VOLKSBANK WIEN

THE REGIONAL SUSTAINABLE RELATIONSHIP BANK.

ANNUAL FINANCIAL REPORT 2020

KEY FIGURES OF VOLKSBANK WIEN AG

Euro million	31 Dec 2020	31 Dec 2019	31 Dec 2018
Statement of financial position			
Total assets	**14,281**	**12,704**	**11,505**
Loans and receivables customers	**5,372**	**5,471**	**5,366**
Amounts owed to customers	**6,637**	**6,439**	**6,344**
Debts evidenced by certificates	**1,464**	**1,453**	**467**
Subordinated liabilities	**407**	**418**	**418**
Own funds according to Basel III for the VOLKSBANK WIEN AG group			
Common equity tier 1 capital (CET1)	656	625	594
Additional tier 1 capital (AT1)	220	220	0
Tier 1 capital (T1)	**876**	**845**	**594**
Tier 2 capital (T2)	401	406	406
Own funds	**1,277**	**1,251**	**1,000**
Risk weighted exposure amount - credit risk	3,288	3,538	3,189
Total risk exposure amount market risk	38	85	86
Total risk exposure amount operational risk	533	530	552
Total risk for credit valuation adjustment	50	44	55
Other risk exposure amount	0	0	279
Total risk exposure amount	**3,909**	**4,196**	**4,161**
Common equity tier 1 capital ratio	**16.8 %**	**14.9 %**	**14.3 %**
Tier 1 capital ratio	**22.4 %**	**20.1 %**	**14.3 %**
Equity ratio	**32.7 %**	**29.8 %**	**24.0 %**
Income statement	**1-12/2020**	**1-12/2019**	**1-12/2018**
Net interest income	116.2	120.0	124.7
Risk provision	-26.6	-7.2	4.8
Net fee and commission income	57.3	55.8	53.8
Net trading income	-1.3	-2.3	1.0
Result from financial instruments and investment properties	3.6	17.9	9.2
Other operating result	107.5	97.5	100.2
General administrative expenses	-206.4	-213.5	-222.3
Restructuring result	0.0	0.0	-4.0
Result from companies measured at equity	-0.1	-0.5	4.5
Result before taxes	**50.3**	**67.8**	**72.0**
Income taxes	-19.5	-10.8	-1.5
Result after taxes	**30.8**	**57.0**	**70.5**
Result attributable to non-controlling interest	0.0	0.0	0.0
Result of the Group	**30.8**	**57.0**	**70.5**
Key ratios	**1-12/2020**	**1-12/2019**	**1-12/2018**
Operating cost-income-ratio	**73.2 %**	**78.2 %**	**78.8 %**
ROE before taxes	**5.6 %**	**8.4 %**	**12.1 %**
ROE after taxes	**3.4 %**	**7.1 %**	**11.9 %**
ROE consolidated net income	**3.4 %**	**7.1 %**	**12.0 %**
Net interest margin	**0.8 %**	**0.9 %**	**1.1 %**
NPL ratio	**2.0 %**	**2.2 %**	**2.0 %**
Leverage ratio	**5.7 %**	**5.9 %**	**4.7 %**
Net stable funding ratio	**146.2 %**	**130.5 %**	**124.2 %**
Liquidity Coverage Ratio	**206.0 %**	**153.2 %**	**130.4 %**
Loan deposit ratio	**67.8 %**	**71.5 %**	**82.7 %**
Coverage ratio I	**37.4 %**	**30.5 %**	**29.8 %**
Coverage ratio III	**105.6 %**	**100.1 %**	**104.7 %**
Resources	**1-12/2020**	**1-12/2019**	**1-12/2018**
Staff average	**1,272**	**1,279**	**1,299**
Thereof domestic	1,272	1,279	1,299
	31 Dec 2020	**31 Dec 2019**	**31 Dec 2018**
Staff at end of period	**1,302**	**1,268**	**1,290**
Thereof domestic	1,302	1,268	1,290
Number of branches	**58**	**63**	**70**
Thereof domestic	58	63	70
Number of customers	**333,382**	**344,202**	**360,545**

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.

TABLE OF CONTENTS

VOLKSBANK WIEN AG

GROUP MANAGEMENT REPORT

CONSOLIDATED FINANCIAL STATEMENTS

INDIVIDUAL ANNUAL FINANCIAL STATEMENTS

OFFICERS AND ADRESSES

FOREWORD BY THE CHIEF EXECUTIVE OFFICER

Gerald Fleischmann

CEO and Chairman
of the Managing Board

VOLKSBANK WIEN AG has made a lot of progress in 2020, both as the largest regional bank among Austrian Volksbanks and in its function as the central organisation for the entire Association of Volksbanks in Austria.

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

The outbreak of the coronavirus pandemic and the resulting organisational and economic consequences constituted the biggest challenge of the year 2020. VOLKSBANK WIEN AG managed to maintain stable current operations at all times, all retail branches remained open throughout the year. Apart from current operations, important strategic projects, in particular with respect to the organisation of the Association and to digitisation, were continued in spite of the restrictions.

Beyond the pandemic, VOLKSBANK WIEN AG, just like the financial sector as a whole, was facing big challenges in 2020, due to the low interest rate environment and high regulatory expenses. By simplifying the business model, we aim at achieving further efficiency increases in the medium term. The bank focuses on the core areas of deposits, loans and payment transactions. In the service business with consumer credits, insurances, securities, leasing, building society savings and other areas, VOLKSBANK WIEN AG sells products sourced from top-quality partners with excellent expertise in these areas, such as TeamBank, the ERGO insurance company, and Union Investment.

Service business with the product partners developed very positively. VOLKSBANK WIEN AG achieved very good sales figures of approx. euro 60 million in the previous year again within the scope of our cooperation – of several years already – with TeamBank in the area of consumer financing. In the sphere of investment funds, too, the fifth year of cooperation with Union Investment was very encouraging: the excellent products of this international investment company were highly appreciated by the Austrian market, with sales amounting to almost euro 240 million in VOLKSBANK WIEN AG alone. The low interest rate environment as well as the uncertainties caused by the pandemic and its economic consequences have led customers to increasingly seek the professional advice of our experts for investment in securities.

The lending business was marked by the effects of the coronavirus crisis in 2020. Bridging loans and deferments dominated the corporate financing business in terms of quantity. Due to multiple government measures, the pandemic has not impacted the number of defaults in 2020 in any significant way. But VOLKSBANK WIEN AG has started to work on the management of potential future scenarios together with its customers early on. The only area of growth within lending business was real estate financing as, due to economic uncertainties, real estate investments were highly sought after.

The branches still constitute the primary sales channel of VOLKSBANK WIEN AG. The combination of individual branches ensures that a high level of competence is available at all locations, both in retail and in corporate banking. All measures taken within the branch and sales organisation are aimed at putting an even greater focus on the customer and the quality of the consultancy we provide. Obviously, this also includes continuous investments in the professional training and further development of our employees. It is one of our clear goals to further enhance consultancy standards. In 2020, we applied a new sales concept at VOLKSBANK WIEN AG, referred to as 'Hausbank der Zukunft' (the relationship bank of the future), supporting the assignment of customers to the account manager ideally suited to the task.

The digital world constitutes another important sales channel for all banks. Already in 2016, VOLKSBANK WIEN AG had responded to this development by introducing a new digital web presence. Due to the restrictions of movement, digitisation in retail banking made huge progress in 2020. We have significantly expanded our offer with the 'hausbanking' services launched in spring, providing customers with many new product and service orders to digitally perform additional tasks relating to their financial transactions.

Owing to the modern digital infrastructure, standard tasks can be carried out within 'hausbanking' by the customers themselves, while our consultants are available for individual meetings in case of complex consultancy requirements.

Having consolidated liquidity and equity by way of three public issues in 2019, we took another step to safeguard the liquidity situation in 2020, through a euro 1.5 billion ECB refinancing loan. This enables us to properly fulfil our main function in economic terms, namely the financing of private individuals and businesses. The focus at Volksbank is on small- and medium-sized enterprises, in particular, which constitute a mainstay of the Austrian economy. Private customers appreciate the personal quality of our consultancy at eye level and the services tailored to their individual needs.

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

The year 2020 was marked by numerous changes that have created many opportunities for the years to come. I would like to thank all employees, officers and owners for their enormous commitment. And I want to thank our customers especially, for their great loyalty to VOLKSBANK WIEN AG in the past year.

Vienna, April 2021

Gerald Fleischmann
CEO and Chairman of the Managing Board

REPORT OF THE SUPERVISORY BOARD

pursuant to section 96 of the Austrian Stock Corporation Act (Aktiengesetz) for the 2020 business year

Heribert Donnerbauer

Chairman
of the Supervisory Board

In four ordinary and two extraordinary meetings in the 2020 business year, in further discussions and numerous committee meetings, the Supervisory Board obtained information on the legality, expediency and efficiency of the management as well as on the situation, development and business strategy of the company. The Supervisory Board also discussed the topics that VOLKSBANK WIEN AG as the central organisation of the Association of Volksbanks is responsible for under Section 30a Austrian Banking Act.

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

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

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

The Working and Risk Committee held four meetings in 2020, where the investments falling within its sphere of competence, as well as the risk topics, the risk strategy, and the current risk situation of the company and of the Association of Volksbanks were dealt with, especially also in the context of the coronavirus pandemic. Credit decisions were also taken by circular resolution by the Working and Risk Committee.

The Audit Committee held four meetings in 2020. Apart from the audit of the annual financial statements, the consolidated financial statements and the financial statements of the Association, especially the internal control system and the risk management system were discussed in these meetings, with regular reporting from Internal Audit and the Compliance Office.

In 2020, in two meetings, the Remuneration Committee dealt with the principles of remuneration policy and with the remuneration report of VOLKSBANK WIEN AG and of the Association of Volksbanks.

The Nomination Committee held two meetings in 2020. In this context, it first dealt with the reappointment of Thomas Uher as Deputy Chairman of the Managing Board, as recommended by the Nomination Committee. Furthermore, the Compliance Office reported to the Nomination Committee on the Supervisory Board members' compliance with the Fit & Proper provisions. Finally, the Nomination Committee dealt with the annual evaluation of the Managing Board and Supervisory Board members and approved the update of the company's Fit & Proper Policy.

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

The 2020 financial year was significantly impacted by the challenges of the coronavirus pandemic. In the course of regular reporting by the Managing Board, the Supervisory Board was able to satisfy itself that these challenges were well met. Thus, regular banking operations were maintained easily thanks to progress in digitisation and a great deal of flexibility on the part of the bank's employees. The customers of VOLKSBANK WIEN AG were supported and accompanied through this crisis by their account managers, showing that the regional business model of Volksbanks definitely proves its worth even in difficult market conditions. Having overcome the challenges of the pandemic, the focus will need to be on managing the phase of restructuring and recovery equally well. The new major challenges for the banking industry are addressed as well, namely operational security (buzzword cyber-crime) and sustainability. The Volksbanks are focusing on both topics with projects and training courses. In addition, the programme of optimising and bundling processes and services within the Association of Volksbanks will be continued in order to further strengthen profitability.

The Supervisory Board of VOLKSBANK WIEN AG and its committees held some of their meetings in virtual form, making use of the legal facilitations due to the coronavirus pandemic. VOLKSBANK WIEN AG's Annual General Meeting on 15 May 2020 and its Extraordinary General Meeting on 15 December 2020 were also held in virtual form. This Extraordinary General Meeting resolved to authorise the Managing Board to accept an offer to repurchase participation certificates from 2006 and to subsequently annul them, as this participation capital does not meet the statutory requirements for Tier 1 capital and will lose its regulatory eligibility at the end of the grandfathering period after 31 December 2021.

Following the Supervisory Board's decision in 2019 to reappoint the Managing Board members Gerald Fleischmann, Chairman of the Managing Board, and Rainer Borns, Deputy Chairman of the Managing Board, for another five-year term of office, simultaneously confirming the excellent work of the existing Managing Board team of VOLKSBANK WIEN AG, Thomas Uher, Deputy Chairman of the Managing Board, was also appointed for another five-year term of office in 2020. The continuity and stability ensured in this way were decisive for the good management of the coronavirus pandemic.

On the occasion of the works council election held at VOLKSBANK WIEN AG in November 2020, the works council was reconstituted, which also involved a change in the members delegated by the works council to the Supervisory Board of VOLKSBANK WIEN AG. Thus, as of 25 November 2020, instead of the previous members Andrea Mayer, Michaela Pokorny and Rainer Obermayer, the new Chairman of the Works Council Christian Rudorfer as well as Elisabeth Sölkner and Bettina Wicha were appointed as delegates to the Supervisory Board.

The annual financial statements as at 31 December 2020, including the management report, were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (KPMG) and were given an unqualified audit certificate. The consolidated financial statements as at 31 December 2020 including the group management report were audited by KPMG and also provided with an unqualified audit certificate. The financial statements of the Association as at 31 December 2020 were also audited by KPMG and provided with an unqualified audit certificate.

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

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

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

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

Finally, the Supervisory Board would like to thank the Managing Board and all employees, whose tireless efforts have made it possible to successfully conclude this challenging financial year 2020.

Vienna, March 2021

For the Supervisory Board of VOLKSBANK WIEN AG:

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

THE MANAGING BOARD

Chairman:

Gerald Fleischmann

born 27 February 1969

CEO

Area of responsibility:

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

Deputy Chairman:

Rainer Borns

born 7 August 1970

Deputy-CEO

Area of responsibility:

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

Deputy Chairman:

Thomas Uher

born 15 June 1965

Deputy-CEO

Area of responsibility:

- Digital Transformation
- Credit Risk Management, Restructuring & Recovery
- Risk Controlling
- VB Services für Banken MSC Aktiv and loan processing
- VB Services für Banken Handling of securities/payment transactions and MSC Passiv/KSC

Joint Managing Board

Area of responsibility:

- Compliance
- Audit

THE SUPERVISORY BOARD

Heribert Donnerbauer
Donnerbauer & Hübner Rechtsanwälte GmbH
Chairman

Franz Gartner
Muncipiality of Traiskirchen
First Deputy Chairman

Robert Oelinger
Certified Public Accountants/tax consultants
Second Deputy Chairman

Susanne Althaler
Member

Anton Fuchs
Member

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

Eva Schütz
Law firm of Hieblinger-Schütz
Member

Christian Lind
Member

Harald Nograsek
Member

Monika Wildner
Independent lawyer
Member

Works council delegates:

Chairman of the Works council Christian Rudorfer from 25 November 2020

Hermann Ehinger

Elisabeth Sölkner from 25 November 2020

Bettina Wicha from 25 November 2020

Manfred Worschischek

Andrea Mayer until 24 November 2020

Rainer Obermayer until 24 November 2020

Michaela Pokorny until 24 November 2020

State Commissioners:

Christian Friessnegg
State Commissioner

Katharina Hafner
Deputy State Commissioner

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT

Report on the business development and economic situation

Business development

In the 2020 financial year, the business development at VOLKSBANK WIEN AG (VBW) 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. 3,920 financing solutions of some 2,750 customers were aligned with the customers' resources within the scope of COVID-19 measures; deferment measures were agreed for 3,080 accounts, while in approx. 840 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, VBW 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 -7.2 million in the previous year to euro -26.6 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 5.7 million and of euro 2.4 million in Stage 3. Additionally, provisions were recorded as post-model adjustments for the Performing business in the amount of euro 12.9 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 VBW. During the pandemic, VBW 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 2.1 million in the reporting period compared to the comparative period of the previous year.

In these challenging times, the protection of the employees of VBW 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 for VBW of approximately euro 11 million in total over the next four years. In the 2020 financial year, this resulted in additional expenditure of some euro 2.9 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 administrative expenses, which is why the annual result before taxes of VBW decreased by euro 17.5 million year-on-year to euro 50.3 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, 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.

Group result for the 2020 financial year

The result of the group before taxes amounts to euro 50.3 million (2019: euro 67.8 million), the result of the group after taxes and minority shares to euro 30.8 million (2019: euro 57.0 million).

Interest and similar income decreased from euro 196.4 million to euro 187.0 million in 2020. The main reason for this is the euro 5.2 million decrease in interest income from customers and the euro 3.6 million decrease in income from bonds and other fixed-income securities.

In the case of interest and similar expenses in the amount of euro 70.8 million (previous year: euro 76.4 million), interest on amounts owed to credit institutions decreased by euro 1.1 million year-on-year due to the decline in interest rates. Furthermore, interest expenses for amounts owed to customers have decreased from euro 3.9 million in 2019 to euro 3.4 million in 2020. On the other hand, there were positive effects from derivative financial instruments in the amount of euro 4.5 million.

This results in net interest income of euro 116.2 million, which is euro 3.8 million lower than the result for the comparative period (2019: euro 120.0 million).

The risk provision item increased in 2020 to euro -26.6 million compared to euro -7.2 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.

The net fee and commission income in the reporting period amounts to euro 57.3 million, an increase compared to the previous period (2019: euro 55.8 million). The increase essentially results from securities business.

Net trading income amounts to euro -1.3 million for the reporting period and has improved by euro 1 million compared to the previous year (2019: euros -2.3 million). The increase is due to measurement results of trading book derivatives that are used for hedging banking book items.

The result from financial instruments and investment properties for the reporting period amounts to euro 3.6 million, thus undercutting the comparative period (euro 17.9 million) by euro 14.3 million. The decrease essentially results from reduced gains from carrying amounts upon disposal (euro -7.9 million) due to non-recurring effects from the previous year, as well as reduced reversals of impairments for loans and receivables to customers and securities measured at fair value (euro -5.9 million). This was offset essentially by a lower negative valuation result of securitised debts measured at fair value (euro +2.3 million).

The other operating result in the amount of euro 107.5 million shows a slight increase by comparison with the previous year (euro 97.5 million). This item shows the proceeds from the sale of the former head office in 1090 Vienna, Kolingasse, as non-recurring effect in the amount of euro 22.8 million. However, the income from costs charged out by the CO under the Association Agreement decreased by euro 11.1 million in 2020 against the pervious year's period.

General administrative expenses for the business year amount to euro 206.4 million (2019: euro 213.5 million), confirming the trend of the past few years. The decrease mainly occurred in legal, auditing and consultancy expenses, as well as in administrative expenses for business premises.

The change in income taxes in the amount of euro 8.7 million essentially results from the increase in deferred tax expense. Due to the tax planning of the next four years, it was possible, in the reporting period, to recognise deferred tax assets for part of the tax loss carried forward. For additional tax loss carry-forwards existing in the amount of euro 256 million (2019: euro 202 million), no deferred tax assets are recognised.

Financial position

As at 31 December 2020, total assets amounted to euro 14.3 billion and have slightly increased by comparison with the end of 2019 (euro 12.7 million) by euro 1.6 billion. The increase essentially results from the deposit with the OeNB due to participation in the TLTRO III Tender.

Loans and receivables to credit institutions amounting to euro 2.3 billion have decreased moderately compared to the end of the previous period (euro 2.5 billion). The decrease essentially results from lower refinancing requirements of the banks of the Association.

As at 31 December 2020, loans and receivables to customers, less risk provisions, amount to euro 5.4 billion and have moderately decreased against the previous year (euro 5.5 billion), primarily due to a decline in the utilisation of current account overdraft facilities due to the COVID-19 pandemic.

The financial investments of euro 2.3 billion at the reporting date have increased against the previous year (euro 2.2 billion) mainly because of investments in bonds measured at amortised cost.

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. In the 2019, this position primarily shows the carrying amount of the former headquarters in 1090 Vienna, Kolingasse.

Amounts owed to credit institutions increased to euro 4.2 billion compared to year-end 2019 (euro 2.8 billion), mainly due to participation in the European Central Bank's TLTRO III programme in the amount of euro 1.5 billion. The increase in amounts owed to customers from euro 6.4 billion in 2019 to euro 6.6 billion in 2020 essentially results from an increase in other deposits.

Report on branch establishments

The VBW Group does not have any branch establishments.

Financial performance indicators

As at 31 December 2020, the regulatory own funds of the VBW group of credit institutions amount to euro 1.3 billion (31 December 2019: euro 1.3 billion). The total risk amount was euro 3.9 billion as at 31 December 2020 (31 December 2019: euro 4.2 billion). The CET 1 capital ratio in relation to total risk amounts to 16.8 % (31 December 2019: 14.9 %), the total capital ratio in relation to total risk is 32.7 % (31 December 2019: 29.8 %).

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	5.6%	8.4%	12.1%
Return on Equity after taxes	3.4%	7.1%	11.9%
Cost-income ratio	73.2%	78.2%	78.8%

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

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

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

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

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

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

Report on the company's future development and risks

Future development of the company

Economic environment

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 precrisis 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 company

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 of Volksbanks 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 of Volksbanks 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 VBW, as a retail bank, 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 of VBW. This provides an opportunity to offer faster services to our customers, thus strengthening the customer relationship. It is gratifying to note that VBW now has a very competitive product on the market in the form of the "hausbanking" app.

By forming appropriate risk provisions, VBW 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 to VBW, a positive annual result is expected for the 2021 financial year, despite significantly higher planned risk expenditure.

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 consolidated financial statements.

Report on research and development

The VBW Group is not active in research and development.

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

Control environment

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

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

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

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

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

Risk assessment

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

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

Information and communication

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

The staff of the group accounting function are regularly briefed with respect to amendments in international accounting, in order to identify any risks of unintentional false reporting at an early stage. Moreover, employees in group accounting communicate this information to the employees of the subsidiaries.

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

Monitoring

Top management regularly receives summary financial reports, such as quarterly reports on the development of the respective segments and the most important financial performance indicators. Financial statements that must be published are subjected to a final check by executive employees within accounting, divisional management and the Managing Board before they are forwarded to the competent bodies. The result of the 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.

CONSOLIDATED FINANCIAL STATEMENTS

Statement of comprehensive income

INCOME STATEMENT	Note	1-12/2020 Euro thousand	1-12/2019 Euro thousand	Changes Euro thousand	%
Interest and similar income		186,967	196,372	-9,405	-4.79 %
thereof using the effective interest method		172,254	181,672	-9,418	-5.18 %
Interest and similar expenses		-70,757	-76,367	5,610	-7.35 %
Net interest income	4	116,210	120,005	-3,795	-3.16 %
Risk provision	5	-26,606	-7,178	-19,428	> 200.00 %
Fee and commission income		78,569	78,629	-60	-0.08 %
Fee and commission expenses		-21,251	-22,836	1,584	-6.94 %
Net fee and commission income	6	57,318	55,793	1,525	2.73 %
Net trading income	7	-1,283	-2,287	1,005	-43.93 %
Result from financial instruments and investment properties	8	3,587	17,885	-14,298	-79.94 %
Other operating result	9	107,478	97,527	9,951	10.20 %
General administrative expenses	10	-206,368	-213,460	7,093	-3.32 %
Result from companies measured at equity		-81	-501	420	-83.91 %
Result before taxes		**50,255**	**67,784**	**-17,529**	**-25.86 %**
Income taxes	11	-19,480	-10,751	-8,729	81.19 %
Result after taxes		**30,775**	**57,033**	**-26,257**	**-46.04 %**
Result attributable to shareholders of the parent company (Consolidated net result)		**30,787**	**57,013**	**-26,225**	**-46.00 %**
thereof from continued operation		30,787	57,013	-26,225	-46.00 %
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	**30,775**	**57,033**	**-26,257**	**-46.04 %**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation of obligation of defined benefit plans (including deferred taxes)	3,895	-3,012	6,906	< -200.00 %
Revaluation reserve (including deferred taxes)	0	952	-952	-100.00 %
Fair value reserve - equity instruments (including deferred taxes)	-3,191	496	-3,688	< -200.00 %
Revaluation of own credit risk (including deferred taxes)	-106	-422	316	-74.84 %
Total items that will not be reclassified to profit or loss	**597**	**-1,985**	**2,582**	**-130.07 %**
Items that may be reclassified to profit or loss				
Fair value reserve - debt instruments (including deferred taxes)				
Change in fair value	35	4,153	-4,118	-99.15 %
Net amount transferred to profit or loss	0	1	-1	-100.00 %
Change in deferred taxes arising from untaxed reserve	0	6,119	-6,119	-100.00 %
Change from companies measured at equity	-423	1,852	-2,274	-122.82 %
Total items that may be reclassified to profit or loss	**-387**	**12,125**	**-12,512**	**-103.19 %**
Other comprehensive income total	**210**	**10,140**	**-9,930**	**-97.93 %**
Comprehensive income	**30,985**	**67,172**	**-36,187**	**-53.87 %**
Comprehensive income attributable to shareholders of the parent company	**30,990**	**67,153**	**-36,162**	**-53.85 %**
thereof from continued operation	30,990	67,153	-36,162	-53.85 %
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	3,798,482	1,913,513	1,884,969	98.51 %
Loans and receivables credit institutions	13, 14	2,286,014	2,466,415	-180,401	-7.31 %
Loans and receivables customers	13, 14	5,372,333	5,471,336	-99,004	-1.81 %
Assets held for trading	15	59,775	60,220	-444	-0.74 %
Financial investments	14, 16	2,283,330	2,224,641	58,689	2.64 %
Investment property	17	30,186	33,059	-2,873	-8.69 %
Companies measured at equity	18	38,691	39,194	-503	-1.28 %
Participations	19	49,160	52,967	-3,807	-7.19 %
Intangible assets	20	20,671	22,597	-1,926	-8.52 %
Tangible assets	21	139,519	167,453	-27,934	-16.68 %
Tax assets	22	43,538	63,035	-19,497	-30.93 %
Current taxes		3,868	6,343	-2,475	-39.02 %
Deferred taxes		39,669	56,691	-17,022	-30.03 %
Other assets	23	158,436	132,939	25,496	19.18 %
Assets held for sale	24	942	56,482	-55,540	-98.33 %
TOTAL ASSETS		**14,281,075**	**12,703,850**	**1,577,225**	**12.42 %**
LIABILITIES					
Amounts owed to credit institutions	25	4,165,780	2,802,911	1,362,869	48.62 %
Amounts owed to customers	26	6,636,565	6,438,600	197,965	3.07 %
Debts evidenced by certificates	27	1,463,851	1,452,807	11,043	0.76 %
Lease liabillities	28	85,826	100,927	-15,102	-14.96 %
Liabilities held for trading	29	62,596	78,079	-15,483	-19.83 %
Provisions	30, 31	69,318	78,771	-9,454	-12.00 %
Tax liabilities	22	2,035	1,757	278	15.79 %
Current taxes		1,331	758	574	75.71 %
Deferred taxes		703	999	-296	-29.64 %
Other liabilities	32	480,235	438,115	42,120	9.61 %
Subordinated liabilities	33	406,879	417,783	-10,904	-2.61 %
Equity	35	907,990	894,098	13,892	1.55 %
Shareholders' equity		904,161	890,230	13,930	1.56 %
Non-controlling interest	35	3,830	3,867	-38	-0.98 %
TOTAL LIABILITIES		**14,281,075**	**12,703,850**	**1,577,225**	**12.42 %**

Changes in the Group's equity

Euro thousand	Subscribed capital	Additional tier 1 capital	Capital reserves	Retained earnings and fair value reserve	Shareholders' equity	Non-controlling interest	Equity
As at 1 January 2019	**137,547**	**0**	**227,836**	**248,619**	**614,001**	**3,886**	**617,887**
Consolidated net income				57,013	57,013	20	57,033
Other comprehensive income				10,140	10,140		10,140
Comprehensive income	0	0	0	67,153	67,153	20	67,172
Capital increase	0	217,722	0		217,722		217,722
Dividends paid				-8,974	-8,974	-16	-8,990
Payment Shareholder			422		422		422
Reclassification capital reserve			-422	422	0		0
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation				-94	-94	-22	-116
As at 31 December 2019	**137,547**	**217,722**	**227,836**	**307,126**	**890,230**	**3,867**	**894,098**
Consolidated net income				30,787	30,787	-12	30,775
Other comprehensive income				203	203	7	210
Comprehensive income	0	0	0	30,990	30,990	-5	30,985
Dividends paid				-17,489	-17,489	-13	-17,502
Payment Shareholder			414		414		414
Reclassification capital reserve			-414	414	0		0
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation				15	15	-19	-4
As at 31 December 2020	**137,547**	**217,722**	**227,836**	**321,056**	**904,161**	**3,830**	**907,990**

For further details see note 35 equity.

