value through profit or loss - loans and receivables	-1,923	-476

d) Liquidity risk

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

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

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

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

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

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

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

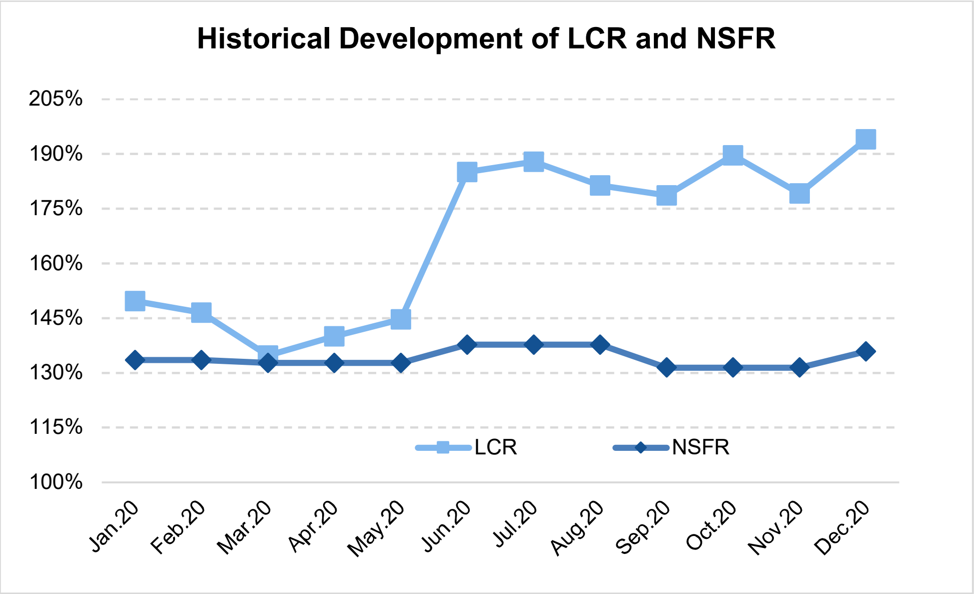
The risk measurement and limitation of illiquidity risk is effected through the regulatory indicators LCR and NSFR, the survival period from internal liquidity stress testing, and through additional operational indicators. The LCR aims to ensure the short-term financial solvency of banks under stressed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

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

Regulatory liquidity ratios LCR, NSFR and survival period in 2020:

In 2020, both regulatory ratios were always clearly above the regulatory limits. Throughout 2020, the LCR was above the internal target of 115 %. The LCR depends on payment transactions and calendar effects causing material monthly changes. The LCR decreases during the month due to effects of payment transactions, therefore it is sometimes clearly above the limit at the end of the month. The NSFR is calculated quarterly and was above target throughout the year 2020. In 2020, the survival period consistently exceeded 150 days, and was thus clearly above internal limits. The key indicators reflect the Company’s comfortable liquidity situation.

LCR and NSFR development of the Association of Volksbanks 2020



The increase in the LCR in June 2020 resulted from the use of TLTRO III. The LCR shows typical jumps mainly due to payment transactions and/or calendar effects. The decrease in NSFR in September is mainly due to the acceptance of the TLTRO III redemption on the first call date. As a result, it falls within the maturity band of the next 12 months and is thus weighted higher.

Concentration risk

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

Operational liquidity management

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

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

e) Operational risk

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

Organisation

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

Methods for the management of operational risks

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

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

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

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

Internal control system

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

f) Other risks

In terms of other risks, the Association of Volksbanks is confronted with strategic, equity, direct real estate, model, as well as earnings and cost risk.

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

The Association of Volksbanks defines equity risk as the risk of an instable composition of internal equity in relation to the bank's type and size, or difficulties in quickly raising additional internal capital if needed.

The direct real estate risk describes the risk of negative value changes in the real estate portfolio (real estate in the company’s own balance sheet or in the balance sheet of any subsidiary).

The earnings and cost risk is the risk arising from the volatility of earnings and the associated risk of no longer being able to (fully) cover sticky fixed costs.

The model risk is the risk of potential loss that may occur due to the faulty design, improper conceptual application or inconsistency of any model.

Non-standard risks and/or non-financial risks (conduct risks, compliance risks, legal risks, model risks, IT and system risks as well as outsourcing risks) are taken into account, among others, in the compliance framework and the framework for operational risks and in the framework for outsourcing.

Other risks are primarily managed via organisational and process-based measures.