Cash flow statement

Euro thousand	Note	1-12/2020	1-12/2019
Annual result (before non-controlling interest)		**30,775**	**57,033**
Non-cash positions in annual result			
Net interest income	4	-116,210	-120,005
Income from participations	8	-1,123	-1,221
Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets	8, 10	14,602	11,611
Allocation to and release of provisions, including risk provisions	5, 10	28,069	12,548
Gains from the sale of financial investments and fixed assets	8, 9	-21,077	-6,650
Income taxes	11	19,180	11,106
Changes in assets and liabilities from operating activities			
Loans and advances to credit institutions	13	179,985	-481,163
Loans and advances to customers	13	83,242	-106,692
Trading assets	15	-730	4,240
Financial investments	16	98,428	219,250
Other assets from operating activities	23	7,201	-8,944
Amounts owed to credit institutions	25	1,363,873	-255,209
Amounts owed to customers	26	198,593	93,894
Debts evidenced by certificates	27	14,490	987,846
Derivatives	15, 23, 29, 32	5,844	-7,057
Other liabilities	32	-847	-2,463
Interest received		151,649	164,126
Interest paid		-63,720	-59,123
Dividends received		1,123	1,221
Income taxes paid		322	-7,112
Cash flow from operating activities		**1,993,668**	**507,236**
Proceeds from the sale or redemption of			
Financial investments at amortised cost	16	431	7,667
Participations	19	54	11
Intangible and tangible assets	20, 21	84,039	5,000
Investment property	17	2,680	699
Payments for the acquisition of			
Financial investments at amortised cost	16	-160,086	-360,346
Participations	19	-503	-3,962
Intangible and tangible assets	20, 21	-3,617	-14,240
Investment property	17	-35	-17
Cash flow from investing activities		**-77,037**	**-365,188**
Payment Shareholder	35	414	422
Additional tier 1 capital	35	0	217,722
Dividends paid	35	-17,502	-8,990
Cash outflow of lease liabilities	28	-3,422	-2,286
Cash inflow of subordinated liabilities	33	0	0
Cash outflow of subordinated liabilities	33	-11,147	-792
Acquisition of non-controlling interest	35	-4	-116
Cash flow from financing activities		**-31,663**	**205,961**
Cash and cash equivalents at the end of previous period	12	**1,908,612**	**1,560,603**
Cash flow from operating activities		1,993,668	507,236
Cash flow from investing activities		-77,037	-365,188
Cash flow from financing activities		-31,663	205,961
Cash and cash equivalents at the end of period	12	**3,793,581**	**1,908,612**

Details of the calculation method of cash flow statement are shown in note 3) ii).
Details to cash in- and outflow of subordinated liabilities are shown in note 33).

NOTES

1) General information

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

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

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

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

These consolidated financial statements were signed by the Managing Board on 16 March 2021 and subsequently approved to be forwarded to the Supervisory Board.

2) Presentation and changes in the scope of consolidation

There were no changes in the scope of consolidation of the VBW Group in the fiscal year.

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 said shares without any further consideration and to claim additional ordinary shares of VBW from the VBW shareholders, in the amount of 8 % of the share capital of VBW without any further consideration. Therefore, if the disposition event occurs, up to 33 % plus 1 share of the VBW shares may transfer to the (legal and beneficial) ownership of the federal government, and the latter would be able to freely dispose of said holding of shares (subject to the pre-emptive right granted). In case the pre-emptive right granted by the federal government is exercised by a purchaser nominated by VBW and a minimum threshold for the sum of the distributions in respect of the federal government's participation right and of the creditable amounts is missed again, the shareholders of VBW have undertaken to transfer to the federal government additional ordinary shares of VBW in the amount of the VBW shares previously transferred to the federal government and acquired by the purchaser nominated by VBW, with immediate unrestricted power of disposition of the federal government.

According to its contractual obligations towards the federal government, VBW must submit to the Volksbanks a proposal for the total amount to be distributed with respect to the federal government’s participation right by RZG in the subsequent calendar year and for the total amount of the primary banks’ contributions required for this purpose (indirect contributions of the Volksbanks and direct contribution of VBW to RZG) by 30 November of each year. VBW is charged according to the share of its retail segment in the Association of Volksbanks (total assets UGB/BWG). Of the total repayment amount of euro 300 million that was promised to the federal government, euro 76 million have been repaid as at 31 December 2020. The threshold of euro 75 million as at 31 December 2019 was reached ahead of schedule. The next threshold as at 31 December 2021 amounts to euro 200 million.

Number of consolidated companies

	31 Dec 2020			31 Dec 2019		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Fully consolidated companies						
Credit institutions	1	0	1	1	0	1
Financial institutions	1	0	1	1	0	1
Other companies	8	0	8	8	0	8
Total	**10**	**0**	**10**	**10**	**0**	**10**
Companies measured at equity						
Credit institutions	1	0	1	1	0	1
Other companies	1	0	1	1	0	1
Total	**2**	**0**	**2**	**2**	**0**	**2**

Number of unconsolidated companies

	31 Dec 2020			31 Dec 2019		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Affiliates	5	0	5	5	0	5
Associated companies	3	0	3	3	0	3
Companies total	**8**	**0**	**8**	**8**	**0**	**8**

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

The complete list of companies included in the consolidated financial statements, companies measured at equity, as well as the unconsolidated companies including detailed information, can be found at the end of the notes (see notes 52), 53) and 54)).

3) Accounting principles

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

Furthermore, the following reclassifications were made in accordance with IAS 8.49

Euro thousand	Retained earnings	Fair value reserve	Fair value reserve - debt instruments	Retained earnings and other reserves
As at 01 Jan 2019 reported	**407,531**	**-162,266**	**-159,155**	**-3,111**
Reclassification	-174,153	174,153	174,153	0
As at 01 Jan 2019	**233,377**	**11,887**	**14,998**	**-3,111**

The reclassification is mainly due to the fact that the PPA effects of Volksbanken Holding eGen and UVB-Holding GmbH (euro 229 million) and the related tax effects (euro -54 million) from 2015 were not taken into account during the IFRS 9 conversion. This resulted in a shift between fair value reserve and retained earnings, which is, however, balanced out within equity.

VBW Group's consolidated financial statements for 2020 as well as the comparative figures 2019 have been prepared in accordance with the IFRS/IAS and thus fully comply with the provisions set out in section 245a of the Austrian Commercial Code and section 59a of the Austrian Banking Act regulating exempting consolidated financial statements prepared in accordance with internationally recognised accounting principles.

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

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

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

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

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 Jan 2020	No
Amendments to IAS 1 and IAS 8: Definition of Material	01 Jan 2020	No
Amendments to IFRS 3 Business Combinations	01 Jan 2020	No
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform	01 Jan 2020	No

Standards and interpretations to be applied in the future

Standard	Mandatory application	Significant effects on the Association
Amendment to IFRS 16 Leases COVID-19-Related Rent Concessions	01 Jun 2020	No
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interes Rate Benchmark Reform - Phase 2	01 Jan 2021	No
Amendments to IAS 37 - Provisions, Contingent Liabilities Contingent Asset	01 Jan 2022	No
Annual Improvements 2018 - 2020	01 Jan 2022	No
Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use	01 Jan 2022	No
Amendments to IFRS 3 - Reference to Conceptual Framework	01 Jan 2022	No
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	01 Jan 2023	No
IFRS 17 - Insurance Contracts	01 Jan 2023	No
Amendments to IFRS 10 and IAS 28: Sales or Contributions of Assets between an Investor and its Associate/Joint Venture	open	No

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 Group 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 VBW, 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 notes 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 notes 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

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

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

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

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

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

e) Currency translation

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

The individual financial statements of fully consolidated companies prepared in currencies other than the euro are translated using the modified closing rate method set out in IAS 21. Under this method, all assets and liabilities are translated at the spot exchange mean rate effective on the balance sheet date, while the historical rate is applied for the translation of equity. Differences resulting from the translation of the financial statements of foreign subsidiaries are recognised in the currency translation reserve in equity. Any goodwill disclosed hidden reserves and liabilities arising from the initial consolidation of foreign subsidiaries prior to 1 January 2005 have been translated at historical rates. Any goodwill disclosed hidden reserves and liabilities arising from business combinations after 1 January 2005 are translated at the spot exchange mean rate on the Group's reporting date. As at 31 December 2020, the scope of consolidation of VBW does not include any foreign subsidiary in foreign currency.

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

f) Net interest income

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

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

Net interest income consists of:

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

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

g) Risk provision

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

h) Net fee and commission income

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

i) Net trading income

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

j) Result from financial instruments and investment properties

The result from financial instruments and investment properties consists of:

- Realised gains and losses from disposal of financial 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 investments. In case of derecognition of debt instruments measured at fair value through OCI, a reclassification from fair value reserve – debt instruments to the income statement takes place.

The fair value changes of financial assets measured at fair value through profit or loss and of financial liabilities where the fair value option is applied are reported in 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 VBW Group becomes party to a contract on the financial instrument and thus acquires the right to receive, or assumes a legal obligation to pay, liquid funds. Financial assets and liabilities are recognised or derecognised on the trading day. The trading day is the date when the Group undertakes to buy or sell the assets concerned, respectively to issue or redeem the financial obligations.

The Group classifies its financial assets and liabilities using the following categories. Upon initial recognition, financial instruments must be measured at fair value. In case of financial instruments that are not measured at fair value through profit or loss directly attributable transaction costs that increase the fair value of financial assets or decrease it when a financial liability is established must also be included in the fair values as incidental acquisition costs. Pursuant to

IFRS 13, the fair value is defined as the current exit value. This is the price that market participants receive or pay within the scope of an ordinary transaction for the sale of an asset or transfer of a liability. The fair value is either a price determined on an active market or is determined using valuation models. The input parameters relevant for the respective valuation model may either be directly observable in the market or, if not observable in the market, determined by expert estimate. During subsequent measurement, financial instruments are recognised in the balance sheet either at amortised cost or at fair value, depending on the respective category.

Financial liabilities

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

Derecognition and modification

Basically, a financial asset is derecognised on the date on which the contractual rights to its cash flows expire. The regulation for the derecognition of bad debts is described in note 3) 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 VBW Group conducts transactions in which financial assets are transferred, but the opportunities or risks incident to the ownership of the asset remain with the Group. If the Group retains all or substantially all opportunities and risks, the financial asset is not derecognised, but still reported in the balance sheet. Such transactions include, for example, securities lending and repurchase agreements.

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

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 Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.
Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a group of similar transactions, such as in the Group's trading activities.

Measured at amortised cost

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

Measured at fair value through profit or loss

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

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

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

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

The valuation methods are realigned periodically and checked for validity, using prices of current observable market transactions or prices based on available observable market data for the same financial instrument. The fair value measurement of the loans is still effected by way of a discounted cash flow method, discounting the cash flows calculated on the basis of forward rates with the risk-free interest curve including an additional charge. This additional charge 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 Group.

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

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

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

Own equity and debt instruments

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

n) Loans and receivables credit institutions and customers

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

In accordance with IFRS 9, the gross carrying amount of receivables is reduced if it cannot reasonably be expected to be realisable. Therefore, the decisive criterion for derecognition of receivables is their uncollectability. A receivable must be derecognised completely in any case if all prerequisites are fulfilled, no recoverable collaterals exist for the receivables concerned, no other assets of the debtor are known and if alternatively the debtor has not paid in spite of conviction and in spite of execution proceedings, the debtor is insolvent, unless there is any clear prospective quota or hopelessness of execution.

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) Accounting principles m) Financial assets and liabilities 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 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 note 51) Risk report 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 held for trading. No financial assets and liabilities measured at fair value through profit or loss are reported in this position.

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

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 VBW Group, with optimisation of returns being of primary importance. Financial investments are initially recognised at fair value plus incremental direct transaction costs.

Classification of securitised debt instruments

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

Measured at amortised cost

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

Measured at fair value through profit or loss

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

Measured at fair value through OCI

Financial investments are measured at fair value through OCI if the asset was allocated to the business model Hold to collect and sell and if the contractual features of the financial asset only provide for interest and redemption payments 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 exclusively by external appraisers who are selected, among others, based on proven professional qualification and experience of the locations and categories of property being valued. In Austria, appraisals were obtained from IMMO-CONTRACT Maklerges.m.b.H.. External appraisers are paid a fixed fee which does not depend on the appraised market value of the property.

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

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

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

s) Participations and investments in companies measured at equity

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

Companies on which a material influence is exerted are measured according to the equity method. All other participations are reported at fair value, except if their acquisition costs are less than euro 50 thousand and the equity share does not exceed a carrying amount of euro 100 thousand. As these participations are not listed at a stock exchange and no market prices are available on an active market, the participations are measured by means of valuation methods and input factors some of which are not observable. Valuations are effected according to the discounted cash flow method and the peer group approach. Various calculation models are applied. The income approach is used if VBW controls the company or exercises any management function, and budgets are available accordingly. If the company is not controlled, the fair value calculation is performed based on the dividend paid as well as the annual results of the last five years. In case of companies whose object does not permit any regular income or the result of which is controlled by the parent company through settlements, the net assets are used as valuation criterion. In case of participations in 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 and 9.8 % (2019: 6.3 to 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

All subsequent valuations take place at amortised cost. Amortisation of the rights of use is effected on a straight-line basis over the contractual term. For low-value lease objects and for short-term leases (< 12 months), use is made of simplified application, with payments being recognised in expenses on a straight-line basis. For contracts that also include non-lease components in addition to 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 regularly as to whether any essential parameters have changed and if this has any effect on the amount of the lease payments or the term of the lease. 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, any such adjustments must be effected in the same amount with respect to the right of use.

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

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

Office furniture and equipment	up to 10 years
EDP hardware (including calculators, etc.)	up to 5 years
EDP software	up to 4 years
Vehicles	up to 5 years
Customer relationships	up to 20 years
Strongrooms and safes	up to 20 years
Buildings, reconstructed buildings	up to 50 years
Rights of use - Lease	up to 30 years

u) Tax assets and liabilities

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

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

Deferred tax assets in respect of unutilised tax loss carryforwards are recognised to the extent that it is probable that future taxable profit will be available at the same company against which the unused tax losses can be utilised or if sufficient taxable temporary differences exist. The assessment period for the recognition of deferred tax assets for unused tax loss carry-forwards is four years. Deferred tax assets are not recognised for loss carry-forwards, other assets or liabilities whose recoverability is not sufficiently certain. Deferred taxes are not discounted.

v) Other assets

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

w) Liabilities

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

Lease liabilities

The present value of the 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 any index or interest rate

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

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.

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

For existing leases, an assessment is effected regularly as to whether any essential parameters have changed and if this has any effect on the amount of the lease payments or the term of the lease. 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.

x) Employee benefits

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

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

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

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

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

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

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

Parameters for calculating employee benefit obligations

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

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

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

y) 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 built to the amount of the most probable future claims, taking into account cost estimates of contractual partners, experienced data and financial mathematical methods. A contingent liability is reported if an eventual obligation exists and an outflow of resources does not appear probable or no reliable estimate of the amount of the obligation can be made.

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

z) Other liabilities

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

aa) Subordinated liabilities

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

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

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

bb) Equity

Financial instruments issued 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.

cc) Capital reserves

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

dd) Retained earnings

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

ee) Own funds

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

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

Regulatory own funds can be broken down into three elements:
- Common equity tier I (CET1)
- Additional tier I (AT1)
- Supplementary capital or tier II capital (T2)

The first two components comprise the tier I capital.

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

Just like CET1 capital, AT1 capital is available for covering any losses on a current basis. In this context, the central requirement is the subordinate and permanent appropriation of funds, as well as the unrestricted discretion of the issuer as to whether distributions will be made or not. Additionally, it must be possible to convert the instruments into CET1 capital, or to write them off, as soon as 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 %. Minimum core capital requirements are 4.5 % for CET1 and 6.0 % for tier I. The VBW Group complied with these relevant supervisory requirements throughout the entire reporting period and its own funds exceeded the minimum requirements.

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

ff) Trust transaction

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

gg) Repurchase transactions

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

hh) Contingent liabilities

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

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

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

ii) Cash flow statement

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

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

4) Net interest income

Euro thousand	2020	2019
Interest and similar income from	186,967	196,372
Deposits from credit institutions (including central banks)	3,958	0
Credit and money market transactions with credit institutions	10,649	12,205
Credit and money market transactions with customers	127,884	133,105
Fixed-income securities	36,037	39,618
Derivative instruments	8,438	11,443
Interest and similar expenses for	-70,757	-76,367
Liquid funds	-5,239	-5,552
Deposits from credit institutions (including central banks)	-3,954	-5,096
Deposits from customers	-3,365	-3,876
Debts evidenced by certificates	-16,028	-14,986
Subordinated liabilities	-11,250	-11,516
Derivative instruments	-25,815	-30,311
Lease liabilities	-1,741	-1,482
Valuation result - modification	-3,370	-3,588
Valuation result - derecognition	5	41
Net interest income	**116,210**	**120,005**

Net interest income according to IFRS 9 categories

Euro thousand	2020	2019
Interest and similar income from	186,967	196,372
Financial assets measured at amortised cost	174,839	176,713
Financial assets measured at fair value through OCI	1,373	4,959
Financial assets measured at fair value through profit or loss - obligatory	2,317	3,257
Derivative instruments	8,438	11,443
Interest and similar expenses for	-70,757	-76,367
Financial liabilities measured at amortised cost	-38,906	-39,393
Financial liabilities measured at fair value through profit or loss - designated	-2,671	-3,115
Derivative instruments	-25,815	-30,311
Valuation result - modification	-3,370	-3,588
Valuation result - derecognition	5	41
Net interest income	**116,210**	**120,005**

Due to the trend of money market interest rates towards negative reference rates, interest income of euro 10,261 thousand (2019: euro 9,557 thousand) and interest expenses of euro -7,782 thousand (2019: euro -7,812 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.

The total negative interest expense amounts to euro -5,239 thousand (2019: euro -5,552 thousand).

Interest and similar income from financial assets measured at amortised cost and measured at fair value through OCI in the amount of euro 172,254 thousand (2019: euro 181,672 thousand) are calculated by using the effective interest rate method.

5) Risk provision

Euro thousand	2020	2019
Changes in risk provision	-27,185	-9,492
Changes in provision for risks	-1,365	-606
Direct write-offs of loans and receivables	-798	-526
Income from loans and receivables previously written off	3,663	3,924
Valuation result modification/derecognition	-922	-479
Risk provision	**-26,606**	**-7,178**

6) Net fee and commission income

Euro thousand	2020	2019
Fee and commission income	78,569	78,629
Lending business	4,962	5,238
Securities and custody business	29,418	27,316
Payment transactions	32,849	34,750
Foreign exchange, foreign notes and coins and precious metals transactions	109	57
Financial guarantees	1,146	1,221
Other services	10,085	10,047
Fee and commission expenses	-21,251	-22,836
Lending business	-10,386	-11,367
Securities and custody business	-6,111	-6,393
Payment transactions	-4,494	-4,857
Financial guarantees	-235	-192
Other services	-26	-26
Net fee and commission income	**57,318**	**55,793**

Net fee and commission income includes management fees for trust agreements 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	2,001	2,098
Interest rate related transactions	-3,272	-4,411
Net trading income	**-1,283**	**-2,287**

8) Result from financial instruments and investment properties

Euro thousand	2020	2019
Other result from financial instruments	**532**	**15,213**
Result from financial investments and other financial assets and liabilities measured at fair value through profit or loss	-1,405	2,569
Valuation measured at fair value through profit or loss - obligatory	-545	5,296
Loans and receivables credit institutions and customers	-1,044	1,552
Securities	499	3,744
Result from other derivative instruments	1,711	8,876
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	12	447
Result from financial investments and other financial assets and liabilities measured at amortised cost	83	7,828
Realised gains from disposal	243	7,828
Realised losses from disposal	-159	0
Result from financial investments and other financial assets and liabilities measured at fair value through OCI	1,123	1,221
Realised gains from disposal	0	332
Realised losses from disposal	0	-333
Income from participations	1,123	1,221
Result from fair value hedge	-980	-5,280
Valuation of underlying instruments	27,490	73,788
Valuation of derivatives	-28,470	-79,068
Result from investment properties	**3,055**	**2,672**
Rental income from investment property and operating lease	2,939	3,139
Valuation investment properties	116	-467
Result from financial instruments and investment properties	**3,587**	**17,885**

9) Other operating result

Euro thousand	2020	2019
Other operating income	130,809	114,136
Other operating expenses	-20,979	-14,677
Taxes and levies on banking business	-2,352	-1,932
Other operating result	**107,478**	**97,527**

Taxes and levies on banking business include the bank levy in the amount of euro -1,996 thousand (2019: euro -1,743 thousand).

Detailed presentation of other operating income and expenses

Euro thousand	2020	2019
Income from allocation of costs	101,321	112,409
Realised gains from disposal of fixed assets and security properties	22,821	851
Others	6,667	876
Other operating income	**130,809**	**114,136**

Euro thousand	2020	2019
Allocation of costs	-19,455	-14,962
Realised losses from disposal of fixed assets and security properties	-1,534	-765
Expenses for buildings	-976	-296
Allocation/release of provision for negative interest	2,769	1,501
Allocation/release of provision for legal risks	-370	762
Sales comission Kolingasse	0	-831
Others	-1,413	-87
Other operating expenses	**-20,979**	**-14,677**

10) General administrative expenses

Euro thousand	2020	2019
Staff expenses	-118,393	-116,559
Wages and salaries	-90,421	-87,703
Expenses for statutory social security	-23,194	-22,833
Fringe benefits	-1,444	-944
Expenses for retirement benefits	-2,549	-2,682
Allocation to provision for severance payments and pension funds	-785	-2,397
Administrative expenses	-74,537	-86,037
Office space expenses	-4,301	-7,440
Office supplies and communication expenses	-1,666	-2,112
Advertising, PR and promotional expenses	-2,928	-3,834
Legal, advisory and consulting expenses	-12,950	-18,585
IT expenses	-39,988	-37,968
Contribution to the deposit guarantee	-6,661	-3,772
Single Resolution Fund	-1,716	-1,445
Other administrative expenses (including training expenses)	-4,327	-10,881
Depreciation and reversal of impairment	-13,438	-10,865
Depreciation	-8,314	-7,604
Impairment/reversal of impairment	-526	0
Right of use - lease depreciation	-4,597	-3,261
Right of use - lease impairment	0	0
General administrative expenses	**-206,368**	**-213,460**

Staff expenses include payments for defined contribution plans totalling euro 2,700 thousand (2019: euro 2,757 thousand).

General administrative expenses include expenses for managing contracts for investment properties to the amount of euro 45 thousand (2019: euro 50 thousand).

Expenses for short-term leases in the amount of euro 97 thousand (2019: euro 603 thousand) and for low-value assets in the amount of euro 716 thousend (2019: euro 420 thousand) are included in the administrative expenses.

For the business year, expenses for the auditor KPMG Austria GmbH Wirtschaftsprüfung und Steuerberatungsgesellschaft amounted to euro 1,548 thousand. Thereof euro 1,081 thousand fall upon the audit of the annual financial statements, consolidated financial statements and annual financial statements of the Association of Volksbanks, as well as of financial statements of individual affiliates and joint ventures included in the consolidated financial statements, euro 422 thousand to other certifications and euro 45 thousand to other services. The auditor does not provide any tax advice.