52) Fully consolidated companies[1)]

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
3V-Immobilien Errichtungs-GmbH; Wien	HD	100.00 %	100.00 %	35
BBG Beratungs- und Beteiligungsgesellschaft m.b.H.; Salzburg	HD	100.00 %	100.00 %	40
Domus IC Leasinggesellschaft m.b.H.; Salzburg	HD	100.00 %	100.00 %	18
Gärtnerbank Immobilien GmbH; Wien	HD	100.00 %	100.00 %	35
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Wien	HD	100.00 %	100.00 %	35
VB Aktivmanagement GmbH; Klagenfurt	HO	100.00 %	100.00 %	35
VB Infrastruktur und Immobilien GmbH; Wien	HD	100.00 %	100.00 %	35
VB Kärnten Leasing GmbH; Klagenfurt	FI	100.00 %	100.00 %	634
VB Rückzahlungsgesellschaft mbH; Wien	HO	100.00 %	100.00 %	35
VB Services für Banken Ges.m.b.H.; Wien	HD	98.89 %	98.89 %	327
VB Verbund-Beteiligung Region Wien eG in Liqu.; Wien	HO	90.63 %	90.63 %	3,839
VB-Immobilienverwaltungs- und -vermittlungs GmbH; Klagenfurt	HD	100.00 %	100.00 %	73
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	HD	99.00 %	99.00 %	36
Volksbank Salzburg Leasing Gesellschaft m.b.H.; Salzburg	FI	100.00 %	100.00 %	73
Volksbank Vorarlberg Leasing GmbH; Rankweil	FI	100.00 %	100.00 %	37
Volksbank Vorarlberg Marketing- und Beteiligungs GmbH; Rankweil	HD	100.00 %	100.00 %	36
VVB Immo GmbH & Co KG; Rankweil	HD	100.00 %	100.00 %	10
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Wien	FI	100.00 %	100.00 %	872

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

53) Companies measured at equity

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
VB Verbund-Beteiligung eG; Wien	HO	77.71 %	77.71 %	51,840
VB Wien Beteiligung eG; Wien	HO	44.83 %	44.83 %	24,111

54) Companies included

Company names and headquarters	Type*	Nominal capital in euro thousand
Österreichische Ärzte- und Apothekerbank AG; Wien	KI	15,482
Volksbank Kärnten eG; Klagenfurt	KI	34,139
Volksbank Niederösterreich AG; St. Pölten	KI	27,203
Volksbank Oberösterreich AG; Wels	KI	21,596
Volksbank Salzburg eG; Salzburg	KI	13,535
Volksbank Steiermark AG; Graz	KI	69,504
Volksbank Tirol AG; Innsbruck	KI	20,430
VOLKSBANK VORARLBERG e. Gen.; Rankweil	KI	1,516
VOLKSBANK WIEN AG; Wien	KI	137,547

55) Unconsolidated affiliated companies

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
"VB-Real" Projektentwicklungs Gesellschaft m.b.H.; Wels	HD	100.00 %	100.00 %	500
ARZ-Volksbanken Holding GmbH; Wien	HO	99.62 %	99.62 %	256
Atlas Bauträger GmbH in Liqu.; Feldkirchen (Ktn.)	SO	65.00 %	65.00 %	36
Atlas Beteiligungsgesellschaft mbH.; Feldkirchen (Ktn.)	SO	65.00 %	65.00 %	87
Immobilien Besitz- und Verwertungsgesellschaft mbH; Judenburg	HD	100.00 %	100.00 %	35
Immo-Contract Baden Maklergesellschaft m.b.H.; Baden	SO	93.51 %	93.51 %	175
IMMO-CONTRACT St. Pölten Maklergesellschaft m.b.H.; St. Pölten	SO	95.00 %	95.00 %	73
Meinhardgarage Gesellschaft m.b.H.; Innsbruck	SO	100.00 %	100.00 %	50
Meinhardgarage Gesellschaft m.b.H. & Co. KG; Innsbruck	SO	100.00 %	100.00 %	210
NEKRETNINE ADRIA d.o.o.; Rijeka	SO	100.00 %	100.00 %	3
Nordfinanz Vermögensberatung GmbH; Heidenreichstein	SO	99.99 %	99.99 %	150
REALCONSTANT Liegenschaftsverwertungs-Ges.m.b.H.; St. Pölten	SO	99.90 %	99.90 %	73
Resort Errichtungs- und Betriebsges.m.b.H.; Heidenreichstein	SO	99.76 %	99.76 %	42
Sporthotel Betriebsführungs GmbH; Salzburg	SO	100.00 %	100.00 %	35
UVB-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
V.I.P. Volksbank Immobilienprojekte VOBA Treuhand- und VerwaltungsgesellschaftmbH & Co KG; Salzburg	SO	100.00 %	100.00 %	7
VB - REAL Volksbank NÖ GmbH; Krems an der Donau	SO	100.00 %	100.00 %	727
VB Buchführung GmbH; Klagenfurt am Wörthersee	SO	100.00 %	100.00 %	36
VB ManagementBeratung GmbH; Wien	SO	100.00 %	100.00 %	36
VB Realitäten Gesellschaft m.b.H.; Klagenfurt am Wörthersee	SO	100.00 %	100.00 %	36
VBKA-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
VBKS Leasing d.o.o.; Kranj	HD	100.00 %	100.00 %	542
VOBA Treuhand- und Verwaltungsgesellschaft mbH; Salzburg	SO	100.00 %	100.00 %	37
Volksbank Salzburg Immobilien GmbH; Salzburg	SO	100.00 %	100.00 %	35
Volksbank Tirol Immobilien GmbH in Liqu.; Kufstein	SO	100.00 %	100.00 %	35
Volksbank Tirol Versicherungsservice GmbH; Innsbruck	SO	100.00 %	100.00 %	50
Volksbank Vorarlberg Immobilien GmbH & Co OG; Dornbirn	SO	100.00 %	100.00 %	109
VVB Liegenschaftsvermietungsgesellschaft mbH & Co KG; Rankweil	HD	100.00 %	100.00 %	10
Wohn + Wert Realitäten GmbH; Graz	HD	100.00 %	100.00 %	100

*Abbreviations type

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

Vienna, 17 March 2021

Gerald Fleischmann
Chairman of the Managing Board

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

Rainer Borns
Deputy Chairman of the Managing Board

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

Thomas Uher
Deputy Chairman of the Managing Board

Digital Transformation, Credit Risk Management, Restructuring & Recovery, Risk Controlling, VB Services for Banks Processing, VB Services for Banks MSC/KSC and processing of loans

Area of responsibility Joint Managing Board
Compliance, Audit

AUDITOR'S REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE BANKING ASSOCIATION

Audit Opinion

We have audited the Consolidated Financial Statements of the Banking Association according to section 30a of the Austrian Banking Act of

VOLKSBANK WIEN AG,
Vienna,

as the central organization and the assigned banks, which comprise the Banking Association´s consolidated Statement of Comprehensive Income, the consolidated Statement of Financial Position as of 31 December 2020, the consolidated Statement of Changes in Equity and consolidated Statement of Cash Flows for the year then ended, and the Notes to the consolidated Financial Statements.

In our opinion, the consolidated financial statements of the Banking Association present fairly, in all material respects, the consolidated financial position of the Banking Association as at 31 December 2020, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the accounting and valuation principles described in the Framework of Rules for the preparation of consolidated financial statements of the Banking Association 2020.

Basis for our Opinion

We conducted our audit in accordance with the Austrian Standards on Auditing which require the audit to be conducted in accordance with International Standards on Auditing (ISAs) and voluntarily in accordance with ISA 701. Our responsibilities under those standards are further described in the „Banking Association's Auditor´s Responsibilities" section of our report. The regulations of Regulation (EU) No 537/2014 on specific requirements for the audit for public interest entities are not applicable to the audit of the consolidated financial statements of the Banking Association. We are independent of the audited Banking Association in accordance with Austrian company law, banking law and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained up to the date of the auditor's report is sufficient and appropriate to provide a basis for our audit opinion on this date.

Emphasis of matter

We would emphasize in particular,

- that the consolidated financial statements of the Banking Association were prepared in accordance with the Framework of Rules for the preparation of the consolidated financial statements of the Banking Association 2020 and
- their only purpose is to assist VOLKSBANK WIEN AG to meet the regulatory requirements and they shall not be used for any other purpose.

Our opinion is not modified in respect of these matters.

Key Audit Matters

According to ISA 701 key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the Banking Association. These matters were addressed in the context of our audit of the consolidated financial statements of the Banking Association as a whole, however, we do not provide a separate opinion thereon.