Information on compensation to board members

Euro thousand	2020	2019
Total compensation	**2,355**	**2,337**
Supervisory Board	288	290
Managing Board	1,686	1,578
Former board members and their surviving dependents	381	470
Expenses for severance payments and pensions		
Mananging Board	263	497
Thereof defined contribution plans	150	154

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

Principles and prerequisites of the pension scheme

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

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

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

Number of staff employed

	Average number of staff		Number of staff at end of period	
	1-12/2020	1-12/2019	31 Dec 2020	31 Dec 2019
Employees	1,267	1,273	1,297	1,262
Workers	6	6	5	6
Total number of staff	**1,272**	**1,279**	**1,302**	**1,268**

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

11) Income taxes

Euro thousand	**31 Dec 2020**	**31 Dec 2019**
Current income taxes	-3,191	-3,181
Deferred income taxes	-16,515	-6,556
Income taxes for the current fiscal year	**-19,706**	**-9,736**
Income taxes from previous periods continued operation	227	-1,015
Income taxes from previous periods	227	-1,015
Income taxes	**-19,480**	**-10,751**

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	50,255	67,784
Annual result before taxes - total	**50,255**	**67,784**
Imputed income tax 25 %	12,564	16,946
Tax relief resulting from		
Tax-exempt investment income	-336	-260
Other tax-exempt earnings	-25	-684
Dividend distribution on AT1 capital	-4,326	-2,131
Measurement of participation	-218	-7,500
Non-inclusion of deferred tax assets	15,112	1,594
Other differences	-3,065	1,772
Income taxes for the current fiscal year	**19,706**	**9,736**
Income taxes from previous periods	-227	1,015
Reported income taxes	**19,480**	**10,751**
Effective tax rate - continued operations	**38.76 %**	**15.86 %**

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	5,193	-1,298	3,895	-4,016	1,004	-3,012
Revaluation reserve	0	0	0	1,270	-317	952
Fair value reserve - equity instruments	-4,255	1,064	-3,191	662	-165	496
Valuation of own credit risk	-142	35	-106	-563	141	-422
Fair value reserve - debt instruments	47	-12	35	5,539	-1,385	4,154
Change in deferred taxes of untaxed reserve	0	0	0	0	6,119	6,119
Change from companies measured at equity	-563	141	-423	2,469	-617	1,852
Other comprehensive income total	**280**	**-70**	**210**	**5,360**	**4,779**	**10,140**

Notes to the consolidated statement of financial positions

12) Liquid funds

Euro thousand	31 Dec 2020	31 Dec 2019
Cash in hand	48,088	48,787
Balances with central banks	3,750,394	1,864,726
Liquid funds	**3,798,482**	**1,913,513**

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	3,798,482	1,913,513
Restricted cash and cash equivalents	-4,901	-4,901
Cash and cash equivalents	**3,793,581**	**1,908,612**

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

13) Loans and receivables credit institutions and customers

Euro thousand	31 Dec 2020	31 Dec 2019
Loans and receivables credit institutions		
Amortised cost	2,285,932	2,466,343
Fair value through profit or loss	118	119
Gross carrying amount	2,286,050	2,466,462
Risk provision	-36	-47
Net carrying amount	**2,286,014**	**2,466,415**
Loans and receivables customers		
Amortised cost	5,319,517	5,360,537
Fair value through profit or loss	132,137	166,419
Gross carrying amount	5,451,654	5,526,955
Risk provision	-79,321	-55,619
Net carrying amount	**5,372,333**	**5,471,336**
Loans and receivables credit institutions and customers	**7,658,347**	**7,937,751**

Breakdown by residual term

Euro thousand	31 Dec 2020	31 Dec 2019
On demand	532,390	265,663
Up to 3 months	655,786	800,201
Up to 1 year	260,613	284,961
Up to 5 years	807,668	1,012,264
More than 5 years	29,593	103,373
Loans and receivables credit institutions (gross)	**2,286,050**	**2,466,462**

Euro thousand	31 Dec 2020	31 Dec 2019
On demand	162,664	207,711
Up to 3 months	98,823	73,198
Up to 1 year	165,163	216,803
Up to 5 years	612,687	676,245
More than 5 years	4,412,317	4,352,998
Loans and receivables customers (gross)	**5,451,654**	**5,526,955**

Sensitivity analysis

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

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

Loans and receivables credit institutions
31 Dec 2020

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

Loans and receivables customers
31 Dec 2020

Euro thousand	Positive change in fair value	Negative change in fair value
Change in risk markup +/- 10 bp	614	-609
Change in risk markup +/- 100 bp	6,401	-5,850
Change in rating 1 stage down / up	50	-60
Change in rating 2 stages down / up	82	-166

Loans and receivables customers
31 Dec 2019

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

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	67	0	0	67
Increases due to origination and acquisition	1	0	0	1
Decreases due to derecognition	-20	0	0	-20
Changes due to change in credit risk	-1	1	0	0
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	46	1	0	47
Increases due to origination and acquisition	0	0	0	0
Decreases due to derecognition	-3	-1	0	-4
Changes due to change in credit risk	-6	0	0	-6
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	**36**	**0**	**0**	**36**

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	4,404	6,906	39,172	50,482
Increases due to origination and acquisition	886	384	1,666	2,936
Decreases due to derecognition	-517	-1,122	-3,170	-4,809
Changes due to change in credit risk	-27,308	16,612	22,113	11,417
Thereof transfer to stage 1	2,338	-2,334	-3	0
Thereof transfer to stage 2	-6,856	7,601	-744	0
Thereof transfer to stage 3	-13,684	-2,424	16,107	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	-4,598	-4,598
Other adjustments	26,287	-11,624	-14,471	192
As at 31 Dec 2019	3,752	11,156	40,712	55,619
Increases due to origination and acquisition	62	34	831	927
Decreases due to derecognition	-38	-140	-49	-227
Changes due to change in credit risk	288	6,029	8,822	15,140
Thereof transfer to stage 1	1,206	-1,206	0	0
Thereof transfer to stage 2	-1,490	1,689	-198	0
Thereof transfer to stage 3	-24	-710	734	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	6,128	5,042	0	11,170
Decrease in allowance account due to write-offs	0	0	-3,327	-3,327
Other adjustments	664	-2,873	2,229	20
As at 31 Dec 2020	**10,857**	**19,248**	**49,217**	**79,321**

Risk provision – financial investments measured at amortised cost

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 01 Jan 2019	464	0	0	464
Increases due to origination and acquisition	32	0	0	32
Decreases due to derecognition	-1	0	0	-1
Changes due to change in credit risk	-52	0	0	-52
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
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	442	0	0	442
Increases due to origination and acquisition	23	0	0	23
Decreases due to derecognition	-5	0	0	-5
Changes due to change in credit risk	315	0	0	315
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	**775**	**0**	**0**	**775**

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	26	0	0	26
Increases due to origination and acquisition	0	0	0	0
Decreases due to derecognition	-2	0	0	-2
Changes due to change in credit risk	-20	0	0	-20
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
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	4	0	0	4
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	1	0	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	0	0	0
As at 31 Dec 2020	**2**	**0**	**0**	**2**

15) Assets held for trading

Euro thousand	31 Dec 2020	31 Dec 2019
Fixed-income securities	2,603	1,873
Equities and other variable-yield securities	40	40
Positive fair values of derivative instruments	57,133	58,307
Exchange rate related transactions	28	28
Interest rate related transactions	57,105	58,279
Assets held for trading	**59,775**	**60,220**

Breakdown by residual term

Euro thousand	31 Dec 2020	31 Dec 2019
Up to 3 months	664	94
Up to 1 year	0	685
Up to 5 years	1,114	939
More than 5 years	824	155
Fixed-income securities	**2,603**	**1,873**

Since the acquisition of the CO function the company 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	2,227,387	2,067,451
Fair value through OCI	17,193	118,232
Fair value through profit or loss	39,525	39,400
Gross carrying amount	2,284,105	2,225,083
Risk provision	-775	-442
Net carrying amount	**2,283,330**	**2,224,641**

Risk provisions for financial investments measured at fair value through OCI are part of the fair value reserve for debt instruments. Hence, they are not shown together with assets less risk provisions on the asset side of the balance sheet in this table.

Financial investments measured at fair value through profit or loss include equity instruments in the amount of euro 34,576 thousand (2019: euro 34,323 thousand).

Breakdown by residual term

Euro thousand	31 Dec 2020	31 Dec 2019
Up to 3 months	16,745	47,329
Up to 1 year	56,372	133,595
Up to 5 years	814,073	714,417
More than 5 years	1,362,340	1,295,419
Fixed-income securities	**2,249,529**	**2,190,760**

Breakdown of debt securities in accordance with the Austrian Banking Act

Euro thousand	31 Dec 2020	31 Dec 2019
Listed securities	1,857,935	1,847,203
Fixed-income securities	1,857,336	1,846,518
Equity and other variable-yield securities	599	685
Securities allocated to fixed assets	1,911,831	1,849,523
Securities eligible for rediscounting	1,804,015	1,792,104

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

17) Investment property

Euro thousand	Investment properties
Costs as at 01 Jan 2019	29,335
Reclassification	694
Additions	17
Disposals	-1,222
Assets held for sale	0
Costs as at 31 Dec 2019	28,824
Reclassification	0
Additions	35
Disposals	-1,915
Assets held for sale	-344
Costs as at 31 Dec 2020	**26,600**

Euro thousand	Investment properties
Cumulative valuation 01 Jan 2019	2,994
Reclassification	1,106
Disposals	602
Valuation losses	-681
Valuation gains	214
Cumulative valuation 31 Dec 2019	4,235
Reclassification	0
Disposals	-765
Valuation losses	-365
Valuation gains	481
Cumulative valuation 31 Dec 2020	**3,586**

Euro thousand	Investment properties
Carrying amount 01 Jan 2019	32,329
Carrying amount 31 Dec 2019	33,059
Carrying amount 31 Dec 2020	30,186

The valuations shown in the table above are included within result from financial instruments and investment properties. These valuations include holdings of investment property assets in the amount of euro -254 thousand (2019: euro -527 thousand) at the reporting date.

In 2020, investment properties with a carrying amount of euro 2,680 thousand (2019: euro 620 thousand) was disposed of.

Investment properties contain 11 completed properties (2019: 12) with a carrying amount of euro 18,154 thousand (2019: euro 20,624 thousand), as well as undeveloped land with a carrying amount of euro 12,032 thousand (2019: euro 12,435 thousand). These properties are located in Austria. At reporting date, the investement properties are measured at fair value.

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

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

Completed properties

	2020 Minimum	2020 Maximum	2020 Average	2019 Minimum	2019 Maximum	2019 Average
Carrying amount in euro thousand	64	4,460	1,650	64	4,450	1,719
Rentable space in sqm	38	2,762	1,372	38	2,762	1,414
Occupancy rate	68 %	100 %	92 %	62 %	100 %	86 %
Discount rate	3.00 %	7.00 %	4.92 %	3.00 %	7.00 %	4.99 %

Sensitivity analysis

Euro thousand 31 Dec 2020	Changes in the carrying amount if assumption is increased	Changes in the carrying amount if assumption is decreased
Discount rate (0.25 % change)	-1,023	1,153
Discount rate (0.50 % change)	-1,936	2,462
31 Dec 2019		
Discount rate (0.25 % change)	-983	1,087
Discount rate (0.50 % change)	-1,877	2,295

Undeveloped land

	2020 Minimum	2020 Maximum	2020 Average	2019 Minimum	2019 Maximum	2019 Average
Carrying amount in euro thousand	26	2,850	952	25	2,850	957
Plot size in sqm	540	48,263	14,866	540	48,263	14,982
value per sqm	5	718	173	5	718	171

Sensitivity analysis

Euro thousand 31 Dec 2020	Changes in the carrying amount if assumption is increased	Changes in the carrying amount if assumption is decreased
Land value (10 % change)	1,238	-1,238
Land value (5 % change)	619	-619
31 Dec 2019		
Land value (10 % change)	1,244	-1,244
Land value (5 % change)	622	-622

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

18) Companies measured at equity

Euro thousand	Associates
Carrying amount as at 01 Jan 2019	37,835
Additions	8
Comprehensive income proportional	3,193
Impairment	-1,843
Carrying amount as at 31 Dec 2019	39,194
Additions	0
Comprehensive income proportional	-956
Impairment	453
Carrying amount as at 31 Dec 2020	**38,691**

Associates

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

VBW holds a 25.66 % (2019: 25.24 %) share in VB Kärnten with registered office in Klagenfurt. The company's main business purpose consists of banking operations and bank-related brokering and services.

VBW holds a 29.09 % (2019: 29.07 %) share in VB Bet with registered office in Vienna. The main business of the company is holding of participations within the Association of Volksbanks.

None of the companies are listed on the stock exchange.

Additional information regarding associates

	VB Kärnten		VB Bet	
Euro thousand	**2020**	**2019**	**2020**	**2019**
Assets				
Liquid funds	9,839	11,010	0	0
Loans and receivables credit institutions (net)	248,110	189,896	37,986	36,347
Loans and receivables customers (net)	1,177,688	1,182,036	0	0
Financial investments	19,730	20,683	0	0
Other assets	51,499	52,000	66,878	70,554
Total assets	**1,506,866**	**1,455,624**	**104,864**	**106,901**
of which current assets	527,450	554,726	84,864	86,901
Liabilities and Equity				
Amounts owed to credit institutions	15,309	44,591	0	0
Amounts owed to customers	1,347,880	1,256,958	0	0
Debts evidenced by certificates	7	2,067	0	0
Lease liabilities	3,040	3,054	0	0
Subordinated liabilities	20,314	23,384	0	0
Other liabilities	14,198	15,907	2,236	2,457
Equity	106,119	109,662	102,629	104,444
Total liabilities and equity	**1,506,866**	**1,455,624**	**104,864**	**106,901**
of which current liabilities	77,875	246,196	2,236	2,457
Statement of comprehensive income				
Interest and similar income	22,459	28,123	337	272
Interest and similar expense	-2,132	-2,885	-125	-167
Net interest income	20,327	25,238	212	105
Risk provisions	-6,791	-1,451	0	0
Result before taxes	-4,495	5,058	-589	-237
Income taxes	1,124	-490	-13	-333
Result after taxes	-3,371	4,568	-601	-570
Other comprehensive income	392	1,202	-1,212	5,306
Comprehensive income	**-2,980**	**5,770**	**-1,813**	**4,737**

Reconciliation

Euro thousand	**2020**	**2019**	**2020**	**2019**
Equity	106,119	109,662	102,629	104,444
Equity interest	25.66 %	25.24 %	29.09 %	29.07 %
Equity proportional	27,230	27,679	29,855	30,362
Cumulative impairment and reversals	-9,179	-9,631	0	0
Valuation previous years	-9,313	-9,313	97	97
Carrying amount as at 31 Dec 2020	8,738	8,734	29,953	30,460

In the reconciliation, the proportionate equity is reconciled with the carrying amount. The line valuations previous years includes the fair value measurement of the contribution of the CO business unit.

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

19) Participations

Euro thousand	31 Dec 2020	31 Dec 2019
Investments in unconsolidated affiliates	2,859	3,267
Investments in companies with participating interest	4,020	3,972
Investments in other companies	42,281	45,728
Participations	**49,160**	**52,967**

A list of unconsolidated affiliates is shown in note 54) Unconsolidated affiliated companies with a carrying amount of euro 54 thousand (2019: euro 10 thousand) were disposed of during the business year. The most significant participations in other participations are Volksbanken Holding eGen with a carrying amount of euro 18,892 thousand (2019: euro 18,892 thousand), Volksbank Steiermark AG with a carrying amount of euro 5.263 thousand (2019: euro 6.239 thousand) and Oesterreichische Kontrollbank Aktiengesellschaft with a carrying amount of euro 4.051 thousand (2019: euro 4.129 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 measured at fair value through OCI.

Sensitivity analysis

Participations, measured by using the DCF method

Proportional market value Euro thousand 31 Dec 2020		Interest rate -0.50 %	Actual	0.50 %
Income component	-10.00 %	10,823	10,297	9,825
	Actual	11,914	**11,135**	10,805
	10.00 %	13,005	12,362	11,785
31 Dec 2019				
Income component	-10.00 %	13,026	12,335	11,719
	Actual	14,367	**13,600**	12,915
	10.00 %	15,708	14,864	14,111

Participations, measured by net assets

Euro thousand 31 Dec 2020	Proportional market value If assumption is decreased	Actual	If assumptions is increased
Net assets (10 % change)	4,223	**4,649**	5,162
31 Dec 2019			
Net assets (10 % change)	4,119	**4,577**	5,035

Participations, measured based on external appraisals

Euro thousand 31 Dec 2020	Lower band	Actual	Upper band
Proportional market value	18,927	**29,087**	23,351
31 Dec 2019			
Proportional market value	27,844	**30,781**	33,718

20) Intangible assets

Euro thousand	Software	Goodwill	Others	Total
Costs as at 01 Jan 2019	31,095	13,772	24,824	69,691
Additions	2,561	0	0	2,561
Disposals	-49	0	0	-49
Costs as at 31 Dec 2019	33,607	13,772	24,824	72,203
Additions	6	0	0	6
Disposals	-22,273	0	0	-22,273
Costs as at 31 Dec 2020	**11,339**	**13,772**	**24,824**	**49,935**

Euro thousand	Software	Goodwill	Others	Total
Cumulative valuation 01 Jan 2019	-30,650	-13,772	-3,274	-47,696
Disposals	49	0	0	49
Depreciation	-667	0	-1,291	-1,959
Cumulative valuation 31 Dec 2019	-31,268	-13,772	-4,566	-49,606
Disposals	22,273	0	0	22,273
Depreciation	-640	0	-1,291	-1,932
Cumulative valuation 31 Dec 2020	**-9,635**	**-13,772**	**-5,857**	**-29,264**

Euro thousand	Software	Goodwill	Others	Total
Carrying amount 01 Jan 2019	445	0	21,550	21,995
Carrying amount 31 Dec 2019	2,339	0	20,258	22,597
Thereof with limited useful life	2,339		20,258	22,597
Carrying amount 31 Dec 2020	1,704	0	18,967	20,671
Thereof with limited useful life	1,704		18,967	20,671

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

21) Tangible assets

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Costs as at 01 Jan 2019	118,079	8,104	52,863	0	179,046
Reclassification	-485	-11	-198	0	-694
Additions	4,736	803	6,137	3	11,678
Disposals	-7,248	-6,610	-4,332	-3	-18,193
Assets held for sale	-116	0	-231	0	-347
Costs as at 31 Dec 2019	114,967	2,286	54,238	0	171,491
Reclassification	94	-32	-62	0	0
Additions	659	91	2,861	1	3,612
Disposals	-16,181	-329	-6,843	-1	-23,355
Assets held for sale	-2,539	0	0	0	-2,539
Costs as at 31 Dec 2020	**96,999**	**2,017**	**50,194**	**0**	**149,210**

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Cumulative valuation 01 Jan 2019	-60,428	-7,799	-44,187	0	-112,414
Reclassification	164	0	0	0	164
Disposals	4,592	6,609	3,681	3	14,885
Assets held for sale	61	0	0	0	61
Depreciation	-2,641	-235	-2,767	-3	-5,646
Impairment	0	0	0	0	0
Cumulative valuation 31 Dec 2019	-58,252	-1,425	-43,273	0	-102,950
Reclassification	0	32	-32	0	0
Disposals	9,444	329	6,112	1	15,885
Assets held for sale	1,941	0	0	0	1,941
Depreciation	-3,078	-249	-3,055	-1	-6,383
Impairment	-526	0	0	0	-526
Cumulative valuation 31 Dec 2020	**-50,471**	**-1,313**	**-40,248**	**0**	**-92,033**

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Carrying amount 01 Jan 2019	57,651	305	8,676	0	66,632
Carrying amount 31 Dec 2019	56,714	862	10,966	0	68,541
Carrying amount 31 Dec 2020	46,528	703	9,946	0	57,177

Right of use

Euro thousand	Branches	Administration building	Total
31 Dec 2019			
Amortised cost	68,351	33,821	102,172
Additions	3,051	33,821	36,872
Depreciation	-2,948	-313	-3,261
Carrying amount	65,403	33,508	98,911
31 Dec 2020			
Amortised cost	58,993	31,207	90,200
Additions	6,596	0	6,596
Depreciation	-2,731	-1,866	-4,597
Carrying amount	**53,314**	**29,028**	**82,342**

At VBW a building was sold, and the branch located therein was subsequently leased back again. This transaction had only an insignificant impact on earnings. This resulted in a cash inflow of euro 4,039 thousand (2019: euro 2,401 thousand).

22) Tax assets and liabilities

Euro thousand	31 Dec 2020 Tax assets	31 Dec 2020 Tax liabilities	31 Dec 2019 Tax assets	31 Dec 2019 Tax liabilities
Current tax	3,868	1,331	6,343	758
Deferred tax	39,669	703	56,691	999
Tax total	**43,538**	**2,035**	**63,035**	**1,757**

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

	31 Dec 2020		31 Dec 2019		Net deviation 2020		
Euro thousand	Tax assets	Tax liabilities	Tax assets	Tax liabilities	Total	In income statement	In other comprehensive income
Loans and receivables credit institutions (net)	407	0	377	0	30	30	0
Loans and receivables customers (net)	11,349	287	12,196	0	-1,133	-1,133	0
Assets held for trading	20	0	40	0	-19	-19	0
Financial investments (net)	7,449	91,389	7,224	80,102	-11,062	-11,050	-12
Investment property	0	2,841	0	3,036	195	195	0
Participations	6,857	-2	7,896	-2	-1,039	-2,103	1,064
Intangible and tangible assets	0	26,493	0	34,075	7,582	7,582	0
Amounts owed to customers	0	0	0	3	3	3	0
Debts evidenced by certificates and subordinated liabilities	26,595	253	19,795	310	6,857	6,822	35
Lease liabilities	21,456	0	25,232	0	-3,775	-3,775	0
Liabilities held for trading	0	18	0	15	-3	-3	0
Provisions for pensions, severance payments and other provisions	8,306	730	9,369	4,944	3,151	4,449	-1,298
Other assets and liabilities	106,136	29,409	89,910	20,693	7,510	7,510	0
Tax loss carryforwards	1,807	0	26,830	0	-25,022	-25,022	0
Deferred taxes before netting	**190,383**	**151,416**	**198,867**	**143,175**	**-16,726**	**-16,515**	**-211**
Offset between deferred tax assets and deferred tax liabilities	-150,713	-150,713	-142,176	-142,176	0	0	0
Reported deferred taxes	**39,669**	**703**	**56,691**	**999**	**-16,726**	**-16,515**	**-211**

Deferred tax assets and deferred tax liabilities are only offset within 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.

No deferred taxes were recognised for tax loss carry-forwards in the amount of euro 255,592 thousand (2019: euro 201,620 thousand). Of these non-recognised tax loss carry-forwards, euro 255,592 thousand (2019: euro 201,620 thousand) can be carried forward without restriction and primarily concern VBW itself. In the 2020 financial year, no deferred tax assets were recognised for tax loss carry-forwards (tax base) in the amount of euro 60,449 thousand (2019: euro 6,375 thousand).

In accordance with IAS 12.39, no deferred tax liabilities for temporary differences relating to investments in subsidiaries with an amount of euro 3,111 thousand (2019: euro 11,634 thousand) and no deferred tax assets with an amount of euro 15,018 thousand (2019: euro 14,688 thousand) were recognised, as they are not expected to reverse in the forseeable future.

23) Other assets

Euro thousand	31 Dec 2020	31 Dec 2019
Deferred items	2,453	1,977
Other receivables and assets	24,056	34,018
Positive fair values of derivative instruments	131,926	96,944
Other assets	**158,436**	**132,939**

Other receivables and assets essentially consist of open outgoing invoices and deferrals in the amount of euro 4,302 thousand (2019: euro 8,633 thousand), property sales in the amount of euro 1,314 thousand (2019: euro 4,323 thousand), auxiliary accounts of the banking business in the amount of euro 13,843 thousand (2019: euro 14,600 thousand) and amounts owed to staff in the amount of euro 3,254 thousand (2019: euro 3,452 thousand).

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

Euro thousand	31 Dec 2020 Fair value hedge	31 Dec 2019 Fair value hedge
Interest rate related transactions	68,839	46,559
Positive fair values of derivative instruments	**68,839**	**46,559**

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
Investment property	344	0
Tangible assets	598	56,482
Assets held for sale	**942**	**56,482**

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 Kolingasse 14-16 Liegenschaftsverwaltung GmbH. As the sale became 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	2,576,860	2,719,475
Amounts owed to credit institutions	**4,165,780**	**2,802,911**

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	2,448,258	2,588,501
Up to 3 months	86,802	77,170
Up to 1 year	1,506,948	59,405
Up to 5 years	11,329	10,220
More than 5 years	112,443	67,615
Amounts owed to credit institutions	**4,165,780**	**2,802,911**

The information about maturities of future cash flows are shown in note 34) Cash flows based on maturities.

26) Amounts owed to customers

Euro thousand	31 Dec 2020	31 Dec 2019
Savings deposits	1,814,626	1,982,268
Other deposits	4,821,939	4,456,332
Amounts owed to customers	**6,636,565**	**6,438,600**

Amounts owed to customers are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2020	31 Dec 2019
On demand	6,024,252	5,590,690
Up to 3 months	293,788	226,700
Up to 1 year	269,189	490,164
Up to 5 years	49,279	130,081
More than 5 years	56	965
Amounts owed to customers	**6,636,565**	**6,438,600**

The information about maturities of future cash flows are shown in note 34) Cash flows based on maturities.

27) Debts evidenced by certificates

Euro thousand	31 Dec 2020	31 Dec 2019
Bonds	1,463,851	1,452,807
Amortised cost	1,373,976	1,342,499
Fair value through profit or loss - designated	89,875	110,308
Debts evidenced by certificates	**1,463,851**	**1,452,807**

For the purpose of optimizing the portfolio of ECB-eligible collaterals, VBW 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
Up to 1 year	19,767	0
Up to 5 years	302,308	281,727
More than 5 years	1,141,776	1,171,081
Debts evidenced by certificates	**1,463,851**	**1,452,807**

The information about maturities of future cash flows are shown in note 34) Cash flows based on maturities.

28) Lease liabilities

Euro thousand	31 Dec 2020	31 Dec 2019
Up to 3 months	1,108	438
Up to 1 year	3,308	2,995
Up to 5 years	18,072	19,588
More than 5 years	63,337	77,907
Lease liabilities	**85,826**	**100,927**

Information on the maturities of future cash flows is provided in note 34) Cash flows based on maturities.

Presentation of the inflow and outflow of lease liabilities

Euro thousand	Lease liabilities
As at 01 Jan 2019	**73,786**
Cash outflow	-2,286
Non-cash changes	
Others	29,427
Total non-cash changes	29,427
As at 31 Dec 2019	**100,927**
Cash outflow	-3,422
Non-cash changes	
Others	-11,679
Total non-cash changes	-11,679
As at 31 Dec 2020	**85,826**

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	62,595	78,076
Liabilities held for trading	**62,596**	**78,079**

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	476	465	3,158	4,099
Increases due to origination and acquisition	312	104	219	635
Decreases due to derecognition	-185	-230	-819	-1,233
Changes due to change in credit risk	-11,332	11,012	1,493	1,173
Thereof transfer to stage 1	246	-198	-48	0
Thereof transfer to stage 2	-651	657	-7	0
Thereof transfer to stage 3	-1,064	-36	1,099	0
Post-Model Adjustment	0	0	0	0
Other adjustments	11,352	-10,328	-1,023	0
As at 31 Dec 2019	623	1,024	3,027	4,674
Increases due to origination and acquisition	39	4	0	43
Decreases due to derecognition	-18	-21	-35	-74
Changes due to change in credit risk	149	285	-827	-392
Thereof transfer to stage 1	89	-89	0	0
Thereof transfer to stage 2	-108	108	-1	0
Thereof transfer to stage 3	-6	-20	26	0
Post-Model Adjustment	1,125	619	0	1,744
Other adjustments	0	0	0	0
As at 31 Dec 2020	**1,919**	**1,911**	**2,165**	**5,995**

Other provisions

Euro thousand	Restructuring	Interest claims in connection with loans with floors	Pending litigations	Others	Total
As at 01 Jan 2019	6,494	4,629	2,231	2,055	15,409
Reclassification	0	0	-9	9	0
Unwinding	0	0	0	12	12
Utilisation	-2,728	-17	-366	-51	-3,163
Release	-992	-1,501	-862	-266	-3,620
Addition	1,316	1,181	359	105	2,961
As at 31 Dec 2019	4,090	4,292	1,353	1,864	11,600
Reclassification	0	0	0	0	0
Unwinding	0	0	0	3	3
Utilisation	-936	-32	-344	-29	-1,341
Release	-1,261	-2,770	-440	-1,007	-5,477
Addition	830	636	98	558	2,122
As at 31 Dec 2020	**2,723**	**2,126**	**668**	**1,389**	**6,907**

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

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	11,639	41,774	7,709	61,122
Current service costs	49	1,884	487	2,420
Interest costs	129	480	80	688
Payments	-824	-3,317	-295	-4,436
Actuarial gains or losses arising from changes in financial assumptions	795	3,220	-342	3,674
Net present value as at 31 Dec 2019	11,788	44,042	7,639	63,469
Current service costs	60	1,955	516	2,531
Interest costs	36	184	33	252
Payments	-842	-1,930	-324	-3,097
Actuarial gains or losses arising from changes in financial assumptions	-471	-4,721	-559	-5,751
Net present value as at 31 Dec 2020	**10,570**	**39,530**	**7,304**	**57,404**

Net present value of plan assets

Euro thousand	Provision for pensions
Net present value of plan assets as at 01 Jan 2019	979
Result from plan assets	-46
Contributions to plan assets	37
Net present value of plan assets as at 31 Dec 2019	971
Result from plan assets	15
Contributions to plan assets	2
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.

In 2021, contribution payments to plan assets are expected in the amount of euro 4 thousand (2020: euro 4 thousand).

Euro thousand	Provision for pensions	Provision for severance payments	Provision for anniversary bonuses	Total
31 Dec 2019				
Long-term employee provision	11,788	44,042	7,639	63,469
Net present value of plan assets	-971	0	0	-971
Net liability recognised in balance sheet	**10,817**	**44,042**	**7,639**	**62,498**
31 Dec 2020				
Long-term employee provision	10,570	39,530	7,304	57,404
Net present value of plan assets	-987	0	0	-987
Net liability recognised in balance sheet	**9,582**	**39,530**	**7,304**	**56,416**

Historical information

Euro thousand	2020	2019	2018	2017	2016
Net present value of obligations	57,404	63,469	61,122	62,476	59,445
Net present value of plan assets	987	971	979	892	877

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 administration bodies	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 that have a market price that is quoted on an active market.

Sensitivity analysis

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

	Change in the present value	
Euro thousand	increase of assumption	decrease of assumption
31 Dec 2019		
Discount rate (0.75 % modification)	-5,039	5,777
Future wage and salary increases (0.50 % modification)	3,100	-2,870
Future pension increases (0.25 % modification)	325	-310
Future mortality (1 year modification)	823	-788
31 Dec 2020		
Discount rate (0.75 % modification)	-4,122	5,113
Future wage and salary increases (0.50 % modification)	2,875	-2,300
Future pension increases (0.25 % modification)	264	-252
Future mortality (1 year modification)	675	-651

As of 31 December 2020, the weighted average term of defined-benefit obligations for pensions was 10.4 years (2019: 10.6 years) and for severance payment 12.5 years (2019: 13.1 years).

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

32) Other liabilities

Euro thousand	31 Dec 2020	31 Dec 2019
Deferred items	731	51
Other liabilities	36,540	50,235
Negative fair values of derivative instruments	442,964	387,829
Other liabilities	**480,235**	**438,115**

Other liabilities essentially consist of deferrals and incoming invoices in the amount of euro 19,666 thousand (2019: euro 22,209 thousand), auxiliary accounts of the banking business in the amount of euro 2,520 thousand (2019: euro 3,535 thousand), taxes and fiscal liabilities in the amount of euro 6,139 thousand (2019: euro 7,239 thousand) as well as commitments to staff in the amount of euro 4,432 thousand (2019: euro 4,992 thousand).

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

Euro thousand	31 Dec 2020 Fair value hedge	31 Dec 2019 Fair value hedge
Exchange rate related transactions	1,732	11,646
Interest rate related transactions	406,964	357,439
Negative fair values of derivative instruments	**408,696**	**369,085**

33) Subordinated liabilities

Euro thousand	31 Dec 2020	31 Dec 2019
Subordinated capital	402,879	402,636
Supplementary capital	4,000	15,147
Subordinated liabilities	**406,879**	**417,783**

Subordinated liabilities are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2020	31 Dec 2019
Up to 3 months	4,000	0
Up to 1 year	0	0
Up to 5 years	2,879	18,225
More than 5 years	400,000	399,558
Subordinated liabilities	**406,879**	**417,783**

Presentation of the inflow and outflow of subordinated liabilities

Euro thousand	Subordinated liabilities
As at 01 Jan 2019	**418,355**
Cash inflow	0
Cash outflow	-792
Non-cash changes	
Others	220
Total non-cash changes	220
As at 31 Dec 2019	**417,783**
Cash inflow	0
Cash outflow	-11,147
Non-cash changes	
Others	243
Total non-cash changes	243
As at 31 Dec 2020	**406,879**

34) Cash flows based on maturities

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

Euro thousand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Undiscounted cash flows	Carrying amount
31 Dec 2020						
Amounts owed to credit institutions	2,535,182	1,507,312	14,437	114,316	**4,171,248**	4,165,780
Amounts owed to customers	6,435,843	294,136	49,754	1,775	**6,781,507**	6,636,565
Debts evidenced by certificates	0	36,155	349,791	1,424,465	**1,810,411**	1,463,851
Lease liabilities	0	0	0	0	**0**	85,826
Derivative instruments trading book	0	4,662	9,397	48,601	**62,660**	62,596
Subordinated liabilities	4,000	11,181	47,046	419,438	**481,665**	406,879
Derivative instruments investment book	0	26	20,524	420,548	**441,098**	442,964

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

Cash flows for contingent liabilities are displayed in note 44) Contingent liabilities and credit risks.

35) Equity

As at 31 December 2020, the subscribed capital of VBW before deduction of treasury stocks amounted to euro 137,547 thousand (2019: euro 137,547 thousand). It consists of registered shares as follows:

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

Changes in subscribed capital

Number of units	Shares
Shares outstanding as of 31 Dec 2019	1,467,163
Shares outstanding as of 31 Dec 2020	**1,467,163**

Dividend payment

Euro thousand	2020	2019
Dividend non-voting equity	17,489	8,974
Total	**17,489**	**8,974**

The dividend payment for non-voting equity includes the coupon for the AT1 emission in the amount of euro 17,050 thousand (2019: euro 8,525 thousand) as well as the distribution to the federal government from the participation right in RZG in the amount of euro 439 thousand (2019: euro 449 thousand). Further details regarding the participation right of the federal government are described in note 2) Presentation and changes in the scope of consolidation.

Additional tier I capital

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

The following table shows a breakdown and changes to retained earnings and other reserves

		Other reserves					
Euro thousand	**Retained earnings**	**IAS 19 reserve**	**Revaluation reserve**	**Own credit risk reserve**	**Fair value reserve – equity instruments**	**Fair value reserve – debt instruments**	**Retained earnings and other reserves**
As at 01 Jan 2019	**233,377**	**411**	**422**	**2,523**	**14,998**	**-3,111**	**248,619**
Consolidated net income	57,013						57,013
Other comprehensive income	5,889	-3,029	952	-422	2,596	4,154	10,140
Dividends paid	-8,974						-8,974
Reclassification capital reserve	422						422
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation	-94						-94
As at 31 Dec 2019	**287,633**	**-2,618**	**1,374**	**2,100**	**17,594**	**1,042**	**307,126**
Consolidated net income	30,787						30,787
Other comprehensive income	649	4,004		-106	-4,387	43	203
Dividends paid	-17,489						-17,489
Reclassification capital reserve	414						414
Reclassification fair value reserve due to sale	-186				186		0
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation	15						15
As at 31 Dec 2020	**301,823**	**1,386**	**1,374**	**1,994**	**13,394**	**1,085**	**321,056**

Shareholder contributions

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

Return on capital employed

The return on capital employed for the business year was 0.22 % (2019: 0.45 %) and was calculated as the ratio of the result after taxes to total assets as at the reporting date.

Non-controlling interest

Company name	Minority interest 2020	Minority interest 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 the companies in aggregated form as the latter are immaterial.

Additional information non-controlling interest

Euro thousand	Other companies 2020	Other companies 2019
Assets		
Loans and receivables credit institutions (net)	84,782	38,628
Loans and receivables customers (net)	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

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

36) Own funds

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

Euro thousand	31 Dec 2020	31 Dec 2019
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	340,175	341,416
Retained earnings	423,612	409,962
Accumulated other comprehensive income (and other reserves)	-87,568	-87,957
Amount of capital instruments subject to phase out from CET1	0	6,272
Common tier I capital before regulatory adjustments	676,220	669,693
Common tier I capital: regulatory adjustments		
Regulatory value adjustments	0	0
Intangible assets (net of related tax liability)	-20,671	-22,597
Value adjustments due to the requirement for prudent valuation	-1,023	-1,109
CET1 instruments of financial sector entities where the institution has a significant investment	0	-606
Regulatory adjustments - transitional provisions	15,396	0
Adjustments to be made due to transitional regulations under IFRS 9	15,396	0
Amount exceeding the threshold of 17.65 %	0	-6,381
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	0
Additional CET1 deductions pursuant to article 3 CRR	-14,169	-14,169
Total regulatory adjustments	-20,467	-44,862
Common equity tier I capital - CET1	**655,753**	**624,831**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	220,000	220,000
Additional tier I capital before regulatory adjustments	220,000	220,000
Additional tier I capital: regulatory adjustments		
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**220,000**	**220,000**
Tier I capital (CET1 + AT1)	**875,753**	**844,831**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts	400,919	406,278
Tier II capital before regulatory adjustments	400,919	406,278
Tier II capital: regulatory adjustments		
Total regulatory adjustments	0	0
Tier II capital - T2	**400,919**	**406,278**
Own funds total - TC (T1 + T2)	**1,276,672**	**1,251,109**
Common equity tier I capital ratio	16.78 %	14.89 %
Tier I capital ratio	22.40 %	20.13 %
Equity ratio	32.66 %	29.82 %
each in relation to total risk exposure amount		

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

Euro thousand	31 Dec 2020	31 Dec 2019
Risk weighted exposure amount - credit risk	3,287,849	3,537,507
Total risk exposure amount for position, foreign exchange and commodities risks	37,895	84,611
Total risk exposure amount for operational risk	533,093	529,542
Total risk exposure amount for credit valuation adjustment (cva)	49,981	44,462
Total risk exposure amount	**3,908,817**	**4,196,121**

The following table shows the own funds of the VBW credit institution group 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	340,175	341,416
Retained earnings	423,612	409,962
Accumulated other comprehensive income (and other reserves)	-87,568	-87,957
Common tier I capital before regulatory adjustments	676,220	663,421
Common tier I capital: regulatory adjustments		
Intangible assets (net of related tax liability)	-20,671	-22,597
Value adjustments due to the requirement for prudent valuation	-1,023	-1,109
CET1 instruments of financial sector entities where the institution has a significant investment	0	-1,233
Amount exceeding the threshold of 17.65 %	0	-6,972
Additional CET1 deductions pursuant to article 3 CRR	-14,169	-14,169
Total regulatory adjustments	-35,863	-46,080
Common equity tier I capital - CET1	**640,357**	**617,341**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	220,000	220,000
Additional tier I capital before regulatory adjustments	220,000	220,000
Additional tier I capital: regulatory adjustments		
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**220,000**	**220,000**
Tier I capital (CET1 + AT1)	**860,357**	**837,341**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts	400,919	412,550
Tier II capital before regulatory adjustments	400,919	412,550
Tier II capital: regulatory adjustments		
Total regulatory adjustments	0	0
Tier II capital - T2	**400,919**	**412,550**
Own funds total - TC (T1 + T2)	**1,261,276**	**1,249,891**
Common equity tier I capital ratio	16.44 %	14.72 %
Tier I capital ratio	22.09 %	19,97 %
Equity ratio	32.38 %	29.81 %
each in relation to total risk exposure amount		

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

Euro thousand	31 Dec 2020	31 Dec 2019
Risk weighted exposure amount - credit risk	3,274,463	3,534,462
Total risk exposure amount for position, foreign exchange and commodities risks	37,895	84,611
Total risk exposure amount for operational risk	533,093	529,542
Total risk exposure amount for credit valuation adjustment (cva)	49,981	44,462
Total risk exposure amount	**3,895,432**	**4,193,077**

Group issues which are included in tier I or tier II

31 Dec 2020 ISIN	Name	Identification IFRS	Redemption date	Conditions	Nominal value in euro thousand
AT1					
AT000B121991	Additional tier 1 capital	Additional tier 1 capital	perpetual	7,75 % p.a.; from 9 April 2024 all 5 Y with 5 Y-CMS plus 788 bp	220,000
Tier II issues					
QOXDBA032238	Subordinated 12/22	subordinated liabilities at amortised cost	01 Dec 2022	3.50 % p. a.	600
AT000B121967	Subordinated 17/27	subordinated liabilities at amortised cost	06 Oct 2027	2.75 % p.a.; from 6 Oct 2023 5 Y-Mid Swap + 255 bp p.a.	400,000
QOXDBA000383	Supplementary capital 12/22	subordinated liabilities at amortised cost	01 Dec 2022	12 m Euribor + 62.5 bp, max. 7.00 % p.a., at least 4.00 % p.a.	4,000
	Promissory note bond	subordinated liabilities at amortised cost	20 Mar 2021	3 m Euribor + 75 bp p.q.	4,000

31 Dec 2019 ISIN	Name	Identification IFRS	Redemption date	Conditions	Nominal value in euro thousand
CET1					
QOXDB4409005	Participation certificate 2006	subordinated liabilities at amortised cost	perpetual	Average 3 m Euribor + 130 bp	9,907
AT1					
AT000B121991	Additional tier 1 capital	Additional tier 1 capital	perpetual	7,75 % p.a.; from 9 April 2024 all 5 Y with 5 Y-CMS plus 788 bp	220,000
Tier II issues					
QOXDBA032238	Subordinated 12/22	subordinated liabilities at amortised cost	01 Dec 2022	3.50 % p. a.	600
AT000B121967	Subordinated 17/27	subordinated liabilities at amortised cost	06 Oct 2027	2.75 % p.a.; from 6 Oct 2023 5 Y-Mid Swap + 255 bp p.a.	400,000
QOXDBA000383	Supplementary capital 12/22	subordinated liabilities at amortised cost	01 Dec 2022	12 m Euribor + 62.5 bp, max. 7.00 % p.a., at least 4.00 % p.a.	4,000
	Promissory note bond	subordinated liabilities at amortised cost	20 Mar 2021	3 m Euribor + 75 bp p.q.	4,000

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

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

In the 2020 business year, no substantial, practical or legal obstacles existed which would have prevented the transfer of equity or the repayment of liabilities between the parent institution and institutions subordinated to the former.

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	3,798,482	0	0	3,798,482	3,798,482
Loans and receivables credit institutions (gross)	2,285,932	0	118	2,286,050	
Individual loan loss provision	0	0	0	0	
Loans and receivables credit institutions less individual loan loss provision	2,285,932	0	118	2,286,050	2,283,437
Loans and receivables customers (gross)	5,319,517	0	132,137	5,451,654	
Individual loan loss provision	-49,217	0	0	-49,217	
Loans and receivables customers less individual loan loss provision	5,270,300	0	132,137	5,402,437	5,565,627
Assets held for trading	0	0	59,775	59,775	59,775
Financial investments (gross)	2,227,387	17,193	39,525	2,284,105	
Individual loan loss provision	0	0	0	0	
Financial investments less individual loan loss provision	2,227,387	17,193	39,525	2,284,105	2,343,758
Participations	0	49,160	0	49,160	49,160
Derivative instruments	0	0	131,926	131,926	131,926
Financial assets total	**13,582,101**	**66,353**	**363,482**	**14,011,936**	**14,232,165**
Amounts owed to credit institutions	4,165,780	0	0	4,165,780	4,165,809
Amounts owed to customers	6,636,565	0	0	6,636,565	6,649,303
Debts evidenced by certificates	1,373,976	0	89,875	1,463,851	1,474,488
Lease liabilities	85,826	0	0	85,826	85,826
Liabilities held for trading	0	0	62,596	62,596	62,596
Derivative instruments	0	0	442,964	442,964	442,964
Subordinated liabilities	406,879	0	0	406,879	409,037
Financial liabilities total	**12,669,026**	**0**	**595,436**	**13,264,462**	**13,290,024**

Euro thousand	Amortised cost	Fair value through OCI	Fair value through profit or loss	Carrying amount - total	Fair value
31 Dec 2019					
Liquid funds	1,913,513	0	0	1,913,513	1,913,513
Loans and receivables credit institutions gross)	2,466,343	0	119	2,466,462	
Individual loan loss provision	0	0	0	0	
Loans and receivables credit institutions less individual loan loss provision	2,466,343	0	119	2,466,462	2,462,935
Loans and receivables customers (gross)	5,360,537	0	166,419	5,526,955	
Individual loan loss provision	-40,712	0	0	-40,712	
Loans and receivables customers less individual loan loss provision	5,319,825	0	166,419	5,486,244	5,278,507
Assets held for trading	0	0	60,220	60,220	60,220
Financial investments (gross)	2,067,451	118,232	39,400	2,225,083	
Individual loan loss provision	0	0	0	0	
Financial investments less individual loan loss provision	2,067,451	118,232	39,400	2,225,083	2,268,382
Participations	0	52,967	0	52,967	52,967
Derivative instruments	0	0	96,944	96,944	96,944
Financial assets total	**11,767,132**	**171,198**	**363,102**	**12,301,432**	**12,133,468**
Amounts owed to credit institutions	2,802,911	0	0	2,802,911	2,802,946
Amounts owed to customers	6,438,600	0	0	6,438,600	6,418,938
Debts evidenced by certificates	1,342,499	0	110,308	1,452,807	1,469,803
Lease liabilities	100,927	0	0	100,927	100,927
Liabilities held for trading	0	0	78,079	78,079	78,079
Derivative instruments	0	0	387,829	387,829	387,829
Subordinated liabilities	417,783	0	0	417,783	436,597
Financial liabilities total	**11,102,721**	**0**	**576,216**	**11,678,938**	**11,695,119**

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	118	118
Loans and receivables customers	0	0	132,137	132,137
Assets held for trading	1,697	58,078	0	59,775
Financial investments	19,472	4,948	32,298	56,718
Fair value through profit or loss	2,279	4,948	32,298	39,525
Fair value through OCI	17,193	0	0	17,193
Participations	0	0	49,136	49,136
Fair value through OCI - designated	0	0	49,136	49,136
Derivative instruments	0	131,926	0	131,926
Financial assets total	**21,169**	**194,952**	**213,690**	**429,811**
Debts evidenced by certificates	0	0	89,875	89,875
Liabilities held for trading	0	62,596	0	62,596
Derivative instruments	0	442,964	0	442,964
Financial liabilities total	**0**	**505,561**	**89,875**	**595,436**
31 Dec 2019				
Loans and receivables credit institutions	0	0	119	119
Loans and receivables customers	0	0	166,419	166,419
Assets held for trading	597	59,623	0	60,220
Financial investments	120,519	5,553	31,559	157,632
Fair value through profit or loss	2,288	5,553	31,559	39,400
Fair value through OCI	118,232	0	0	118,232
Participations	0	0	52,927	52,927
Fair value through OCI - designated	0	0	52,927	52,927
Derivative instruments	0	96,944	0	96,944
Financial assets total	**121,116**	**162,120**	**251,024**	**534,260**
Debts evidenced by certificates	0	0	110,308	110,308
Liabilities held for trading	0	78,079	0	78,079
Derivative instruments	0	387,829	0	387,829
Financial liabilities total	**0**	**465,908**	**110,308**	**576,216**

Please refer to note 3) s) Participations and investments in companies measured at equity for a description of the valuation procedures used for participations. Participations in the amount of euro 24 thousand (2019: euro 40 thousand) were measured at amortised cost due to their insignificance.

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

In 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 evi-denced by certificates	Financial liabilities total
As at 01 Jan 2019	**259**	**199,431**	**34,451**	**43,027**	**277,167**	**106,575**	**106,575**
Reallocation to level 3	0	0	0	-223	-223	0	0
Additions	0	1,141	131	3,954	5,227	0	0
Disposals	-140	-35,706	-6,433	-8	-42,287	-3	-3
Valuation							
Through profit or loss	0	1,552	3,410	0	4,962	3,173	3,173
Through OCI	0	0	0	6,178	6,178	563	563
As at 31 Dec 2019	**119**	**166,419**	**31,559**	**52,927**	**251,024**	**110,308**	**110,308**
Reallocation to level 3	0	0	0	0	0	0	0
Additions	0	89	40	504	634	0	0
Disposals	0	-33,328	-412	-39	-33,779	-21,447	-21,447
Valuation							
Through profit or loss	-1	-1,043	1,111	0	67	872	872
Through OCI	0	0	0	-4,255	-4,255	142	142
As at 31 Dec 2020	**118**	**132,137**	**32,298**	**49,136**	**213,690**	**89,875**	**89,875**

The valuations shown in the table above are included in the item result from financial instruments and investment properties (income statement) or fair value reserve (other comprehensive íncome). The valuations recorded in the income statement include holdings of financial assets and liabilities to the amount of euro 1,435 thousand (2019: euro 4,961 thousand) at the reporting date.

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

As at 31 December 2020 financial investments include participation certificates with a carrying amount of euro 32,278 thousand (2019: euro 31,127 thousand) which are allocated to level 3 of the fair value hierarchy. They are not traded on any active market and only allow for alternative measurement by means of unobservable input parameters.

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

End of December 2021 is assumed as the estimated final maturity. The extended redemption period results from the Managing Board's assessment that a redemption by the Volksbanks of the participation capital held by VB Regio as an asset is subject to approval by the ECB. Only after such approval will VB Regio be able to redeem its own participation certificates. Moreover, an external appraisal is required for the redemption of participation certificates in each case.

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

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

31 Dec 2020 Euro thousand	Positive change in fair value	Negative change in fair value
Change in maturity + 1 year	0	-1,585
Change in markup +/- 100 bp	287	-284
Change in redemption - 5 %	0	-1,601

31 Dec 2019 Euro thousand	Positive change in fair value	Negative change in fair value
Change in maturity + 1 year	0	-1,367
Change in markup +/- 100 bp	614	-604
Change in redemption - 5 %	0	-1,508

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

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

31 Dec 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

Please refer to note 13) Loans and receivables credit institutions and customers for further details regarding the sensitivity analysis regarding the fair values of loans and receivables credit institutions and customers.

The sensitivity analysis regarding the fair values of investment properties (IAS 40) are shown in note 17) Investment property.

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

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

Euro thousand	Level 1	Level 2	Level 3	Fair value total	Carrying amount
31 Dec 2020					
Liquid Funds	0	3,798,482	0	3,798,482	3,798,482
Loans and receivables credit institutions (gross)					2,285,932
Individual loan loss provision					0
Loans and receivables credit institutions less individual loan loss provision	0	0	2,283,319	2,283,319	2,285,932
Loans and receivables customers (gross)					5,319,517
Individual loan loss provision					-49,217
Loans and receivables customers less individual loan loss provision	0	0	5,433,490	5,433,490	5,270,300
Financial investments (gross)					2,227,387
Individual loan loss provision					0
Financial investments less individual loan loss provision	2,256,416	30,624	0	2,287,040	2,227,387
Financial assets total	**2,256,416**	**3,829,105**	**7,716,808**	**13,802,330**	**13,582,101**
Amounts owed to credit institutions	0	0	4,165,809	4,165,809	4,165,780
Amounts owed to customers	0	0	6,649,303	6,649,303	6,636,565
Debts evidenced by certificates	0	0	1,384,613	1,384,613	1,373,976
Lease liabilities	0	0	85,826	85,826	85,826
Subordinated liabilities	0	0	409,037	409,037	406,879
Financial liabilities total	**0**	**0**	**12,694,588**	**12,694,588**	**12,669,026**

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

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

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

Fair value hierarchy

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

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

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

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

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	243,945	243,491	1,099,595	4,317,637	5,904,668	-320,134
Caps & Floors	91,392	51,789	60,126	199,917	403,224	6
Futures - interest related	4,100	0	0	0	4,100	0
Interest rate swaps	148,453	191,702	1,039,469	4,117,720	5,497,344	-320,141
Exchange rate related transactions	488,994	90,534	455,571	186,230	1,221,329	5,469
Cross currency interest rate swaps	0	0	455,571	186,230	641,801	5,469
FX swaps	486,469	82,986	0	0	569,455	0
Forward exchange transactions	2,525	7,548	0	0	10,073	0
Other transactions	7,564	3,187	12,274	177,970	200,995	-1,836
Options	7,564	3,187	12,274	177,970	200,995	-1,836
Total	**740,503**	**337,212**	**1,567,440**	**4,681,837**	**7,326,992**	**-316,501**

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

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

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

31 Dec 2020 Euro thousand	Assets	Liabilities	Total
Interest related transactions	57,105	62,595	-5,490
Exchange rate related transactions	28	1	27
Trading portfolio	**57,133**	**62,596**	**-5,463**
Interest related transactions	112,979	427,623	-314,644
Exchange rate related transactions	9,041	3,599	5,442
Other transactions	9,907	11,743	-1,836
Other assets / liabilities	**131,926**	**442,964**	**-311,038**
Total	**189,059**	**505,561**	**-316,501**
Sum interest related transactions	170,084	490,218	-320,134
Sum exchange rate related transactions	9,069	3,600	5,469
Sum other transactions	9,907	11,743	-1,836

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

39) Hedging

Fair value hedges of interest rate risk

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

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

The ineffectiveness from hedge relationships recognised in the result from fair value hedges amounts to euro -980 thousand at VBW in the 2020 financial year (2019: euro -5,280 thousand), whereas the face value of the hedged items as at 31 December 2020 amounts to a total of euro 3,005,105 thousand (2019: euro 2,943,168 thousand). Ineffectiveness therefore corresponds to only 0.03 % (2019: 0.2 %) of the hedge portfolio. The hedging strategy in VBW is therefore 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	45,950	533,527	579,477
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

31 Dec 2019

Euro thousand Interest rate swaps	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Total
Loans and receivables customers	0	0	0	578,107	578,107
Financial investments	31,500	60,000	72,500	922,054	1,086,054
Debts evidenced by certificates	0	0	208,000	1,030,000	1,238,000

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

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	579,477	0	34,764	Positive/negative fair values of derivative instruments	-12,371	63	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	3,503	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	**2,982,640**	**68,839**	**406,964**		**-29,246**	**-832**	

Euro thousand	Face value	Carrying amount assets	Carrying amount liabilities	Line item in the statement of financial position where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness for the current year	Ineffectiveness recognised in profit or loss	Line item in the income statement that includes hedge ineffectiveness
31 Dec 2019							
Loans and receivables customers measured at amortised cost	578,107	890	23,162	Positive/negative fair values of derivative instruments	-18,544	-476	Result from fair value hedge
Financial investments measured at amortised cost	994,554	810	328,476	Positive/negative fair values of derivative instruments	-71,211	-3,492	Result from fair value hedge
Financial investments measured at fair value through OCI	91,500	0	3,627	Positive/negative fair values of derivative instruments	5,089	78	Result from fair value hedge
Debts evidenced by certificates - bonds measured at amortised cost	1,238,000	44,420	2,304	Positive/negative fair values of derivative instruments	4,292	-973	Result from fair value hedge
Interest rate swaps total	**2,902,161**	**46,120**	**357,569**		**-80,374**	**-4,863**	

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	579,470	0	34,194	Loans and receivables customers	12,433	0
Financial investments measured at amortised cost	1,317,142	0	365,173	Financial investments	47,814	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	0	1,228,962	63,961	Debts evidenced by certificates	-30,310	12,517
Hedged items of interest rate swaps total	**1,896,612**	**1,228,962**	**463,327**		**28,413**	**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 ad-justed for hedging gains and losses
31 Dec 2019						
Loans and receivables customers measured at amortised cost	578,100	0	21,761	Loans and receivables customers	18,068	0
Financial investments measured at amortised cost	1,134,880	0	317,358	Financial investments	67,718	2,151
Financial investments measured at fair value through OCI	91,628	0	1,525	Financial investments	-5,011	0
Debts evidenced by certificates - bonds measured at amortised cost	0	1,228,496	33,651	Debts evidenced by certificates	-5,265	16,007
Hedged items of interest rate swaps total	**1,804,607**	**1,228,496**	**374,294**		**75,510**	**18,157**

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
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
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
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
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 484,438 thousand (2019: euro 587,444 thousand), whereas liabilities denominated in foreign currencies amounted to euro 107,869 thousand (2019: euro 142,176 thousand).