AUDITOR'S REPORT

Valuation of receivables from customers at amortised cost

Risk for the consolidated financial statements

Receivables from customers at amortised cost („receivables from customers") amount to EUR 21,254.2 million in the consolidated statement of financial position of the Banking Association. The Managing Board of VOLKSBANK WIEN AG describes the approach to determine loan loss provisions in Notes 3n, 3o and 51b of the Notes to the consolidated financial statements of the Banking Association.

As part of monitoring receivables from customers, the company evaluates whether there are instances of default and as such, a loan loss provision needs to be recognized. This includes evaluating whether customers are able to meet the contractual repayment obligation in full.

The calculation of loan loss provisions for individually significant defaulted receivables from customers is based on an analysis of the expected and scenario weighted future repayments. This analysis is subject to the assessment of the economic condition and performance of the respective customer, the evaluation of collateral and an estimate of the amount and timing of the repayments derived therefrom.

For defaulted receivables from customers not individually significant, the calculation of the loan loss provisions is based on statistically determined common risk attributes. These loan loss provisions are calculated based on the default stage and the existing collateral using statistical loss given default. Loss given default is derived from internally calculated and externally obtained default information.

For non-defaulted receivables from customers, a loan loss provision is recognized for the expected credit loss („ECL"). Generally, the 12-month ECL (stage 1) is used for this loan loss provision. In case the credit risk has increased significantly (stage 2), ECL is calculated based on lifetime expected credit loss. The determination of ECL requires extensive estimation and assumptions. These comprise rating-based probabilities of default and loss given default, which take information about current conditions and forecasts of future economic conditions into account. In order to adequately take the COVID-19 crisis into account, a post model adjustment amounting to the additionally estimated effects was made to the initial result.

This results in the risk for the consolidated financial statements of the Banking Association that after considering above named factors, such as the transfer between stages, the calculation of loan loss provisions taking the post model adjustment into account, is subject to significant estimation and assumptions, resulting in room for discretion as well as estimation uncertainty in respect of the amount of the loan loss provisions.

Our response

In testing the recoverability of receivables from customers we performed the following significant procedures:

- We analysed the process documentation and internal guidelines regarding the monitoring and recognition of loan loss provisions and evaluated whether they are suitable to identify events of default and to adequately determine the recoverability of these receivables from customers. We compiled the relevant key controls, assessed their design and implementation, and tested their effectiveness on a sample basis.
- On a sample basis selected from different portfolios, we evaluated whether evidence of credit default exists. Sampling was performed risk-oriented, subject to special consideration of rating levels, deferred payments granted in the course of the COVID-19 crisis and of industries with increased default risk.
- In case of default of individually significant receivables from customers, the underlying assumptions were tested for conclusiveness, consistency as well as timing and amount of the expected repayments.
- For receivables from customers individually not significant and non-defaulted for which the loan loss provisions are calculated based on the ECL, we analysed the documentation of the applied method for consistency with the requirements of IFRS 9. Additionally, we evaluated, based on the internal validation, the models and parameters used therein as to whether they are suitable to determine loan loss provisions in adequate amounts. We assessed the appropriateness of the 12-month PD (stage 1) and the remaining term PD (stage 2) by evaluating the statistical models and parameters as well as the mathematical methods used. In particular, we assessed the effects of the COVID-19 pandemic on the method used to determine the default probabilities. Furthermore, we analysed the selection and measurement of estimates and scenarios concerning the future and verified their use in the estimation of parameters. We evaluated the derivation and rationale of the post model adjustment, as well as the underlying assumptions

AUDITOR'S REPORT

regarding their appropriateness. We tested the mathematical accuracy and completeness of the loan loss provisions by recalculating the ECL for all receivables from customers subject to credit risk on a simplified basis. We performed these procedures in cooperation with our financial mathematicians as specialists. Additionally, we tested the operating effectiveness of individual automated controls over IT systems on which the calculation model is based in cooperation with internal IT specialists.
- Finally, we evaluated whether the disclosures in the notes regarding the determination of loan loss provisions for receivables from customers and the disclosures regarding significant assumptions and estimation uncertainty in the notes to the consolidated financial statements of the Banking Association are appropriate.

Recognition of deferred tax assets on tax loss carryforwards

Risk for the consolidated financial statements

The deferred tax assets on tax loss carryforwards based on future expected taxable income amounting to EUR 2.5 million in the consolidated statement of financial position of the Banking Association. The Managing Board of VOLKSBANK WIEN AG describes the approach to recognize deferred tax assets in Notes 3u and 22 of the Notes to the consolidated financial statements of the Banking Association.