41) Trust transactions

Euro thousand	31 Dec 2020	31 Dec 2019
Trust assets		
Loans and receivables credit institutions	68,263	61,821
Loans and receivables customers	79,009	67,913
Trust liabilities		
Amounts owed to credit institutions	68,263	61,821
Amounts owed to customers	79,009	67,913

42) Subordinated assets

Euro thousand	31 Dec 2020	31 Dec 2019
Financial investments	2,401	2,401

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 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 customers if the Group performs in accordance with the contract.

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

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	233,662	270,478
Guaranteed letter of credit	0	1,196
Others (amounts guaranteed)	18,566	18,247
Commitments		
Unutilised loan commitments	3,533,495	2,672,897

Based on the management´s estimation of cash outflow for financial guarantees, a provision was built for off-balance risks to the amount of the probable cash outflow under consideration of possible available collaterals. It amounts to euro 2,166 thousand (2019: euro 3,027 thousand).

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

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

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

Euro thousand	Loan commitments	Guarantees as contracted	Guarantees expected
31 Dec 2020			
Carrying amount	3,533,495	233,662	0
Undiscounted cash flows	**3,533,495**	**233,662**	**2,165**
Up to 3 months	3,533,495	233,662	217
Up to 1 year	0	0	866
Up to 5 years	0	0	1,083
31 Dec 2019			
Carrying amount	2,672,897	270,478	0
Undiscounted cash flows	**2,672,897**	**270,478**	**3,027**
Up to 3 months	2,672,897	270,478	303
Up to 1 year	0	0	1,211
Up to 5 years	0	0	1,514

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

45) Repurchase transactions and other transferred assets

As at 31 December 2020, VBW as pledgor had buy-back commitments under genuine repurchase agreements to 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 credit institutions	0	0	15,307	0
Loans and receivables customers	195	1,597	0	0
Fixed-income securities	0	0	0	357,062
Amounts owed to credit institutions	0	0	248,164	0
Amounts owed to customers	6,010	4,046	24,466	0
Provisions	0	6	11	0
Business transactions	5,402	3,874	259,124	0
Administrative expenses	-519	-32,360	-17	0
Other operating income	0	1,354	6,417	0
Other operating expenses	-152	0	0	0
31 Dec 2019				
Loans and receivables credit institutions	0	0	44,327	0
Loans and receivables customers	163	1,598	0	0
Fixed-income securities	0	0	273	405,802
Amounts owed to credit institutions	0	0	189,861	0
Amounts owed to customers	4,504	1,950	22,547	0
Provisions	0	3	6	0
Business transactions	4,126	3,415	256,580	0
Administrative expenses	-613	-30,436	-14	0
Other operating income	116	1	7,226	0
Other operating expenses	-589	-104	0	0

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

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

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

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

Euro thousand	31 Dec 2020	31 Dec 2019
Outstanding loans and receivables	363	377
Redemptions	32	23

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

As at 31 December 2020 loans and receivables credit institutions/customers contained transactions with the Volksbank-Sector amounting to euro 1,873,734 thousand (2019: euro 2,061,152 thousand) and amounts owed to credit institutions/customers included transactions with the Volksbank-Sector amounting to euro 2,359,951 thousand (2019: euro 2,515,414 thousand).

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

Euro thousand	Covering loans	Coverage requirements debts evidenced	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 covered bonds.

48) Branches

	31 Dec 2020	31 Dec 2019
Total number of branches domestic	**58**	**63**

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

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

Retail

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

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

CO

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

The syndicate financing division including large-scale house-building is another profit centre. VBW provides its services as a syndicate partner for large loan commitments held by commercial clients of the Volksbanks. 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 are reported which are undertaken in managing the Association of Volksbanks and which VBW performs as CO in accordance with the CRR and Austrian Banking Act.

Consolidation

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

Segment reporting by business segments

1-12/2020

Euro thousand	Retail	CO	Consolidation	Total
Net interest income	99,239	16,971	0	116,210
Risk provision	-18,857	-7,749	0	-26,606
Net fee and comission income	61,349	-4,466	435	57,318
Net trading income	274	-1,557	0	-1,283
Result from financial instruments and investment properties	1,672	1,915	0	3,587
Other operating result	8,638	154,369	-55,529	107,478
General administrative expenses	-132,885	-128,577	55,094	-206,368
Result from companies measured at equity	-151	71	0	-81
Annual result before taxes	**19,278**	**30,977**	**0**	**50,255**
Income taxes	-14,192	-5,288	0	-19,480
Annual result after taxes	**5,086**	**25,690**	**0**	**30,775**
31 Dec 2020				
Total assets	**6,672,096**	**9,133,803**	**-1,524,824**	**14,281,075**
Loans and receivables customers	5,235,990	143,284	-6,941	5,372,333
Companies measured at equity	29,953	8,738	0	38,691
Amounts owed to customers	5,546,177	1,233,026	-142,637	6,636,565
Debts evidenced by certificates, including subordinated liabilities	103,074	1,767,655	0	1,870,730

1-12/2019

Euro thousand	Retail	CO	Consolidation	Total
Net interest income	102,654	17,351	0	120,005
Risk provision	-8,590	1,412	0	-7,178
Net fee and comission income	58,413	-2,818	198	55,793
Net trading income	259	-2,546	0	-2,287
Result from financial instruments and investment properties	1,874	19,363	-3,351	17,885
Other operating result	4,149	144,040	-50,663	97,527
General administrative expenses	-143,003	-124,274	53,816	-213,460
Result from companies measured at equity	-165	-336	0	-501
Annual result before taxes	**15,593**	**52,191**	**0**	**67,784**
Income taxes	-8,387	-2,364	0	-10,751
Annual result after taxes	**7,206**	**49,827**	**0**	**57,033**
31 Dec 2019				
Total assets	**6,541,971**	**7,572,113**	**-1,410,234**	**12,703,850**
Loans and receivables customers	5,276,454	244,157	-49,275	5,471,336
Companies measured at equity	30,460	8,734	0	39,194
Amounts owed to customers	5,254,294	1,280,697	-96,391	6,438,600
Debts evidenced by certificates, including subordinated liabilities	112,981	1,757,609	0	1,870,591

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, consisting of VBW and the affiliated banks of the Volksbank-Sector, VBW performs this central task for the Association of Volksbanks, so that the latter has in place administrative, accounting and control mechanisms for the capture, assessment, management and monitoring of the risks arising from banking transactions and banking operations as well as of the remuneration strategy and practices (section 39 (2) Austrian Banking Act). The implementation of control within the Association of Volksbanks is effected through General, and, if necessary, Individual Instructions and corresponding working instructions in the affiliated banks.

The following risks are classified as material within the Association of Volksbanks in the course of the self-assessment process:

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

Organisation of risk management

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

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

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

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

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

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

Regulatory requirements

The implementation of regulatory requirements at VBW is 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 RMF) 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 Control Function (RCF) that is responsible for independent monitoring and communication of risks within the respective affiliated bank.

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

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, that both VBW and all affiliated banks are subject to. The ICAAP starts by identifying the material risks, followed by the risk quantification and aggregation, determination of risk-bearing capacity, limitation, and concludes with ongoing risk monitoring and the measures derived therefrom. Explanations regarding the ILAAP are presented in item d) Liquidity risk.

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

Risk inventory

The risk inventory aims to define the materiality of existing and newly assumed risks. The risk inventory results are summarised and analysed for VBW. The results of the risk inventory process are used to inform the risk strategy and form a starting point for the risk-bearing capacity calculation, as significant types of risk are taken into account within the risk-bearing capacity calculation.

Risk strategy

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

Risk Appetite Statement (RAS) and limit system

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

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

- Capital ratios (e.g. CET1 ratio, T1 ratio, TC ratio, RTF)
- Credit risk ratios (e.g. NPL ratio, coverage ratio, net allocation for risk provisions, forbearance ratio)
- Interest rate risk ratios (e.g. OeNB interest rate risk coefficient, EBA interest rate risk coefficient, PVBP)
- Liquidity risk ratios (e.g. LCR, NSFR)
- Ratios relating to operational risk (e.g. OpRisk losses in proportion to CET1, ICS implementation rate)
- Other risk-relevant ratios (e.g. CIR, sector concentrations)

Risk-bearing capacity calculation

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

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

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

The regulatory Pillar 1 perspective compares the aggregate risk amount calculated in accordance with applicable legal provisions with regulatory own funds. Ensuring regulatory risk-bearing capacity is stipulated under the law and constitutes a minimum requirement. The composition of the regulatory aggregate risk position of VBW corresponds to that of any regionally operating retail bank.

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

The normative perspective ensures that the Association of Volksbanks is able, throughout a period of several years, to meet its own funds requirement and to cope with other external financial constraints. It represents the risk-bearing capacity on the basis of strategic planning under normal and adverse conditions, essentially comprising a simulation of the profit and loss account and own funds positions over three years. In the process, the strategic planning as well as various crisis scenarios are simulated and the development of regulatory own funds ratios calculated taking into account the effects of the relevant scenario. Therefore, the key parameters of the normative perspective are the regulatory own funds ratios CET1, tier 1 and total capital. The normative perspective was implemented throughout the Association and hence also includes VBW.

Stress testing

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

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

EU-wide stress tests across risk types are being carried out by the EBA/ECB every two years, with the Association of Volksbanks participating. The next EBA/ECB stress test is going to take place in 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 a risk-specific stress test. Therefore, the Association of Volksbanks participated in the liquidity stress test in 2019.

Risk reporting

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

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

Recovery and resolution planning

As the Association of Volksbanks was classified as a significant institution in Austria, the Association must prepare a recovery & resolution plan and submit the same to the European Central Bank. VBW in its function as the CO of the Association of Volksbanks is responsible for drawing up the Group Recovery & Resolution Plan (GRP) for the Association. No separate recovery & resolution plan is being prepared for VBW and affiliated institutions. The GRP is updated at least once a year and takes into account changes in business activities as well as changes in 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 VBW, the responsibilities associated with credit risk are taken care of by the divisions Credit Risk Management and Risk Control. The departments Credit Risk Management Retail Branches, Credit Risk Management Real Estate & Corporate Financing, Restructuring & Recovery are responsible for operational credit risk management. The Risk Control is responsible for risk assessment, risk measurement and risk control as well as for credit risk reporting at portfolio level.

Operational credit risk management

Lending principles

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

Decision-making process

In all units of VBW that generate credit risk, there is a strict separation of sales and risk management units. All decisions for individual instances are taken strictly observing the dual-control principle; clear processes have been defined for this purpose. Limit systems play an important role in this context, as they provide a framework for the decision-making powers of the individual units.

Monitoring of exposures and collaterals

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

Limits

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

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

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

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

Intensified credit risk management

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

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

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

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

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

Problem Loan Management

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

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

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

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 resp. their results also form the basis of portfolio management.

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

Rating systems

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

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

Credit value at risk

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

Concentrations

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

Counterparty default risk

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

Credit risk mitigation

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

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

Factors influencing the estimate of Expected Credit Losses (ECL) for the purpose of determining impairments

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

Rating systems

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

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

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

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

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

Lifetime Probability of Default

Ratings provide essential input for determining the lifetime PD for ECL calculation. At each balance sheet date, Volksbank assesses whether the default risk for any financial instrument has increased significantly since first-time recognition. To identify any significant increases of default risk, companies may bundle financial instruments in groups based on common default risk characteristics and hence may perform an analysis aimed at identifying any significant increases in default risk promptly. For the purpose of analysing lifetime PD, the portfolio of Volksbank is divided into the following segments:

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

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

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

Forward-looking information

The bank takes account of future-oriented 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 economists of the bank’s research department and taking into account additional market data, the bank will formulate:

- 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 projected scenarios that constitute one more optimistic and one more pessimistic outcome of the relevant economic variables.

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

Consideration of forward-looking information

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

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

Definition of stage transfers and default

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

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

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

The definition of default is fully in line with the default definition of the bank for own fund requirements (CRR). Any default may be recovered and transferred back to Stage 1 or Stage 2 six months after commencement of the period of good conduct at the earliest, provided that good conduct is shown within said period of six months, and the other prerequisites set down in CRR and the internal guidelines are met.

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

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

Further qualitative indicators for allocation to Stage 2 are:

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

The bank calibrates a bidirectional illustration of the changes of lifetime credit losses and the rating migration from initial recognition until the current date, taking into account the respective current forward-looking information. Hence, the quantitative stage transfers are derived from significant downgrades of the customer’s current rating compared to the credit risk upon initial recognition. Based on the Volksbank master scale with 20 (performing) rating levels, the number of rating class downgrades leading to Stage 2 is 1 to 5, depending on the original maturity and residual term of the respective financial instrument, on the initial rating, on the customer segment and on the current forward-looking information. Financial assets with a rating in the investment grade range at the measurement date – corresponds to a probability of default, based on the VB master scale, of a maximum of 0.35 % – are classified as level 1 ("Low Credit Risk Exemption", IFRS 9.5.5.10).

The transfer from Stage 2 to Stage 1 takes place immediately on the measurement date after the qualitative and quantitative Stage 2 criteria lapsing (without consideration of any periods of good conduct).

Measurement of Expected Credit Loss (ECL)

The bank determines ECL on the basis of the individual instrument, regardless of the materiality of the exposure. Collective parameters and assumptions are used if applicable.

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

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

Performing portfolio

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

The most important model parameters for ECL measurement are:

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

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

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

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

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

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

<table>
<tr><th>Portfolio</th><th>Main influencing factors for LGD</th></tr>
<tr><td>Corporate including special financing</td><td rowspan="3">Internal historical data of default events and recoveries, including date of default and date of conclusion / event status
Most important type of collateral (residential real estate, commercial real estate, insurance policies, others) taken into account</td></tr>
<tr><td>SME</td></tr>
<tr><td>Private Customers</td></tr>
<tr><td>Banks</td><td>Expert estimates
Regulatory benchmarks based on the CRR</td></tr>
<tr><td>Others</td><td>Expert estimates and scenario analyses</td></tr>
</table>

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

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

Defaulted exposures

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

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

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

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

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

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

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, VBW 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. VBW 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 7.2 million were taken into account, of which approximately euro 5.7 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 9.8 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 1.5 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 1.6 m).

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; 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 allocation to impairments for NPL (Stage 3) customers in the total amount of euro 4.4 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 2.4 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 customers to Stage 2 or Stage 1.

	in euro million	in % of risk provisions Portfolio (Performing)
Risk provisions Portfolio Performing (Actual)	34.0	100.0 %
Of which PMA staging and rating update	3.1	9.1 %
All receivables transferred to Stage 1	-9.8	-28.8 %
All receivables transferred to Stage 2	21.1	62.0 %

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)	34.0	100.0 %
Weighting 100 % Mild	-1.8	-5.2 %
Weighting 100 % Severe	1.9	5.5 %
ECB scenario set 12/2020	-0.2	-0.5 %

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)	43.2	36.0 %
Depreciation by 15 %	6.5	5.5 %
Depreciation by 25 %	10.3	8.6 %
All NPL customers in workout	7.4	6.1 %

Regulatory risk provision – "NPL backstop"

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

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

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

The difference between economic risk provisions under IFRS 9 and regulatory risk provisions within the scope of the regulations described above must be recorded directly in equity. With respect to the anticipated effect on equity, processes were developed in the course of 2019 to further reduce the duration of the NPL status, as well as a backstop reporting process for existing NPEs, which were 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 VBW, its major units and their key areas of business. The information is also included in the credit risk section of the aggregate bank risk report.

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

The following analyses are part of the monthly report:

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

For the COVID-19-induced portfolio, weekly monitoring based on up-to-date information was set up in order to continuously track developments and to be able to implement measures promptly.

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 credit institutions, gross
- Loans and receivables customers, gross
- Assets held for trading: only fixed-income securities are included, but no positive fair values from derivatives, as they do not include any credit risk in the narrower sense
- Financial investments: here, too, only fixed-income securities are included. Equities are excluded, as they do not include any credit risk in the narrower sense
- Contingent liabilities: liabilities arising from guarantees, contingencies and letters of credit are included, other liabilities are excluded
- Credit risks: include commitments not utilised yet

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

Credit risk-related portfolio

Euro thousand	31 Dec 2020	31 Dec 2019
Liquid funds	3,750,394	1,864,726
Loans and receivables credit institutions	2,286,050	2,466,462
At amortised costs	2,285,932	2,466,343
At fair value	118	119
Loans and receivables customers	5,451,654	5,526,955
At amortised costs	5,319,517	5,360,537
At fair value	132,137	166,419
Assets held for trading - fixed-income securities	2,603	1,873
At fair value	2,603	1,873
Financial investments - fixed-income securities	2,249,529	2,190,760
At amortised costs	2,227,387	2,067,451
At fair value	22,142	123,309
Contingent liabilities	233,662	271,673
Credit risks	3,533,495	2,672,897
Total	**17,507,387**	**14,995,347**

As at 31 December 2020, the total credit risk-related portfolio amounted to euro 17,507,387 thousand (2019: euro 14,995,347 thousand). Loans and receivables customers constitute the biggest group of receivables, which corresponds to the business model of classic lending business with a focus on Private and SME customers. At VBW, there are no receivables from finance leases.

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

Among off-balance sheet items, it is mainly unutilised loan commitments and liabilities from guarantees and contingencies that are of significance.

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

Development by customer segments[1]

The following tables show the distribution of the credit risk-related portfolio by balance sheet items and customer segments. As VBW assumes the central liquidity management function within the Association of Volksbanks, an essential customer segment of credit risk-related positions is the public sector. This segment includes the amount owed by the central bank and the major part of financial investments. In loans and receivables customers, the largest customer segment of the credit risk-relevant items is the SME segment with euro 2,415,903 thousand as at 31 December 2020 (2019: euro 2,513,633 thousand), followed by the Private Customer segment.

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

Portfolio distribution by customer segments

31 Dec 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 credit institutions	2,286,050	0	0	0	0	0	2,286,050
At amortised costs	2,285,932	0	0	0	0	0	2,285,932
At fair value	118	0	0	0	0	0	118
Loans and receivables customers	0	2,310,421	2,415,903	273,477	55,396	396,457	5,451,654
At amortised costs	0	2,213,373	2,391,468	273,067	52,774	388,835	5,319,517
At fair value	0	97,049	24,434	409	2,622	7,622	132,137
Assets held for trading - fixed-income securities	921	0	0	1,682	0	0	2,603
At fair value	921	0	0	1,682	0	0	2,603
Financial investments - fixed-income securities	957,234	0	0	73,392	1,218,904	0	2,249,529
At amortised costs	941,939	0	0	73,392	1,212,056	0	2,227,387
At fair value	15,294	0	0	0	6,848	0	22,142
Contingent liabilities	670	17,176	211,209	2,254	75	2,278	233,662
Credit risks	2,647,926	255,738	398,399	62,476	117,545	51,412	3,533,495
Total	**5,892,801**	**2,583,335**	**3,025,510**	**413,280**	**5,142,314**	**450,147**	**17,507,387**

31 Dec 2019 Euro thousand	Banks	Retail private	SME	Corporates	Public sector	Others	Total
Liquid funds	0	0	0	0	1,864,726	0	1,864,726
Loans and receivables credit institutions	2,466,462	0	0	0	0	0	2,466,462
At amortised costs	2,466,343	0	0	0	0	0	2,466,343
At fair value	119	0	0	0	0	0	119
Loans and receivables customers	0	2,415,430	2,513,633	262,965	24,546	310,382	5,526,955
At amortised costs	0	2,290,159	2,479,973	262,410	20,788	307,206	5,360,537
At fair value	0	125,270	33,660	555	3,758	3,176	166,419
Assets held for trading - fixed-income securities	1,285	0	0	588	0	0	1,873
At fair value	1,285	0	0	588	0	0	1,873
Financial investments - fixed-income securities	991,669	0	0	68,933	1,130,158	0	2,190,760
At amortised costs	974,082	0	0	68,932	1,024,437	0	2,067,451
At fair value	17,587	0	0	1	105,721	0	123,309
Contingent liabilities	1,865	29,695	235,275	2,711	77	2,049	271,673
Credit risks	1,792,886	290,049	352,987	49,530	122,461	64,984	2,672,897
Total	**5,254,167**	**2,735,174**	**3,101,895**	**384,728**	**3,141,968**	**377,415**	**14,995,347**

Development by currencies

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

Portfolio distribution by currencies

31 Dec 2020 Euro thousand	EUR	CHF	Others	Total
Liquid funds	3,750,394	0	0	3,750,394
Loans and receivables credit institutions	1,986,700	274,479	24,871	2,286,050
At amortised costs	1,986,582	274,479	24,871	2,285,932
At fair value	118	0	0	118
Loans and receivables customers	5,281,622	159,139	10,893	5,451,654
At amortised costs	5,149,485	159,139	10,893	5,319,517
Thereof Retail private	2,099,232	109,888	4,252	2,213,373
Thereof SME	2,339,368	45,460	6,641	2,391,468
Thereof Corporates	269,277	3,791	0	273,067
Thereof other	441,608	0	0	441,608
At fair value	132,137	0	0	132,137
Thereof Retail private	97,049	0	0	97,049
Thereof SME	24,434	0	0	24,434
Thereof Corporates	409	0	0	409
Thereof other	10,245	0	0	10,245
Assets held for trading - fixed-income securities	2,603	0	0	2,603
At fair value	2,603	0	0	2,603
Financial investments - fixed-income securities	1,849,315	0	400,215	2,249,529
At amortised costs	1,827,172	0	400,215	2,227,387
Thereof Banks	941,939	0	0	941,939
Thereof Corporates	73,392	0	0	73,392
Thereof Public sector	811,841	0	400,215	1,212,056
At fair value	22,142	0	0	22,142
Thereof Banks	15,294	0	0	15,294
Thereof Corporates	0	0	0	0
Thereof Public sector	6,848	0	0	6,848
Contingent liabilities	233,625	37	0	233,662
Thereof Banks	633	37	0	670
Thereof Retail private	17,176	0	0	17,176
Thereof SME	211,209	0	0	211,209
Thereof Corporates	2,254	0	0	2,254
Thereof other	2,353	0	0	2,353
Credit risks	3,532,587	0	907	3,533,495
Thereof Banks	2,647,924	0	2	2,647,926
Thereof Retail private	255,725	0	13	255,738
Thereof SME	397,506	0	893	398,399
Thereof Corporates	62,476	0	0	62,476
Thereof other	168,957	0	0	168,957
Total	**16,636,845**	**433,655**	**436,886**	**17,507,387**

31 Dec 2019 Euro thousand	EUR	CHF	Others	Total
Liquid funds	1,864,726	0	0	1,864,726
Loans and receivables credit institutions	2,137,425	300,652	28,385	2,466,462
At amortised costs	2,137,306	300,652	28,385	2,466,343
At fair value	119	0	0	119
Loans and receivables customers	5,281,520	231,753	13,682	5,526,955
At amortised costs	5,115,102	231,753	13,682	5,360,537
Thereof Retail private	2,143,202	142,311	4,646	2,290,159
Thereof SME	2,414,598	56,338	9,036	2,479,973
Thereof Corporates	258,667	3,743	0	262,410
Thereof other	298,634	29,360	0	327,994
At fair value	166,419	0	0	166,419
Thereof Retail private	125,270	0	0	125,270
Thereof SME	33,660	0	0	33,660
Thereof Corporates	555	0	0	555
Thereof other	6,934	0	0	6,934
Assets held for trading - fixed-income securities	1,873	0	0	1,873
At fair value	1,873	0	0	1,873
Financial investments - fixed-income securities	2,173,739	0	17,021	2,190,760
At amortised costs	2,050,430	0	17,021	2,067,451
Thereof Banks	974,082	0	0	974,082
Thereof Corporates	68,932	0	0	68,932
Thereof Public sector	1,007,416	0	17,021	1,024,437
At fair value	123,309	0	0	123,309
Thereof Banks	17,587	0	0	17,587
Thereof Corporates	1	0	0	1
Thereof Public sector	105,721	0	0	105,721
Contingent liabilities	271,211	55	407	271,673
Thereof Banks	1,725	55	85	1,865
Thereof Retail private	29,695	0	0	29,695
Thereof SME	234,953	0	323	235,275
Thereof Corporates	2,711	0	0	2,711
Thereof other	2,127	0	0	2,127
Credit risks	2,670,842	3	2,053	2,672,897
Thereof Banks	1,792,886	0	0	1,792,886
Thereof Retail private	290,034	2	13	290,049
Thereof SME	350,947	2	2,039	352,987
Thereof Corporates	49,530	0	0	49,530
Thereof other	187,444	0	0	187,444
Total	**14,401,335**	**532,463**	**61,548**	**14,995,347**

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 241,121 thousand (2019: euro 295,164 thousand).

Development by countries

The main business activity of the Association of Volksbanks, and thus of VBW, focuses on the Austrian market. This is also evident from the following tables: at 31 December 2020, Austrian exposures accounted for 87.6 % of the credit risk-related portfolio (2019: 86.8 %).

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 credit institutions	1,878,066	162,609	245,375	2,286,050
At amortised costs	1,877,948	162,609	245,375	2,285,932
At fair value	118	0	0	118
Loans and receivables customers	5,352,370	43,145	56,139	5,451,654
At amortised costs	5,221,951	43,090	54,476	5,319,517
Thereof Retail private	2,190,450	11,217	11,706	2,213,373
Thereof SME	2,366,125	14,123	11,220	2,391,468
Thereof Corporates	227,666	17,750	27,651	273,067
Thereof other	437,709	0	3,899	441,608
At fair value	130,419	55	1,662	132,137
Thereof Retail private	95,362	55	1,632	97,049
Thereof SME	24,404	0	31	24,434
Thereof Corporates	409	0	0	409
Thereof other	10,245	0	0	10,245
Assets held for trading - fixed-income securities	2,603	0	0	2,603
At fair value	2,603	0	0	2,603
Financial investments - fixed-income securities	596,123	212,339	1,441,067	2,249,529
At amortised costs	584,369	206,569	1,436,450	2,227,387
Thereof Banks	257,138	159,554	525,247	941,939
Thereof Corporates	12,233	1,000	60,159	73,392
Thereof Public sector	314,998	46,015	851,044	1,212,056
At fair value	11,754	5,771	4,617	22,142
Thereof Banks	7,380	5,771	2,143	15,294
Thereof Corporates	0	0	0	0
Thereof Public sector	4,374	0	2,474	6,848
Contingent liabilities	232,886	291	484	233,662
Thereof Banks	573	97	0	670
Thereof Retail private	16,644	97	434	17,176
Thereof SME	211,115	43	50	211,209
Thereof Corporates	2,200	54	0	2,254
Thereof other	2,353	0	0	2,353
Credit risks	3,527,589	4,935	971	3,533,495
Thereof Banks	2,647,924	0	2	2,647,926
Thereof Retail private	254,889	316	533	255,738
Thereof SME	397,044	918	436	398,399
Thereof Corporates	58,775	3,701	0	62,476
Thereof other	168,957	0	0	168,957
Total	**15,340,030**	**423,319**	**1,744,037**	**17,507,387**

31 Dec 2019 Euro thousand	Austria	Germany	Others	Total
Liquid funds	1,864,726	0	0	1,864,726
Loans and receivables credit institutions	2,052,719	205,665	208,078	2,466,462
At amortised costs	2,052,599	205,665	208,078	2,466,343
At fair value	119	0	0	119
Loans and receivables customers	5,391,797	38,888	96,270	5,526,955
At amortised costs	5,227,510	38,804	94,222	5,360,537
Thereof Retail private	2,262,428	14,957	12,774	2,290,159
Thereof SME	2,450,891	14,883	14,199	2,479,973
Thereof Corporates	220,229	8,964	33,218	262,410
Thereof other	293,962	0	34,032	327,994
At fair value	164,287	84	2,048	166,419
Thereof Retail private	123,173	84	2,014	125,270
Thereof SME	33,626	0	34	33,660
Thereof Corporates	555	0	0	555
Thereof other	6,934	0	0	6,934
Assets held for trading - fixed-income securities	1,873	0	0	1,873
At fair value	1,873	0	0	1,873
Financial investments - fixed-income securities	756,177	136,847	1,297,736	2,190,760
At amortised costs	693,545	132,894	1,241,012	2,067,451
Thereof Banks	274,017	122,192	577,873	974,082
Thereof Corporates	12,645	0	56,287	68,932
Thereof Public sector	406,883	10,702	606,852	1,024,437
At fair value	62,631	3,953	56,724	123,309
Thereof Banks	7,431	3,953	6,203	17,587
Thereof Corporates	1	0	0	1
Thereof Public sector	55,200	0	50,521	105,721
Contingent liabilities	270,948	402	323	271,673
Thereof Banks	1,768	97	0	1,865
Thereof Retail private	29,195	219	282	29,695
Thereof SME	235,201	33	41	235,275
Thereof Corporates	2,658	54	0	2,711
Thereof other	2,127	0	0	2,127
Credit risks	2,670,704	1,531	662	2,672,897
Thereof Banks	1,792,886	0	0	1,792,886
Thereof Retail private	288,994	500	556	290,049
Thereof SME	351,850	1,031	106	352,987
Thereof Corporates	49,530	0	0	49,530
Thereof other	187,444	0	0	187,444
Total	**13,008,944**	**383,333**	**1,603,069**	**14,995,347**

Development by sectors[2]

The most important sector within loans and receivables customers of VBW are private households with 42.4 % as at 31 December 2020 (2019: 43.7 %). As at 31 December 2020, the largest commercial sector within loans and receivables customers at VBW is the real estate sector. It accounts for a share of 38.1 % (2019: 35.5 %). 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 65.19 % (2019: 61.65 %), followed by the retail and repair sector with a share of 7.53 % (2019: 7.77 %). As at 31 December 2019, the largest commercial sector within loans and receivables customers in the Corporate segment is again the real estate sector, accounting for 42.37 % (2019: 40.26 %).

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 credit institutions	0	2,286,050	0	0	0
At amortised costs	0	2,285,932	0	0	0
At fair value	0	118	0	0	0
Loans and receivables customers	2,310,424	102,211	55,396	2,075,768	129,185
At amortised costs	2,213,376	102,172	52,774	2,062,934	127,361
At fair value	97,049	39	2,622	12,834	1,824
Assets held for trading – fixed-income securities	0	921	0	834	459
At fair value	0	921	0	834	459
Financial investments – fixed-income securities	0	948,566	1,218,904	0	0
At amortised costs	0	933,272	1,212,056	0	0
At fair value	0	15,294	6,848	0	0
Contingent liabilities	17,132	112,545	75	18,037	11,030
Credit risks	248,947	2,681,153	117,545	200,817	34,917
Total	**2,576,503**	**6,131,446**	**5,142,314**	**2,295,456**	**175,592**

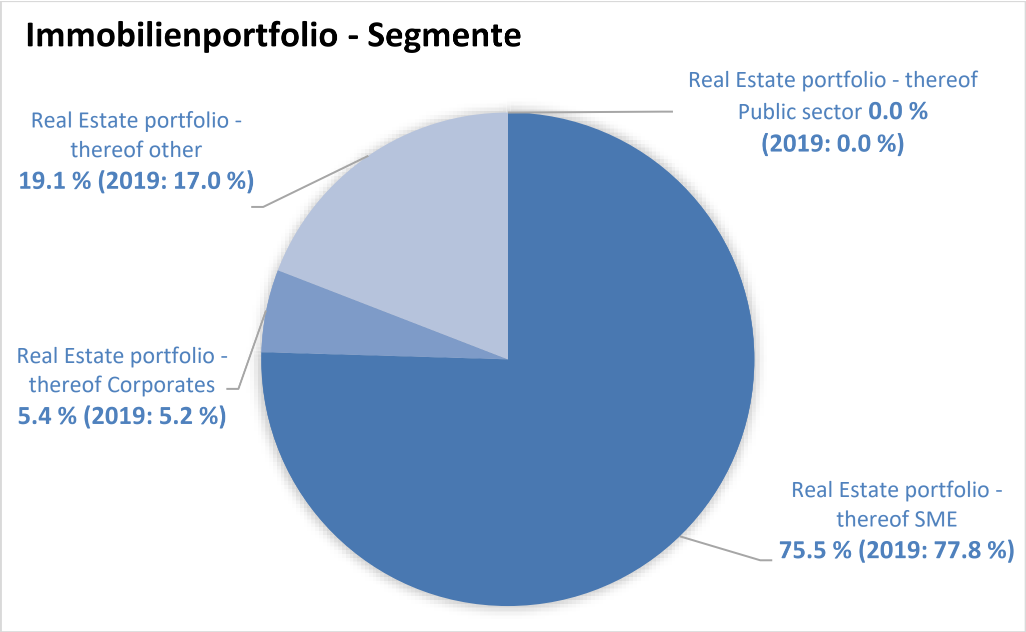
31 Dec 2020 Euro thousand	Tourism	Trade and repairs	Physicians/ healthcare	Food/ agriculture and forestry	Others	Total
Liquid funds	0	0	0	0	0	3,750,394
Loans and receivables credit institutions	0	0	0	0	0	2,286,050
At amortised costs	0	0	0	0	0	2,285,932
At fair value	0	0	0	0	0	118
Loans and receivables customers	140,654	187,705	100,819	153,079	196,413	5,451,654
At amortised costs	136,555	185,660	100,418	143,443	194,825	5,319,517
At fair value	4,100	2,045	401	9,636	1,587	132,137
Assets held for trading – fixed-income securities	0	0	0	0	389	2,603
At fair value	0	0	0	0	389	2,603
Financial investments – fixed-income securities	0	0	0	5,045	77,014	2,249,529
At amortised costs	0	0	0	5,045	77,014	2,227,387
At fair value	0	0	0	0	0	22,142
Contingent liabilities	11,387	12,377	2,370	1,497	47,211	233,662
Credit risks	20,185	64,926	10,543	25,640	128,823	3,533,495
Total	**172,226**	**265,007**	**113,731**	**185,262**	**449,849**	**17,507,387**

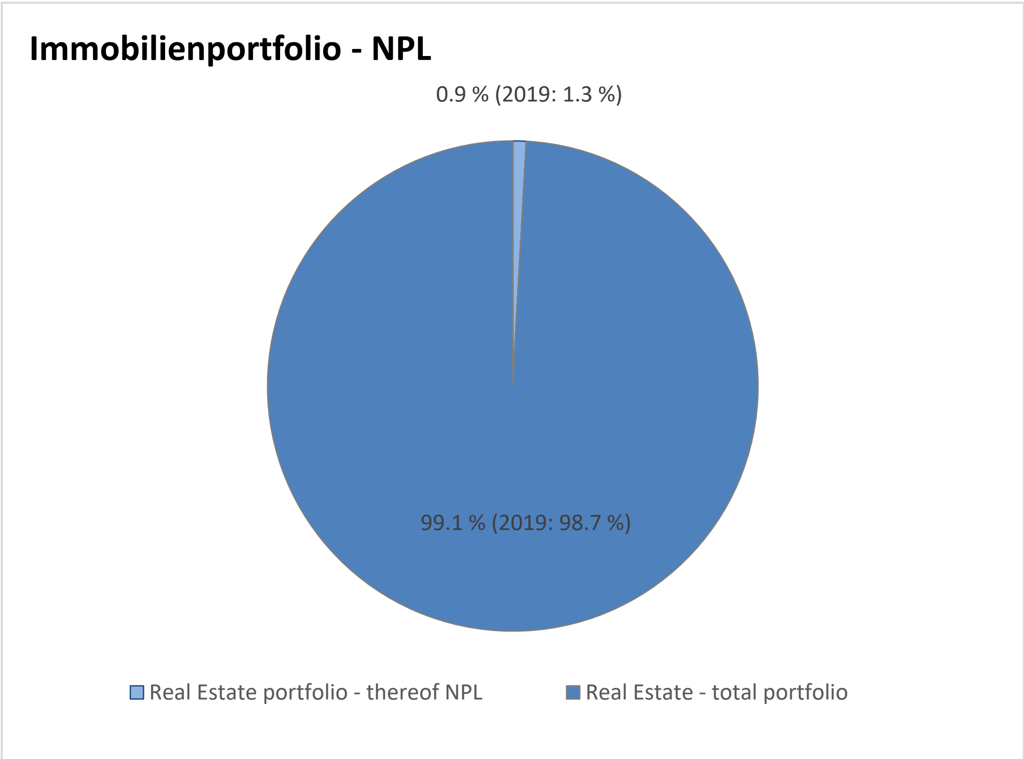
[2] The definition of the sector is largely aligned with the ÖNACE codes and cannot be compared directly with customer segments, where a different classification logic is applied.

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

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

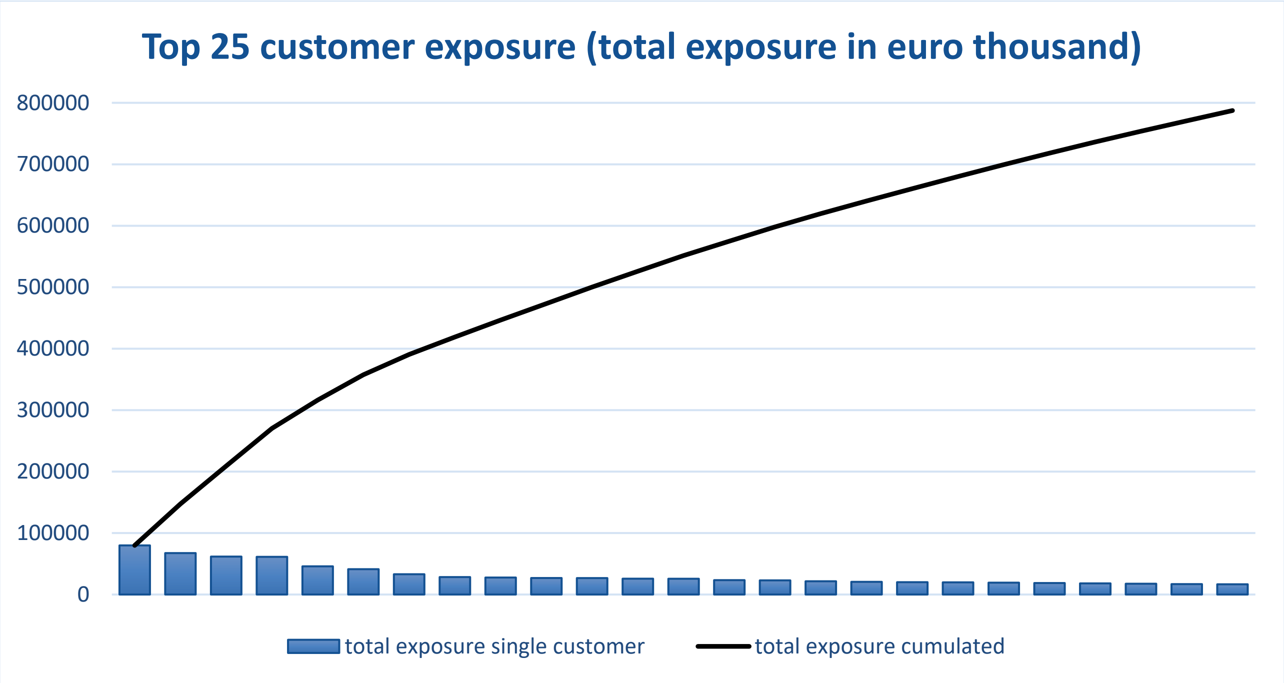
The following charts show the distribution of the real estate portfolio by segments, and the proportion of non-performing loans within the real estate portfolio. The major part of the real estate portfolio is found in the SME segment, with 75.5 % (2019: 77.8 %); at 0.9 % (2019: 1.3 %), the NPL ratio in the real estate portfolio is below the NPL ratio of internal risk control of 1,95 % (2019: 2.19 %), as at 31 December 2020.





Presentation of the Top 25 exposures

The following chart shows the Top 25 loans and receivables customers of VBW as at 31 December 2020 with the total exposure per individual customer as well as the cumulative total exposure of euro 787,414 thousand (2019: euro 680,251 thousand), and reflects the business model of VBW with a focus on small-volume private and SME customers. The Top 25 loans and receivables customers correspond to some 12.4 % (2019: 10.6 %) of total loans and receivables customers within VBW (Top no. 1 customer: 1.3 % of total loans and receivables customers). The values are shown in line with the internal risk perspective, meaning loans and receivables customers as well as credit risks and contingent liabilities to customers excluding internal transactions within the Association and the portion of the Association's guarantee that is not allocated to VBW.



Development by ratings

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

Portfolio distribution by ratings 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 credit institutions	97,839	2,183,039	5,172	0	0	0	2,286,050
At amortised costs	97,839	2,182,921	5,172	0	0	0	2,285,932
Thereof Stage 1	97,839	2,182,921	5,142	0	0	0	2,285,902
Thereof Stage 2	0	0	30	0	0	0	30
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	0	118	0	0	0	0	118
Loans and receivables customers	147,881	2,250,049	2,703,858	229,551	119,278	1,037	5,451,654
At amortised costs	139,850	2,177,219	2,665,183	225,395	110,904	966	5,319,517
Thereof Stage 1	139,226	2,140,791	2,257,885	8,835	0	268	4,547,006
Thereof Stage 2	623	36,428	407,298	216,560	0	698	661,607
Thereof Stage 3	0	0	0	0	110,904	0	110,904
At fair value	8,032	72,831	38,675	4,156	8,373	71	132,137
Assets held for trading - fixed-income securities	0	1,733	870	0	0	0	2,603
At fair value	0	1,733	870	0	0	0	2,603
Financial investments - fixed-income securities	1,427,037	812,507	9,986	0	0	0	2,249,529
At amortised costs	1,412,275	805,127	9,986	0	0	0	2,227,387
Thereof Stage 1	1,412,275	805,127	9,986	0	0	0	2,227,387
Thereof Stage 2	0	0	0	0	0	0	0
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	14,762	7,380	0	0	0	0	22,142
Contingent liabilities	3,414	67,127	149,982	9,317	2,717	1,104	233,662
Thereof Stage 1	3,413	64,675	143,447	6,027	0	990	218,553
Thereof Stage 2	0	2,452	6,535	3,291	0	114	12,391
Thereof Stage 3	0	0	0	0	2,717	0	2,717
Credit risks	214,695	2,914,400	390,541	8,712	3,204	1,944	3,533,495
Thereof Stage 1	212,906	2,906,717	347,246	3,212	0	895	3,470,976
Thereof Stage 2	1,789	7,683	43,295	5,500	0	1,049	59,315
Thereof Stage 3	0	0	0	0	3,204	0	3,204
Total	**5,641,260**	**8,228,855**	**3,260,408**	**247,580**	**125,199**	**4,084**	**17,507,387**

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

Effects from contract amendments

For the year 2020, the effect on the income statement from changes in contracts for financial instruments is euro -4,286 thousand (2019: euro -4,067 thousand), of which euro -706 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 1.96 % for VBW (2019: 2.19 %).

The NPL coverage ratio through risk provisions or Coverage Ratio I for internal reporting amounts to 37.41 % for VBW as at 31 December 2020 (2019: 30.53 %).

The NPL coverage ratio through risk provisions and collateral securities or Coverage Ratio III for internal reporting amounts to 105.62 % for VBW as at 31 December 2020 (2019: 100.05 %).

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

The credit risk volume relevant for calculating the NPL ratio amounted to euro 6,329,124 thousand in internal reporting (2019: euro 6,430,071 thousand). As mentioned already, this amount excludes the pro rata guarantee of the Association as well as the internal transactions of the Association and is accordingly much lower than the euro 9,218,811 thousand shown in the following table as at 31 December 2020 (2019: euro 8,471,526 thousand).

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

Portfolio distribution NPL Portfolio:

31 Dec 2020 Euro thousand	Loan volume - total	NPL	NPL Ratio	Risk provisions for NPL
Liquid funds	3,750,394	0	0.00 %	0
Loans and receivables credit institutions	2,286,050	0	0.00 %	0
At amortised costs	2,285,932	0	0.00 %	0
At fair value	118	0	0.00 %	0
Loans and receivables customers	5,451,654	119,278	2.19 %	49,217
At amortised costs	5,319,517	110,904	2.08 %	49,217
Thereof Retail private	2,213,373	33,599	1.52 %	14,070
Thereof SME	2,391,468	73,747	3.08 %	32,996
Thereof Corporates	273,067	207	0.08 %	55
Thereof other	441,608	3,351	0.76 %	2,097
At fair value	132,137	8,373	6.34 %	0
Thereof Retail private	97,049	6,695	6.90 %	0
Thereof SME	24,434	1,678	6.87 %	0
Thereof Corporates	409	0	0.00 %	0
Thereof other	10,245	0	0.00 %	0
Assets held for trading - fixed-income securities	2,603	0	0.00 %	0
At fair value	2,603	0	0.00 %	0
Financial investments - fixed-income securities	2,249,529	0	0.00 %	0
At amortised costs	2,227,387	0	0.00 %	0
At fair value	22,142	0	0.00 %	0
Contingent liabilities	233,662	2,717	1.16 %	1,739
Credit risks	3,533,495	3,204	0.09 %	429
Total	**17,507,387**	**125,199**	**0.72 %**	**51,385**
Loans and receivables customers, contingent liabilities, credit risks	9,218,811	125,199	1.36 %	51,385
Liquid funds, loans and receivables credit institutions and customers	11,488,098	119,278	1.04 %	49,217

31 Dec 2020 Euro thousand	NPL coverage ratio (Loan loss allowance)	Collateral for NPL	NPL coverage ratio (Loan loss allowance + collateral)
Liquid funds	0.00 %	0	0.00 %
Loans and receivables credit institutions	0.00 %	0	0.00 %
At amortised costs	0.00 %	0	0.00 %
At fair value	0.00 %	0	0.00 %
Loans and receivables customers	41.26 %	84,178	111.84 %
At amortised costs	44.38 %	77,418	114.18 %
Thereof Retail private	41.88 %	25,233	116.97 %
Thereof SME	44.74 %	50,406	113.09 %
Thereof Corporates	26.37 %	178	112.38 %
Thereof other	62.58 %	1,601	110.36 %
At fair value	0.00 %	6,760	80.74 %
Thereof Retail private	0.00 %	5,358	80.03 %
Thereof SME	0.00 %	1,402	83.56 %
Thereof Corporates	0.00 %	0	0.00 %
Thereof other	0.00 %	0	0.00 %
Assets held for trading - fixed-income securities	0.00 %	0	0.00 %
At fair value	0.00 %	0	0.00 %
Financial investments - fixed-income securities	0.00 %	0	0.00 %
At amortised costs	0.00 %	0	0.00 %
At fair value	0.00 %	0	0.00 %
Contingent liabilities	64.01 %	1,149	106.28 %
Credit risks	13.38 %	0	13.38 %
Total	**41.04 %**	**85,327**	**109.20 %**
Loans and receivables customers, contingent liabilities, credit risks	41.04 %	85,327	109.20 %
Liquid funds, loans and receivables credit institutions and customers	41.26 %	84,178	111,84 %

31 Dec 2019 Euro thousand	Loan volume - total	NPL	NPL Ratio	Risk provisions for NPL
Liquid funds	1,864,726	0	0.00 %	0
Loans and receivables credit institutions	2,466,462	0	0.00 %	0
Loans and receivables customers	5,526,955	132,984	2.41 %	40,712
Thereof Retail private	2,290,159	41,782	1.82 %	14,007
Thereof SME	2,479,973	76,456	3.08 %	25,297
Thereof Corporates	262,410	3,281	1.25 %	1,342
Thereof other	327,994	1,522	0.46 %	65
Assets held for trading - fixed-income securities	1,873	0	0.00 %	0
Financial investments - fixed-income securities	2,190,760	1	0.00 %	0
Contingent liabilities	271,673	3,501	1.29 %	2,208
Credit risks	2,672,897	4,051	0.15 %	819
Total	**14,995,347**	**140,536**	**0.94 %**	**43,739**
Loans and receivables customers, contingent liabilities, credit risks	8,471,526	140,535	1.66 %	43,739
Liquid funds, loans and receivables credit institutions and customers	9,858,143	132,984	1.35 %	40,712

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

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

Development NPL portfolio

Euro thousand	Total
NPL 1 Dec 2019	130,913
Classified as impaired during the year	50,123
Transferred to not-impaired during the year	-5,730
Write off - NPL	-20,555
Net repayments and other movements	-14,216
NPL 31 Dec 2019	140,535
Classified as impaired during the year	36,767
Transferred to not-impaired during the year	-4,094
Write off - NPL	-35,582
Net repayments and other movements	-12,427
NPL 31 Dec 2020	**125,199**

Development forbearance portfolio

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

In relation to customer loans prior to allocation of the Association's guarantee, concessions were made for economic reasons for a total carrying amount of euro 233,665 thousand (2019: euro 83.708 thousand). This amount relates to performing forborne loan exposure in the amount of euro 174,014 thousand (2019: euro 33,896 thousand) and non-performing forborne loan exposure in the amount of euro 59,652 thousand (2019: euro 49,812 thousand).

In the course of the COVID-19 crisis, an increase in the forbearance portfolio by euro 158,688 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 3,920 financing solutions of some 2,750 customers with a loan volume of approximately euro 748,045 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 3,080 accounts with a loan volume of approximately euro 660,034 thousand, while in approximately 840 cases with a loan volume of approximately euro 88,011 thousand, overdraft facilities were increased and/or bridging loans granted as well. 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 237,700 thousand in accordance with economic risk reporting still have active[1] COVID-19-related measures as at 31 December 2020. This amount concerns

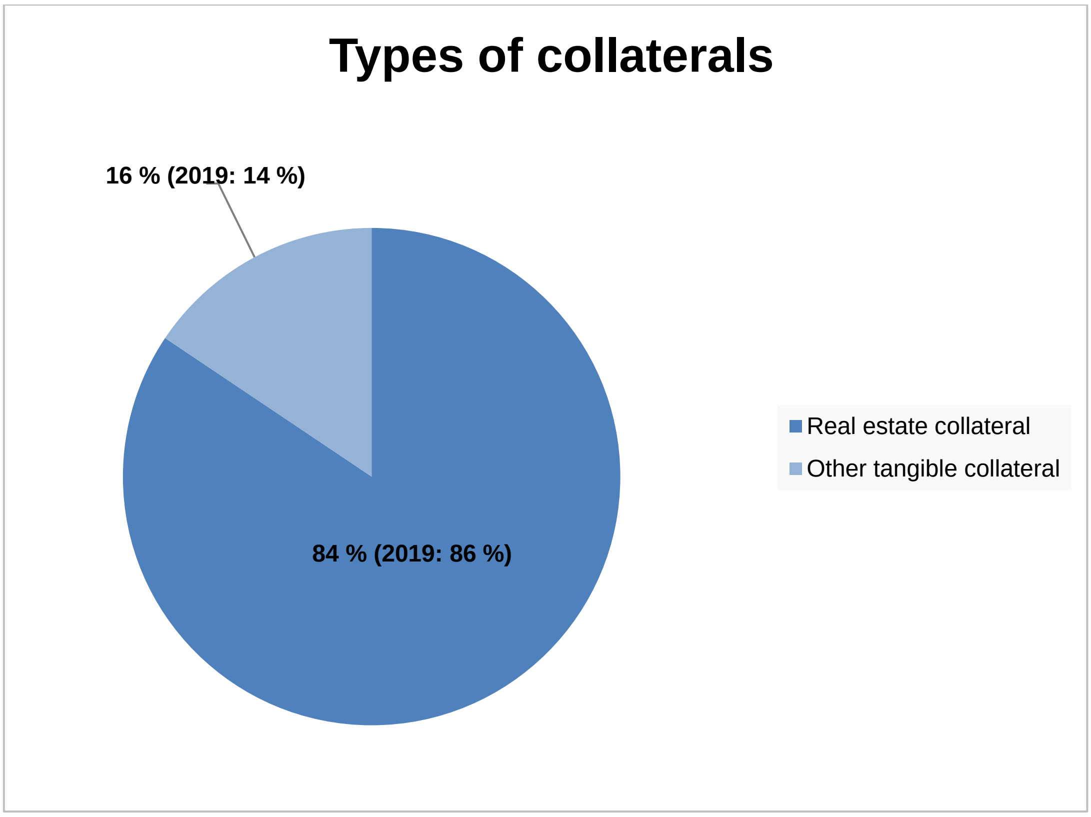
- loan exposures with statutory or private moratoria (41.5 %)
- loan exposures with deferment agreements outside the statutory or private moratorium period (25.6 %)
- loan exposures with bridge financing or overdraft facility increases (29.4 %)
- loan exposures with other measures (3.4 %)

Development of the portfolio of collaterals:

The following diagram and table show the development of the portfolio of collaterals, with real estate collaterals accounting for the major part at VBW. The values reported represent the credited value of the collaterals (after measurement and cap based on the amount of the receivable secured). Other collaterals include an imputed collateral value of euro 55,817 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.