Recognition of deferred tax assets on tax loss carryforwards highly depends on estimates made by the Managing Board in respect of the future availability of sufficient taxable profit and the reversal of deferred tax liabilities. The assessment of the realisation of tax loss carryforwards, mainly in VOLKSBANK WIEN AG, is based on forecasts and is subject to uncertainties and therefore represents a risk to the consolidated financial statements of the Banking Association.

Our response

- We evaluated the assumptions underlying the forecast of future taxable profit on which deferred tax assets are expected to be realised, for traceability and plausibility. For this purpose, we compared the key input parameters for the forecast of future taxable profit with internal budgeting and with an externally prepared valuation report of VOLKSBANK WIEN AG as of 31 December 2020.
- We assessed the appropriateness of the assumptions made by using externally available data, such as macroeconomic forecasts, and the past results in respect of their planning accuracy. For these procedures, we consulted our valuation specialists.
- Finally, we evaluated the appropriateness of the disclosures in the Notes regarding deferred tax assets.

Other Information

Management is responsible for other information. Other information is all information provided in the annual report (Banking Association's report), other than the consolidated financial statements of the Banking Association, the Banking Association´s management report and the auditor's report. We expect the annual report (Banking Association´s report) to be provided to us after the date of the auditor's report.

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

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

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements of the Banking Association

Management is responsible for the preparation and fair presentation of the consolidated financial statements of the Banking Association in accordance with the Framework of Rules for the preparation of the consolidated financial statements of the Banking Association 2020 and for such internal control as management determines is necessary to enable the preparation

AUDITOR'S REPORT

of consolidated financial statements of the Banking Association that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Banking Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intents to liquidate the members of the Banking Association or to cease operations, or has no realistic alternative but to do so.

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

Banking Association´s Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements of the Banking Association as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance but provides no guarantee that an audit conducted in accordance with the AP Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements of the Banking Association.

As part of an audit in accordance with the Austrian Standards on Auditing, which require the audit to be conducted in accordance with ISAs, and voluntarily in accordance with ISA 701, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:
- We identify and assess the risks of material misstatement in the consolidated financial statements of the Banking Association, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banking Association's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Banking Association's ability to continue for the central organization and the assigned member credit institutions as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated financial statements of the Banking Association. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Banking Association to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements of the Banking Association, including the notes, and whether the consolidated financial statements of the Banking Association represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Banking Association to express an opinion on the consolidated financial statements of the Banking Association. We are responsible for the direction, supervision and performance of the audit of the Banking Association. We remain solely responsible for our audit opinion.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.

AUDITOR'S REPORT

- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the Banking Association i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

Report on Other Legal Requirements

Banking Association´s Management Report

In accordance with Austrian company law, the Banking Association´s management report is to be audited as to whether it is consistent with the consolidated financial statements of the Banking Association and prepared in accordance with legal requirements.

Management is responsible for the preparation of the Banking Association´s management report in accordance with Austrian company law and other legal or regulatory requirements.

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

Opinion

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

Statement

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

Engagement Partner

The engagement partner of the audit of the consolidated financial statements of the Banking Association is Mr Walter Reiffenstuhl.

Restriction of use

Our report may not be used for any other purpose than to comply with regulatory requirements. Therefore we shall not be liable for any third party claims.

This report or parts of it may not be made available to any third party without our explicit consent.

Vienna, 17 March 2021

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Walter Reiffenstuhl
Wirtschaftsprüfer
(Austrian Chartered Accountant)

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

TERMINOLOGY AND IMPRINT

160 Terminology

161 Imprint

TERMINOLOGY

Association of Volksbanks
The Association of Volksbanks includes the primary banks as well as VBVM (Volksbank Vertriebs- und Marketing eG).

Banking association in accordance with section 30a of the Austrian Banking Act (BWG)
The banking association comprises the primary banks as associated banking institutions and VOLKSBANK WIEN AG as the central organisation.

Primary banks
8 regional Volksbanks, 1 specialist bank (Österreichische Ärzte- und Apothekerbank AG)

VOLKSBANK WIEN AG
is one of the regional Volksbanks and also the central organisation of the banking association.

Austrian Cooperative Association
Within the Association of Volksbanks, auditing and the representation of interests are effected by Österreichischer Genossenschaftsverband (Schulze-Delitzsch) [Austrian Cooperative Association] – ÖGV in brief. Moreover, since the beginning of 2019, pursuant to the BWG, the ÖGV has been responsible for the early warning of risks regarding its members, together with Einlagensicherung Austria.

IMPRINT

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