Types of collaterals
16 % (2019: 14 %)
84 % (2019: 86 %)
Real estate collateral
Other tangible collateral

31 Dec 2020 Euro thousand	Loan volume - total	Allowable collateral amount - total	Real estate collaterals	Other tangible collaterals	Loan loss allowances	Provisons	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 credit institutions	2,286,050	357,617	0	357,617	36	0	1,928,397
At amortised costs	2,285,932	357,521	0	357,521	36	0	1,928,375
At fair value	118	96	0	96	0	0	22
Loans and receivables customers	5,451,654	5,045,913	4,565,904	480,009	79,321	0	326,419
At amortised costs	5,319,517	4,929,129	4,459,540	469,589	79,321	0	311,066
Thereof Retail private	2,213,373	2,087,166	1,955,193	131,973	19,791	0	106,416
Thereof SME	2,391,468	2,303,358	2,056,816	246,542	55,310	0	32,800
Thereof Corporates	273,067	197,138	120,815	76,324	326	0	75,603
Thereof other	441,608	341,467	326,717	14,750	3,894	0	96,247
At fair value	132,137	116,784	106,364	10,420	0	0	15,353
Thereof Retail private	97,049	81,200	73,511	7,689	0	0	15,849
Thereof SME	24,434	22,480	20,831	1,649	0	0	1,955
Thereof Corporates	409	411	289	122	0	0	-2
Thereof other	10,245	12,693	11,733	959	0	0	-2,448
Assets held for trading - fixed-income securities	2,603	0	0	0	0	0	2,603
At amortised costs	0	0	0	0	0	0	0
At fair value	2,603	0	0	0	0	0	2,603
Financial investments - fixed-income securities	2,249,529	0	0	0	775	0	2,248,754
At amortised costs	2,227,387	0	0	0	775	0	2,226,612
At fair value	22,142	0	0	0	0	0	22,142
Other assets	0	0	0	0	0	0	0
Contingent liabilities	233,662	49,622	36,885	12,738	0	4,241	179,798
Credit risks	3,533,495	0	0	0	0	1,753	3,531,742
Total	**17,507,387**	**5,453,152**	**4,602,789**	**850,363**	**80,133**	**5,995**	**11,968,107**

31 Dec 2019 Euro thousand	Loan volume - total	Allowable collateral amount - total	Real estate collaterals	Other tangible collaterals	Loan loss allowances	Provisons	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 credit institutions	2,466,462	321,088	0	321,088	47	0	2,145,327
At amortised costs	2,466,343	321,088	0	321,088	47	0	2,145,208
At fair value	119	0	0	0	0	0	119
Loans and receivables customers	5,526,955	5,002,941	4,587,165	415,776	55,619	0	468,395
At amortised costs	5,360,537	4,857,778	4,454,826	402,953	55,619	0	447,139
Thereof Retail private	2,290,159	2,156,315	2,011,806	144,510	20,165	0	113,679
Thereof SME	2,479,973	2,231,819	2,051,206	180,613	32,609	0	215,545
Thereof Corporates	262,410	177,661	112,388	65,273	1,498	0	83,251
Thereof other	327,994	291,983	279,426	12,557	1,347	0	34,664
At fair value	166,419	145,163	132,339	12,823	0	0	21,256
Thereof Retail private	125,270	100,990	91,402	9,588	0	0	24,280
Thereof SME	33,660	30,356	28,450	1,906	0	0	3,304
Thereof Corporates	555	534	416	119	0	0	21
Thereof other	6,934	13,282	12,071	1,211	0	0	-6,349
Assets held for trading - fixed-income securities	1,873	0	0	0	0	0	1,873
At amortised costs	0	0	0	0	0	0	0
At fair value	1,873	0	0	0	0	0	1,873
Financial investments - fixed-income securities	2,190,760	0	0	0	442	0	2,190,317
At amortised costs	2,067,451	0	0	0	442	0	2,067,009
At fair value	123,309	0	0	0	0	0	123,309
Other assets	0	0	0	0	0	0	0
Contingent liabilities	271,673	52,885	37,701	15,184	0	2,780	216,009
Credit risks	2,672,897	0	0	0	0	1,894	2,671,003
Total	**14,995,347**	**5,376,913**	**4,624,866**	**752,048**	**56,108**	**4,674**	**9,557,651**

Acquisition of real estate collaterals

In the past, real estate collaterals were only acquired in individual instances within VBW. Currently, this instrument is no longer applied.

Development of the netting positions

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

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. VBW distinguishes the following types of market risk:

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

Interest rate risk in the banking book

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

The interest rate risk in the banking book comprises all interest-bearing transactions reported and not reported in the balance sheet, except for transactions in the trading book. The interest rate risk position associated with the retail business of VBW mainly arises from index-linked loans and variable-interest deposits (in the form of sight and savings deposits), as well as from implicit floors, in both the assets side and the liabilities side retail business. In the loan portfolio, this has been associated with a shift from index-linked positions towards fixed-interest positions for some years now, as increasingly fixed-interest loans are granted within new business. By controlling the growth of fixed-interest volumes, the gradual development of a rolling fixed-interest position over several years is ensured. Other decisive factors are bond positions of the bank's own portfolio, own issues and the interest-rate swaps used to control the interest rate position. Variable-interest retail business is included in interest rate risk modelling by way of replication assumptions, in order to show price sensitivity to interest rate changes (e.g. for sight/savings deposits, current account overdrafts, 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.

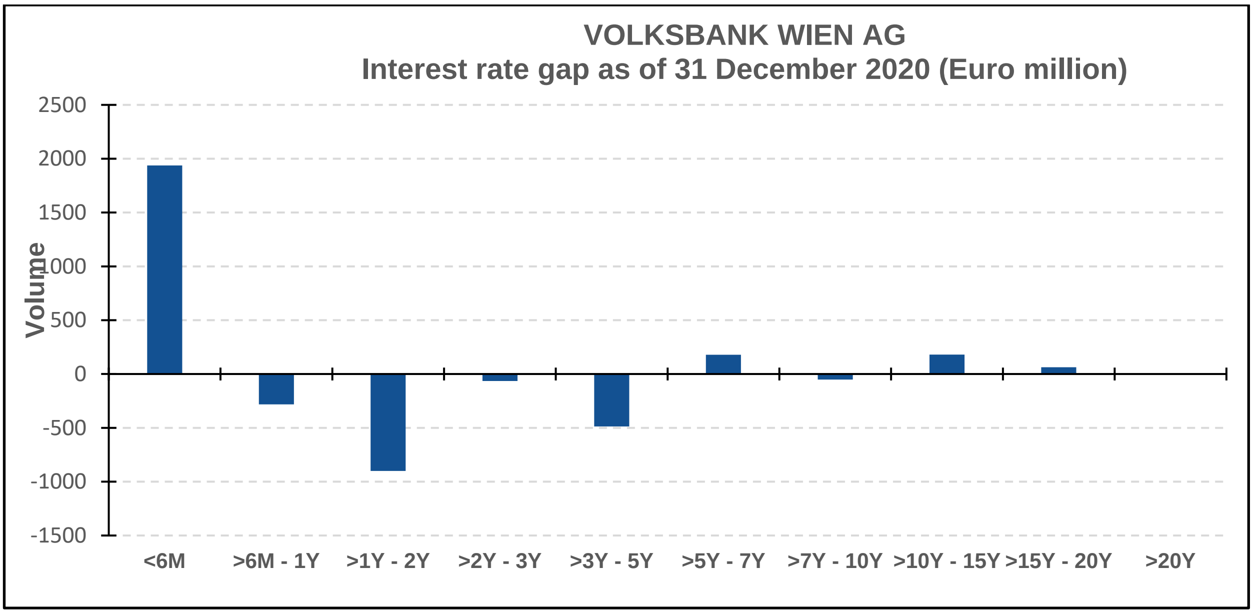
At the end of 2020, VBW reports a relatively low positive term transformation. In 2020, the present-value interest rate risk, measured using the OeNB interest rate risk coefficient (according to VERA reporting), was consistently below 5 % of own funds, which is clearly below the regulatory outlier definition of 20 %. The EBA interest rate risk coefficient (according to EBA GL on interest rate risk) was consistently below 8 % in 2020 and thus also well below the reportable threshold 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 VBW within the scope of risk limits defined by Risk Control and approved by the Managing Board via the risk strategy. The ALCO is convened monthly at the CO or ad hoc as required. The Asset Liability Management (ALM), which belongs to the division Treasury in organisational terms, is responsible for the management of the ALCO. Proposed measures to control the interest rate position are worked out by the ALM in cooperation with Risk Control and the local ALCOs of the affiliated banks. The aim is to create a structural contribution by way of positive term transformation. Interest rate risk reporting within the ALCO is taken care of by the Market and Liquidity Risk department of the CO.

Present-value risk measurement and limitation are mainly effected on the basis of interest rate scenarios defined under applicable regulatory provisions (6 EBA scenarios), interest rate sensitivity in the form of a PVBP, interest rate gaps (net position of the fixed interest rates per maturity band), and an interest rate VaR based on historical simulations. Period-based interest income-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.

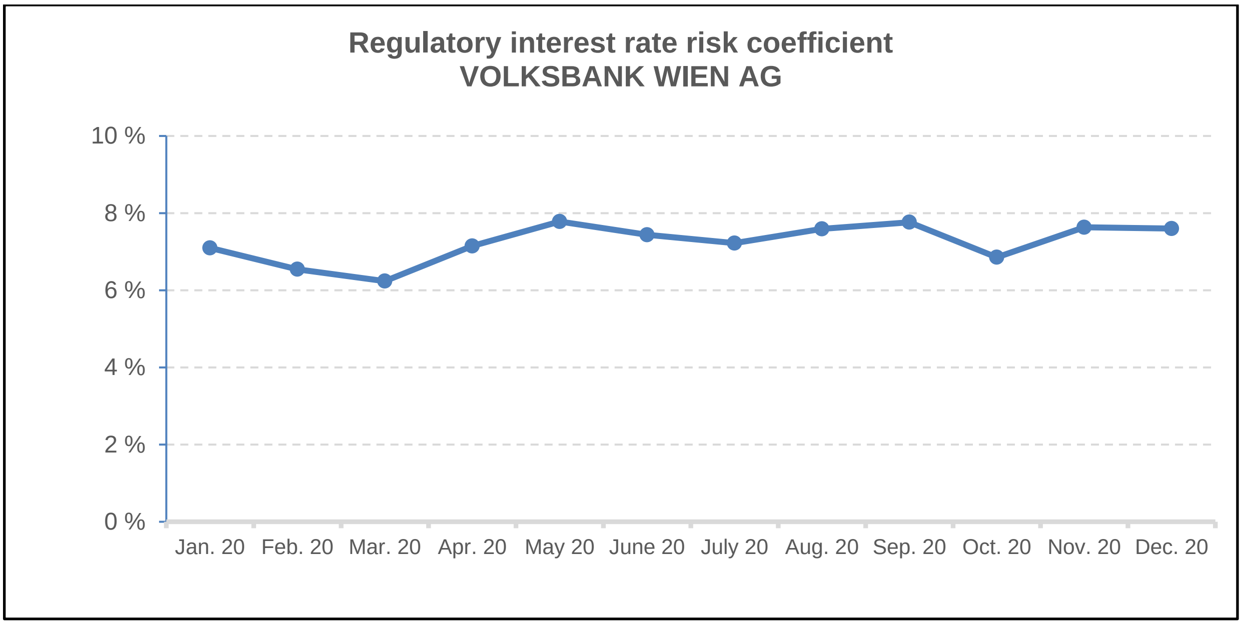
In both perspectives (present value and periodic), positions with indefinite interest rate periods (e.g. in the form of sight and savings deposits, current account facilities) are included consistently in the risk measurement process by assuming replication and/or rolling. The assumptions are determined 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 within 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 VOLKSBANK WIEN AG as at 31 December 2020



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

EBA interest rate risk coefficient of the VOLKSBANK WIEN AG 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 5 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 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 own investments in the securities portfolio in the banking book, and not loans and receivables customers. These essentially comprise bonds, funds as well as bonded loans. The securities portfolio in the investment book of the Association of Volksbanks is primarily held as a liquidity buffer, centrally at VBW. CDS positions would also have to be included, but currently do not exist either at VBW or within the Association. Reporting takes place monthly within the ALCO and is part of the overall risk report.

Risk measurement is mainly effected via credit spread VaR and 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 24 risk clusters, depending on credit rating, branch of industry, type of product and seniority. The VaR is included in the ICAAP as part of the risk-bearing capacity calculation.

The following risk indicators are derived for VBW

31 Dec 2020	100 basis points-shift			
Euro thousand	Amortised cost	Fair value through OCI	Fair value through profit or loss	Total
Section 30a of the Austrian Banking Act - Association of Volksbanks	-163,018	-708	-157	-163,883

31 Dec 2019	100 basis points-shift			
Euro thousand	Amortised cost	Fair value through OCI	Fair value through profit or loss	Total
Section 30a of the Austrian Banking Act - Association of Volksbanks	-154,793	-928	-155	-155,876

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 0.9 million and generate hidden charges of euro 163 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 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 AAA risk cluster with 41 % and in the Republic of Austria risk cluster with 23 % of the portfolio. Concentrations with individual issuers are limited by the issuer lines within credit risk.

Portfolio distribution by credit rating

Euro thousand	31 Dec 2020	31 Dec 2019
Risk category 1 (1A - 1E)	1,773,363	1,744,882
Risk category 2 (2A - 2E)	481,921	477,608
Risk category 3 (3A - 3E)	0	0
Risk category 4 (4A - 4E)	0	0
Risk category 5 (5A - 5E)	0	0
Risk category 6 (NR)	0	0
Total	**2,255,283**	**2,222,490**

Top 10 risk cluster within the securities portfolio in the banking book

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	917,015	8,034	0	925,048
Sovereigns Austria	519,271	4,238	0	523,508
Sovereigns Italy	172,551	0	0	172,551
Sovereigns Poland	73,751	0	0	73,751
Sovereigns Belgium	63,866	0	0	63,866
Sonstige Sovereigns EUR AA	62,452	0	0	62,452
Sovereigns Portugal	61,976	0	0	61,976
Sovereigns France	59,713	0	0	59,713
Sovereigns Spain	59,199	0	0	59,199
Sovereigns Slovakia	44,022	0	0	44,022
Total	**2,033,816**	**12,271**	**0**	**2,046,087**

31 Dec 2019 Euro thousand	Amortised cost Carrying amount	Fair value through OCI Carrying amount	Fair value through profit or loss Carrying amount	Total Carrying amount
Covered EUR AAA	881,756	6,143	0	887,899
Sovereigns Austria	503,958	52,602	0	556,560
Sovereigns Italy	166,127	0	0	166,127
Sonstige Sovereigns EUR AA	54,435	31,369	0	85,804
Sovereigns Poland	69,229	10,142	0	79,371
Sovereigns Belgium	62,134	0	0	62,134
Sovereigns Portugal	59,836	0	0	59,836
Sovereigns Spain	55,522	0	0	55,522
Corporates EUR BBB	44,313	0	0	44,313
Sovereigns Slovakia	40,940	1,015	0	41,955
Total	**1,938,249**	**101,271**	**0**	**2,039,520**

Portfolio structure by IFRS 9 categories

31 Dec 2020 Euro thousand	Bond	Syndicated loan & SSD	Fund & Equity	Total
Amortised cost	2,232,679	0	0	2,232,679
Fair value through OCI	17,179	0	0	17,179
Fair value through profit or loss	5,426	0	0	5,426
Total	**2,255,283**	**0**	**0**	**2,255,283**

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

Market risk in the trading book

The market risk in the trading book of VBW is of subordinate importance. The trading book of the Association of Volksbanks is kept centrally at the CO. 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 is relatively low and mainly arises from euro interest rate positions.

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

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

Euro thousand	Interest +1 basis point	Interest volatility +1 %	Credit spread +1 basis point
31 Dec 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 subordinate importance at VBW. It arises due to changes of the value of outstanding receivables and liabilities in foreign currencies through exchange rate fluctuations.

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

Currency Euro thousand	31 Dec 2020	31 Dec 2019
CHF	-461	660
CZK	-209	-200
USD	172	60
JPY	-120	-214
GBP	6	-70
Others	349	137
Total	**-263**	**373**

Other valuation risks (IFRS fair value change)

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

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

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

31 Dec 2020 Euro thousand	Market liquidity costs +10 basis points	Interest rate +10 basis points
Fair value through profit or loss - loans and receivables	-557	-123

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 VBW consists of customer deposits, which have proven to be a stable source of funding in the past. Naturally, this creates the major part of the liquidity risk. The capital market offers VBW additional opportunities for refinancing through securities issues, mainly covered bonds.

Both operational, short-term liquidity management and medium- to long-term liquidity management are performed in a centralised manner at VBW for the Association, in the Treasury division, through the Liquidity Management department. The monitoring and limitation of liquidity risk across the Association, as well as the methodological requirements regarding risk measurement are performed or stipulated by the Market and Liquidity Risk Control department at VBW.

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

Within liquidity risk, VBW distinguishes between illiquidity risk and funding risk. Illiquidity risk is the risk to be unable to fulfil payment obligations when they are due. For VBW as a retail bank, illiquidity risk typically consists in the risk of a bank run. This occurs when, due to a loss of confidence, customers withdraw large deposit volumes and at the same time alternative funding sources are not accessible (any more). Illiquidity risk is managed by holding a sufficient liquidity buffer. VBW is responsible for the central management of the liquidity buffer for the entire Association. The liquidity buffer mainly consists of highly liquid bonds that are LCR-eligible for the major part, of deposits with the national bank, of ECB tender potential, and covered bond issue potential. The liquidity of the liquidity buffer is tested regularly. The Liquidity Management department within the Treasury division is responsible for the current management of the liquidity buffer within the Association. At VBW, funding risk is defined as a negative effect on the profit and loss account that occurs due to potential future increases of refinancing costs on the money and capital markets as well as in the retail area. This risk is taken into account in the risk-bearing capacity calculation within the scope of the ICAAP. Due to the funding structure at VBW, this risk is relatively low, as the company is hardly dependent on the capital market, and little price sensitivity is observed in the sphere of customer deposits.

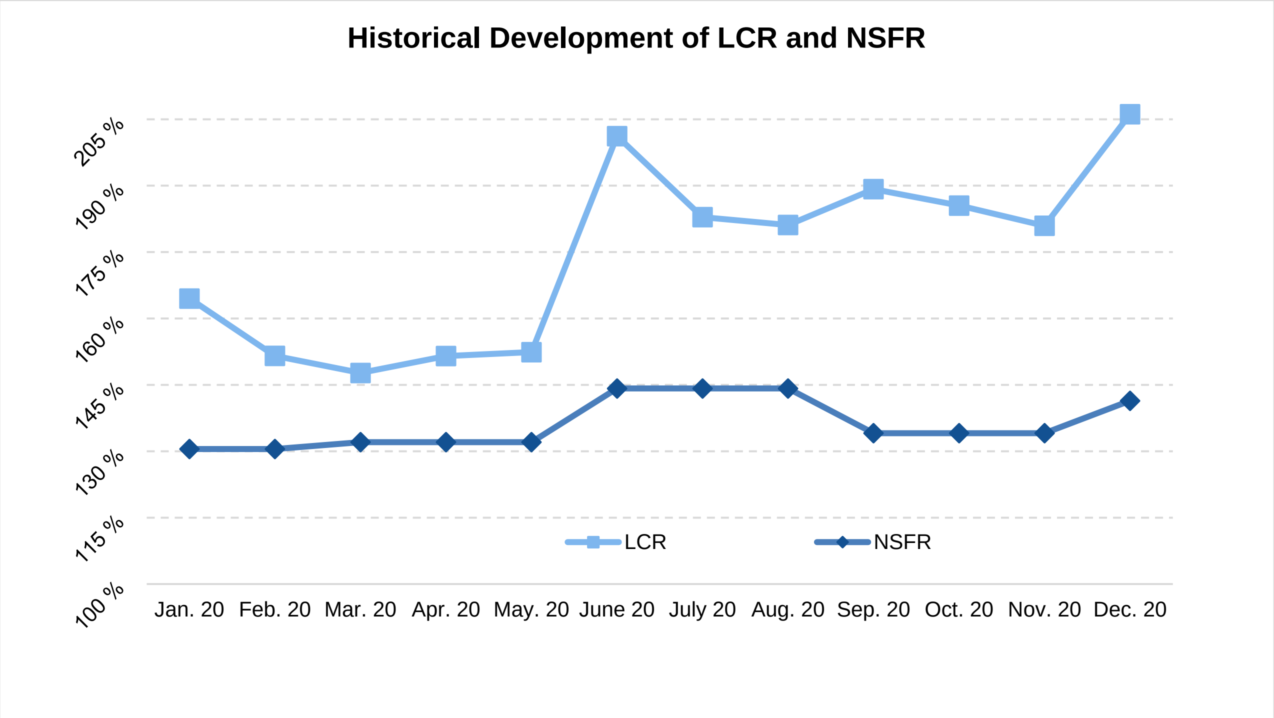
The risk measurement and limitation of illiquidity risk is effected through the regulatory indicators LCR and NSFR, the survival period from internal liquidity stress testing, and through additional operational indicators. The LCR aims to ensure the short-term financial solvency of banks under stressed conditions over a short-term horizon of 30 calendar days. The calculation of the LCR takes place weekly and at the end of the month in the Market and Liquidity Risk Control department. The NSFR limits the liquidity term transformation by determining a minimum of stable refinancing, depending on the liquidity characteristics of the assets and other (off-balance sheet) operations of a bank. Currently, calculation takes place weekly and on the last day of each quarter in the Market and Liquidity Risk Control department for VBW. The survival period is the period during which, under a given stress scenario, the liquidity buffer held is sufficient to cover cumulated net liquidity outflows. Currently, stress scenarios of varying degrees of severity are calculated. The scenario assumptions include a crisis of the Volksbank sector, a national banking crisis and pan-European stressed market conditions. The least favourable of the scenarios calculated is applied to the survival period. The survival period is calculated at the level of the Association, not the individual bank.

The funding risk is measured by way of a scenario analysis that takes into account the effect on funding costs, considering general planning uncertainties and adverse idiosyncratic conditions. These calculations provide input to the ICAAP as well as to the stress testing activities across the Association.

Regulatory liquidity ratios LCR, NSFR and survival period in 2020:

In 2020, both regulatory ratios were always clearly above the regulatory limits. In 2020, the LCR has always been above the internal target of 115 % on the last day of each month. The LCR depends on payment transactions and calendar effects causing material monthly changes. The LCR decreases during the month due to effects of payment transactions, therefore it is sometimes clearly above the limit at the end of the month. The quarterly calculated NSFR was always above target in 2020. In 2020, the survival period consistently exceeded 150 days, and was thus also clearly above internal limits. The key indicators reflect the Company's comfortable liquidity situation.

LCR and NSFR development in 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 Control and also within operational liquidity management. Generally, they amount to less than 1 % of total assets. There are only a few temporary exceptions with a few large customers for payment transactions or balancing out liquidity peaks. These deposits are regularly monitored and reported on within the scope of liquidity risk management.

Operational liquidity management

The Liquidity Management department in the Treasury division is responsible for operational liquidity management. The department is the central unit at VBW and within the Association of Volksbanks for matters regarding the pricing of liquidity (transfer pricing), the central management of collaterals across the Association, the determination of the funding structure, the disposition of available liquid funds, and compliance with the refinancing strategy. It takes care of the following essential duties:

- Cash management (settlement of all transactions of the Association as well as disposition of the banking connections maintained by VBW)
- Collateral management: ECB-eligible collaterals of the Association (bonds and credit claims)
- 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

VBW defines operational risk as the risk of losses due to the inadequacy or failure of internal procedures (processes), people, systems or to external events, and the associated legal risks. The reputational, conduct, model, IT and security risks are closely associated with operational risk and are actively taken into account. The calculation of regulatory capital adequacy requirements is effected using the standard approach. An internal method based on loss data and scenarios is used for the economic perspective.

Organisation

At VBW, line management is responsible for the management of operational risks (OpRisk Management). It is supported in this function by centrally and decentrally based experts from the area of operational risk and internal control system. The aim is to optimise processes in order to reduce the probability of the occurrence of operational risks and/or to reduce the effect of operational losses. Cooperation across departments (with Compliance, Internal Audit, as well as Security & Outsourcing Governance, in particular) allows for optimal and comprehensive control of operational risks.

Methods for the management of operational risks

Within the scope of operational risk management, both quantitative and qualitative methods are used. Quantitative elements comprise for example the execution of risk analyses, the performance of stress tests at the level of the Association, the determination and monitoring of the risk appetite and of the risk indicators, as well as the preparation of the incident database. Qualitative control measures are reflected in the implementation of training events, awareness building measures, risk analyses, the preparation of the incident database incl. analysis of causes, the implementation of uniform ICS checks, as well as in risk reporting.

If the key indicators defined for operational risk are exceeded, the defined escalation process is applied. This process provides for a detailed analysis of causes and subsequently initiation of adequate measures.

The following principles, derived from the risk strategy of the Association of Volksbanks, apply in OpRisk Management at VBW:

- The primary aim of the entire OpRisk Management system is to optimise processes to decrease the likelihood of incidents occurring and/or the impact of operational losses.
- Incidents are documented fully and in a sufficiently transparent manner via an electronic platform to enable third-party experts to benefit from the documentation. Operational incidents are recorded in a uniform manner across the Association. The resulting transparency with respect to the occurrence of incidents allows for risk assessment to be derived from historical facts.
- The methods, systems and processes in OpRisk Management are defined by the CO and must be complied with by the respective banks.
- The appropriateness of the risk control and monitoring measures and other risk-minimising measures is assessed on an on-going basis, but at least once a year, and reported to the Managing Board. Measures for risk control comprise, for example, awareness-building measures/training events, the monitoring of the OpRisk indicators, maintaining the confidentiality, availability and integrity of customer and corporate data, as well as business continuity planning, and in particular the adequate separation of responsibilities, as well as observance of the dual-control principle. Operational (residual) risks that cannot be avoided, reduced or transferred must be accepted formally and demonstrably by the management.
- The efficiency of OpRisk Management is confirmed through periodic and independent internal audits.

Internal control system

Within VBW, an internal control system (ICS) has been put in place according to the principles of the internationally recognised standards of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Detailed descriptions of ICS processes and control measures are available. The responsibilities and roles relating to the ICS are clearly defined. Regular reporting takes place for the ICS. Control activities are documented and reviewed, ICS-relevant risks are regularly evaluated and adjusted. Accordingly, a continuous optimisation process is ensured. Internal Audit, in its capacity as independent supervisory body, audits the ICS. Both the effectiveness and adequacy of the ICS, as well as compliance with instructions are audited. The OpRisk and ICS framework describes the interrelated components implemented within the Association of Volksbanks with a view to identifying, measuring, monitoring and controlling operational risk. The close interlocking of OpRisk Management with the internal control system ensures appropriate consideration of operational risks within the Association of Volksbanks.

f) Other risks

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

VBW defines equity risk as the risk of an instable composition of internal equity in relation to the bank's type and size, or difficulties in quickly raising additional internal capital if needed.

The direct real estate risk describes the risk of negative value changes in the real estate portfolio (real estate in the company’s own balance sheet or in the balance sheet of any subsidiary).

The earnings and cost risk is the risk arising from the volatility of earnings and hence the risk of no longer being able to (fully) cover sticky fixed costs.

The model risk is the risk of potential loss that may occur due to the faulty design, improper conceptual application or inconsistency of any model.

Non-standard risks and/or non-financial risks (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 frame-work for operational risks, and in the outsourcing framework.

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; Vienna	HD	100.00 %	100.00 %	35
Gärtnerbank Immobilien GmbH; Vienna	HD	100.00 %	100.00 %	35
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Vienna	HD	100.00 %	100.00 %	35
VB Infrastruktur und Immobilien GmbH; Vienna	HD	100.00 %	100.00 %	35
VB Rückzahlungsgesellschaft mbH; Vienna	HO	100.00 %	100.00 %	35
VB Services für Banken Ges.m.b.H.; Vienna	HD	98.89 %	98.89 %	327
VB Verbund-Beteiligung Region Wien eG in Liqu.; Vienna	HO	90.63 %	90.63 %	3,839
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	HD	99.00 %	99.00 %	36
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Vienna	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; Vienna	HO	29.09 %	29.09 %	51,840
Volksbank Kärnten eG; Klagenfurt	KI	25.68 %	25.68 %	34,139

54) Unconsolidated affiliated companies

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

*Abbreviations Type

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

AUDITOR'S REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Opinion

We have audited the Consolidated Financial Statements of

VOLKSBANK WIEN AG,
Vienna,

and its subsidiaries ("the Group"), which comprise the 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 present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) and the Section 59a BWG (Austrian Banking Act).

Basis for our Opinion

We conducted our audit in accordance with the EU Regulation 537/2014 ("AP Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the audited Group in accordance with Austrian company law and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained up to the date of the auditor's report is sufficient and appropriate to provide a basis for our audit opinion on this date.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, however, we do not provide a separate opinion thereon.

Valuation of receivables from customers at amortised cost

Risk for the consolidated financial statements

Receivables from customers at amortised cost ("receivables from customers") amount to EUR 5,319.5 million in the consolidated statement of financial position. 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.

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.

AUDITOR'S REPORT

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 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 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 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 1.8 million in the consolidated statement of financial position. 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.

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.

AUDITOR'S REPORT

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, other than the consolidated financial statements, the group management report and the auditor's report. We expect the annual report to be provided to us after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover other information and we do not provide any kind of assurance thereon.

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

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

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

Management is also responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intents to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance but provides no guarantee that an audit conducted in accordance with the AP Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

AUDITOR'S REPORT

Moreover:

- We identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

Report on Other Legal Requirements

Group Management Report

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

Management is responsible for the preparation of the group management report in accordance with Austrian company law and other legal or regulatory requirements.

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

Opinion

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

Statement

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

AUDITOR'S REPORT

Additional Information in accordance with Article 10 AP Regulation

We were elected as auditors at the Annual General Meeting on 16 May 2019 and were appointed by the supervisory board on 28 May 2019 to audit the financial statements of Company for the financial year ending 31 December 2020.

On 14 May 2020 we were elected for the year ending 31 December 2021 and on 26 May 2020 the supervisory board appointed us to audit the financial statements.

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

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

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

Engagement Partner

The engagement partner is Mr Walter Reiffenstuhl.

Vienna, 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.

STATEMENT OF ALL LEGAL REPRESENTATIVES

VOLKSBANK WIEN AG
Statement of all Legal Representatives

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

Vienna, 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

INDIVIDUAL ANNUAL FINANCIAL STATEMENTS VOLKSBANK WIEN AG

BALANCE SHEET

Assets	Euro	31 Dec 2020 Euro	Euro Thousand	31 Dec 2019 Euro Thousand
1. Cash in hand, balances with central banks		3,798,481,667.19		1,913,513
2. Debt instruments issued by public bodies and similar securities		877,658,550.55		908,458
3. Loans and advances to credit institutions				
a) Due on demand	532,390,084.54		265,663	
b) Other receivables	1,776,998,616.24	2,309,388,700.78	2,229,154	2,494,817
4. Loans and advances to customers		5,393,781,750.75		5,556,555
5. Bonds and other fixed-income securities				
a) From public issuers	15,457,663.28		15,965	
b) From other issuers	2,191,784,938.42	2,207,242,601.70	2,008,327	2,024,292
Of which: In-house issues Euro 1,197,914,527.73 (2019: Euro thousand 1,060,012)				
6. Shares and other variable-yield securities		34,053,181.01		33,743
7. Participations		65,704,532.75		67,509
Of which: in credit institutions Euro 18,230,448.82 (2019: Euro thousand 19,002)				
8. Investments in affiliates		19,808,735.61		27,316
Of which: in credit institutions Euro 0.00 (2019: Euro thousand 0)				
9. Intangible non-current assets		1,636,727.64		2,237
10. Fixed assets		58,219,294.00		66,573
Of which: Land and buildings used by the credit institution within the scope of its own activities Euro 27,843,006.12 (2019: Euro thousand 32,734)				
11. Other assets		197,987,175.44		408,428
12. Deferred items		10,020,587.26		11,435
13. Deferred tax assets		36,141,786.52		28,592
Total assets		**15,010,125,291.20**		**13,543,468**

Off-balance sheet items				
1. Foreign assets		1,775,672,606.64		1,737,681

Liabilities	Euro	31 Dec 2020 Euro	Euro Thousand	31 Dec 2019 Euro Thousand
1. Amounts owed to credit institutions				
a) Due on demand	2,448,258,440.38		2,588,501	
b) With agreed term or period of notice	1,717,521,904.35	4,165,780,344.73	214,410	2,802,911
2. Amounts owed to customers				
a) Saving deposits				
aa) Due on demand	1,663,193,166.16		1,714,431	
bb) With agreed term or period of notice	151,433,000.57		267,837	
	1,814,626,166.73		1,982,268	
b) Other liabilities				
aa) Due on demand	4,473,795,506.98		3,947,947	
bb) With agreed term or period of notice	490,780,975.96		604,785	
	4,964,576,482.94	6,779,202,649.67	4,552,732	6,535,000
3. Debts evidenced by certificates				
a) Issued debt securities	2,284,016,607.19		2,153,087	
b) Other debts evidenced by certificates	292,095,583.72	2,576,112,190.91	314,151	2,467,238
4. Other liabilities		160,479,215.33		434,304
5. Deferred items		9,638,633.33		1,032
6. Provisions				
a) Provisions for severance payments	17,781,140.00		18,177	
b) Provisions for pensions	8,415,610.14		9,134	
c) Provisions for taxes	1,331,477.15		758	
d) Other	69,284,292.71	96,812,520.00	74,258	102,327
7. Supplementary capital pursuant to Part 2, Title I, Chapter 4 of Regulation (EU) No 575/2013		408,600,000.00		418,507
8. Additional Tier 1 capital pursuant to Part 2, Title I, Chapter 3 of Regulation (EU) No 575/2013		220,000,000.00		220,000
9. Subscribed capital		137,546,531.25		137,547
10. Capital reserves Appropriated		235,976,862.73		237,217
11. Retained earnings Other reserves		171,363,761.61		109,110
12. Liability reserve pursuant to section 57 (5) BWG		44,819,308.55		44,819
13. Net profit		3,793,273.09		33,456
Total liabilities and equity		**15,010,125,291.20**		**13,543,468**

Off-balance sheet items	31 Dec 2020 Euro	31 Dec 2019 Euro Thousand
1. Contingent liabilities and liabilities from sureties, guarantees and provision of collateral	253,297,502.35	292,127
2. Credit risks Of which: Liabilities from repurchase agreements Euro 0.00 (2019: Euro thousand 0)	3,529,960,030.22	2,671,589
3. Liabilities from fiduciary transactions	147,271,868.84	129,734
4. Eligible capital pursuant to Part 2 of Regulation (EU) No 575/2013 Of which: Supplementary capital pursuant to Part 2, Title I, Chapter 4 of Regulation (EU) No 575/2013 Euro 418,794,962.96 (2019: Euro thousand 424,153)	1,210,482,222.21	1,190,779
5. Capital requirement pursuant to Article 92 of Regulation (EU) No 575/2013	3,751,313,344.83	3,994,600
Of which: Capital requirement pursuant to Article 92 (1)		
(a) of Regulation (EU) No 575/2013 (Common Equity Tier 1 capital ratio in %)	15.24 %	13.68 %
(b) of Regulation (EU) No 575/2013 (Tier 1 capital ratio in %)	21.10 %	19.19 %
(c) of Regulation (EU) No 575/2013 (Total capital ratio in %)	32.27 %	29.81 %
6. Foreign liabilities	732,142,659.79	726,044

INCOME STATEMENT

		1-12 2020		1-12 2019
	Euro	Euro	Euro Thousand	Euro Thousand
1. Interest and similar income		127,199,256.38		139,744
Of which: From fixed-income securities	3,182,616.24		6,453	
2. Interest and similar expenses		-46,802,727.16		-43,260
I. NET INTEREST INCOME		80,396,529.22		96,484
3. Income from securities and investments				
a) Income from shares, other ownership interests and variable-yield securities	1,485.14		432	
b) Income from investments	1,122,561.20		1,175	
c) Income from shares in affiliates	30,097,325.44	31,221,371.78	1,492	3,099
4. Fee and commission income		81,940,870.42		84,167
5. Fee and commission expenses		-21,715,218.50		-28,194
6. Net trading income/expenses		2,791,531.99		1,419
7. Other operating income		113,167,143.08		125,898
II. OPERATING INCOME		287,802,227.99		282,873
8. General administrative expenses				
a) Staff expenses				
aa) Salaries	-71,990,713.33		-77,351	
bb) Expenses for statutory social contributions and remuneration-related charges and compulsory contributions	-18,423,002.10		-20,127	
cc) Other social expenses	-1,201,770.93		-1,526	
dd) Expenses for retirement benefits and support	-2,318,456.92		-2,520	
ee) Allocation to provision for pensions	726,219.86		338	
ff) Allocation to provision for severance payments and employee welfare funds	-634,100.48		-4,649	
	-93,841,823.90		-105,835	
b) Other administrative expenses (administrative expenses)	-102,989,100.59	-196,830,924.49	-104,105	-209,940
9. Value adjustments on assets within items 9 and 10		-6,829,487.84		-7,786
10. Other operating expenses		-18,632,504.63		-19,764
III. OPERATING EXPENSES = AMOUNT CARRIED FORWARD		-222,292,916.96		-237,490

	1-12 2020			1-12 2019
	Euro	Euro	Euro Thousand	Euro Thousand
III. OPERATING EXPENSES = AMOUNT CARRIED FORWARD		-222,292,916.96		-237,490
IV. OPERATING PROFIT		65,509,311.03		45,383
11. Balance from impairments on receivables and allocations to provisions for contingent liabilities and for credit risks as well as from securities held within the liquidity reserve as well as income from the reversal of impairments on receivables and from provisions for contingent liabilities and for credit risks as well as from securities held within the liquidity reserve		-28,038,445.50		-3,173
12. Balance from impairments on securities measured as financial assets, as well as on participations and shares in affiliates and income from impairments on securities measured as financial assets, as well as on participations		-9,168,850.50		-914
V. RESULT FROM ORDINARY OPERATIONS		28,302,015.03		41,296
13. Income taxes		6,614,734.50		-4,799
14. Other taxes not shown under item 13		-2,153,440.88		-1,919
VI. ANNUAL RESULT AFTER TAXES		32,763,308.65		34,578
15. Movement in reserves		-32,349,712.28		-34,156
VII. ANNUAL RESULT		413,596.37		422
16. Profit carried forward		3,379,676.72		33,034
VIII. NET PROFIT		3,793,273.09		33,456

NOTES FOR THE FINANCIAL YEAR 2020

1. Accounting and valuation principles

General information

Since the 2015 business year, apart from retail business, VOLKSBANK WIEN AG (hereinafter also referred to as "VBW", "VB Vienna" or the "Company") has been performing the function of the central organisation of the Austrian Association of Volksbanks pursuant to section 30a of the Austrian Banking Act (BWG), which is associated with far-reaching management and steering functions (in particular within the sphere of risk and liquidity management). The members of the Association of Volksbanks have unlimited liability among themselves, the pro-rata assumption of the costs and risks of the central organisation has been contractually agreed between the members. The regulatory provisions of Parts 2 to 8 of Regulation (EU) no. 575/2013 as well as section 39a Austrian Banking Act must be met by the Association of Volksbanks on the basis of the consolidated financial situation (section 30a (7) Austrian Banking Act). Furthermore, VBW must meet all regulatory provisions on single-entity and consolidated levels.

By letter of December 2019, the European Central Bank (ECB) informed VBW that it expects VBW as central organisation of the Association of Volksbanks pursuant to section 30a Austrian Banking Act to observe an additional own funds requirement (Pillar 2 Requirement, P2R) of 2.5 % and a Pillar 2 Guidance (P2G) of 1.0 % on a consolidated basis as of 01.01.2020, which must consist of Tier 1 capital exclusively and shall be held available in addition to the minimum own funds requirement under Art 92 (1) (a) of Regulation (EU) No. 575/2013, as well as the combined capital buffer requirement in accordance with Article 128(6) of Directive 2013/36/EU. The ECB's April 2020 decision changed the composition of the P2R 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 P2R. The Pillar 2 requirement no longer needs to be met by 100 % with CET1, but at least 56.25 % must be held with Common Equity Tier 1 capital and at least 75 % with 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 the level of 14.00 %.

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 therefore the level of capital requirements, remains in force. The annual financial statements of VBW as at 31 December 2020 were prepared by the Managing Board in accordance with Austrian corporate and banking law.

The annual financial statements have been prepared in accordance with the principles of proper accounting, as well as in compliance with the general standard to present a true and fair view of the net worth, financial and earnings position of the Company.

Pursuant to section 221 (3) Austrian Business Code (UGB), the Company is classified as a large corporation.

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

The principle of prudence was taken into account in that only profits already realised on the balance sheet date are included in particular. All identifiable risks and imminent losses that have arisen in the 2020 business year or in any of the previous business years were taken into account, if known.

Effects of the COVID-19 pandemic on the accounting and valuation methods have arisen in particular in determining impairments/risk provisions in the sphere of loans and receivables (see comments on "Risk provisions/impairments related to the COVID-19 pandemic"). Effects on the valuation of shares in affiliates and participations, in particular on the planned cash flows and earning-capacity values, were taken into account in the planning calculations (see comments on "Participations and shares in affiliates").

The previous form of presentation was applied during preparation of the present annual financial statements as well.

Loans and receivables to credit institutions and to customers are reported at acquisition costs.

Subsequent measurement is effected at the fair value if lower, pursuant to section 207 Austrian Business Code in conjunction with section 189a (4) Austrian Business Code. The risk provision/impairment is determined applying the impairment method as applied in the IFRS-compliant consolidated financial statements (IFRS 9), taking into account the recommendations of the "Joint policy document of AFRAC and FMA – aspects of subsequent measurement for credit institutions".

Principle of determining risk provisions/impairments

There is a monthly procedure for the valuation of loan receivables under which the organisational units responsible for risk are required to make a proposal for risk provisioning on the basis of current developments. In this context, the impairment model is based on the proposition to represent expected losses. In this way, not only losses that have already occurred, but also expected losses are recognised. A distinction is made as to whether or not the default risk of financial assets has deteriorated significantly since their addition. If the default risk has not increased significantly at the balance sheet date, compared to initial recognition, the expected loss is valuated in the amount of the 12-month expected credit loss ("12-M-ECL"; Stage 1). In case of any material deterioration or default, all lifetime expected credit losses must be recognised with effect from that date ("lifetime ECL"; Stages 2 and 3).

Exceptions exist for trade receivables. For these assets, all expected losses must (receivables without any significant financing component) or may (receivables with a significant financing component and lease receivables) be taken into account already at the time of addition. The option to choose a simplified procedure for trade receivables or lease receivables was not exercised, as such receivables either do not occur at present or, if they do, are insignificant.

General approach to risk provisions: Expected losses will be reported on the basis of either 12-M ECL or lifetime ECL. This depends on whether the credit risk for the financial instrument has increased significantly since first-time recognition. Changes of the amount of the risk provision must be reported as a write-up or impairment loss in the income statement.

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

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

Information regarding the calculation logic:

- Time horizon: The expected losses are calculated either for a 12-month period or for the entire residual term.
- Individual transaction or portfolio perspective: The calculation of the impairment at individual transaction level usually takes place for customers at Stage 3 from a certain minimum exposure (so-called Verbund-Metakunden-Obligo; meta-customer exposure of the Association) of euro 750 thousand (individual allowances for impairment and specific provisions). While for all other credit exposures, 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 (portfolio loan loss provisions and collective allowances for impairment/provisions).
- Scenario analysis: The impairment is determined on the basis of at least two probability-weighted scenarios.
- Expected cash flows: With respect to determination of the expected losses, there are requirements for estimating the expected cash flows (determination of cash flows from collaterals, 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 projections about the future are taken into account within the scope of the PD, LGD and cash flow models applied.

According to internal instructions, credit customers with an internal rating of 4C to 4E (watchlist loans) and all other credit customers where other indications for an increased default risk exist, i.e. where repayment pursuant to the contract appears jeopardised, are subjected to a more thorough examination. For unsecured or only partially secured exposures, an appropriate risk provision requirement is reported. In case of non-performing loans (rating category 5A-5E), the appropriateness of the amount of risk provision is checked regularly, if the individual loan loss provision method is used.

For irrevocable loan commitments and financial guarantees, impairments are determined by applying the procedure used for loan receivables and reported as provisions.

The process for determining the risk provisions is computer-aided, using an impairment tool specifically developed for the purpose. In order to take account of the economic impact of the COVID-19 crisis, adjustments had to be made to the parameters used, which were recorded by the system in an impairment tool. In addition, further adjustments to risk provisions were determined by means of so-called post-model adjustments and recognised in the balance sheet. The adjustments are described below.

Risk provisions/impairments relating to the COVID-19 pandemic

Risk provisions/impairments Stage 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 tightened up 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, VBW uses internal rating systems to distinguish between borrowers whose creditworthiness 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 customers' level of creditworthiness before the crisis, on the one hand, and with the COVID-19-related measures, on the other hand. Therefore, customers who had weaker credit ratings before the crisis tended to be considered to a greater extent in those allocations.

In response to the COVID-19 crisis, the ECB published recommendations to banks regarding the creation 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 creation 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. VBW has implemented these recommendations in full.

Based on the ECB's macroeconomic projections of June 2020 and the standard methodology of the Association of Volksbanks, an increase in the level of risk provisions was taken into account in the present annual financial statements. 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

Analogously applying IFRS 9 provisions, expected credit losses are determined using forward-looking 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 annual financial statements, a post-model adjustment (additional allocation to risk provisions) for customers designated as "Performing" (Stages 1 and 2) was accounted for.

Defaults immediately imminent, but not recognised yet

The standard model of the Association of Volksbanks assumes that the economic effects of the COVID-19 crisis will only materialise downstream in 2021. In particular, the effects of the deterioration of macroeconomic factors in 2020 are taken into account here. However, VBW's portfolio 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 for these customers during formation of the risk provisions, an allocation was effected as post-model adjustment.

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. In this way, the likeliness of immediately 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 particularly high deviations 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 tightening 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 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 consider 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 subportfolio also includes customers with weaker balance sheet ratios, higher unsecured portions 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 tightened up and customer-specific forward-looking information was taken into account in the rating process. A post-model adjustment 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 tightened rules as at the reporting date. This involved calibrating an across-the-board rating downgrade based on the rating migrations observed in Q4/2020 (after implementation of the tightened specifications).

Unrecognised stage transfers
Accompanied by government support measures (tax deferrals, fixed cost subsidy, short-time working model, etc.), the liquidity and "account behaviour 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, an allocation in the amount of the lifetime ECL less the Stage 1 risk provisions already formed in the system was made as a post-model adjustment for these customers.

Risk provisions/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; for many NPL exposures, resolution was carried out successfully and/or the previously formed risk provisions were released in profit or loss. An allowance for NPL/Stage 3 customers was recognised in the financial statements. An appropriate approach was taken with regard to the formation of risk provisions in Stage 3 in view of the COVID-19 crisis, especially for customers with an NPL retention period of more than 3 years, in order to take into account the reduced restructuring options due to the crisis.

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

Currency conversion: The main currencies were evaluated at the mean rates of exchange of the European Central Bank (ECB) as published on 31 December 2020. Other currencies were converted at the mean rate of exchange of the balance sheet date. The foreign exchange portfolios were converted at the reference mean rate.

The criterion for any security to be reported under financial assets is the intention for it to be held in the portfolio in the long term. Securities permanently designated for operations were measured as tangible assets, while securities held as current assets were measured strictly according to the lower of cost or market, taking account of the fair value if lower. No use was made of the option under section 204 (2) Austrian Business Code to effect impairments even if the impairment is not expected to be permanent.

For financial contracts that are debt instruments, the following accounting and valuation principle (observing the principle of materiality) has been applied since the 2020 financial year. If there was no corresponding option for a contract adjustment in the original contract, an impairment of the debt instrument is recognised in the event of a subsequent – insignificant – contract adjustment; in the event of a significant contract adjustment, the carrying amount of the (old) debt instrument before contract adjustment is derecognised and the fair value of the (new) debt instrument after contract adjustment is recognised.

VBW holds equity interests in various companies (participations and shares in affiliates). None of these participations/shares in affiliates is listed at a stock exchange, and accordingly there is no active market. The participations are measured by means of valuation methods and, to a certain extent, non-observable input factors. The valuations are effected according to the discounted cash flow method and peer group approach. Various calculation models are applied. The income approach is used if VBW is in control or exercises any management function and if, accordingly, budgets are available. If the company is not controlled, the fair value calculation is performed on the basis of the dividend paid as well as the annual results of the last five years. In case of companies whose object does not permit any regular income or the result of which is controlled by the parent company through settlements, the net assets are used as valuation criterion. In case of participations in co-operatives, the share capital is used as the market value, provided the subscription of new shares and the cancellation of existing shares are possible at any time. If valuation reports for participations 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 business year, range between 7.00 and 9.80 % (2019: 6.30–9.00 %). The market risk premium used for the calculation is 8.63 % (2019: 7.91 %), the beta values used range between 0.82 and 1.15 (2019: 0.78–1.10). Additional country risks did not have to be considered. Discounts due to fungibility and exercise of control are effected for two participations. The economic effects of the COVID-19 crisis were taken into account in the planning calculations – where necessary – by means of discounts on planned cash flows or earning-capacity values and were thus included in the valuation bases.

The valuation of tangible assets (land, buildings, office equipment and furniture) was performed at the cost of acquisition or production less depreciation. Intangible assets are capitalised at the cost of acquisition, if they were acquired for money. Scheduled amortisation is effected on a straight-line basis. The depreciation/amortisation period ranges between 10 and 66 years for buildings, between 3 and 20 years for office equipment and furniture, and between 2 and 5 years for intangible assets. Impairments to a fair value that is lower on the reporting date are performed where the impairments are likely to be permanent. Impairments are reversed if the reasons for the impairment have lapsed. Reversal of the impairment is effected to not more than the net carrying amount derived after taking account of ordinary depreciation/amortisation that would have had to be effected in the meantime. Low-value assets of an individual acquisition value of up to euro 800.00 (for the first time for business years starting on 1 January 2020; 2019: up to euro 400.00) are written down in full in the year of addition and shown in the fixed asset movement schedule as additions and disposals.

Accounting of deferred taxes is effected by the asset and liability approach based on the temporary concept. Deferred tax assets for future tax receivables from tax loss carried forward are not recognised.

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

Premiums and discounts for securitised debts accrue over the term of the liabilities. Issuing costs and commissions for additional contributions are recognised as fundraising expenditure at the time of issuing the bond.

Provisions for pensions and severance payments are determined according to generally recognised actuarial principles using the entry age normal method based on a discount rate of 1.53 % (2019: 1.85 %), planned salary increases of 2.5 % (2019: 3.0 %) and pension increases of 1.7 % (2019: 2.0 %), as well as a retirement age of 60-65 years (2019: 60-65 years) for women and 65 years (2019: 65 years) for men. The measurement of retirement pension obligations includes legitimate claims of employees that were in active service at the measurement date, as well as current pension recipients. The accrual period extends until retirement age is reached. As regards expected mortality, the calculation tables "AVÖ 2018 P-Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler, Angestelltenbestand" are applied. Termination of employment due to reaching the age limit and also due to invalidity or death, as well as the vested rights of surviving dependants are taken into account, but no fluctuation discount.

The discount rate used is derived from the 7-year average interest rate (for 12-year maturities), as published by Deutsche Bundesbank at 30 September 2020 (cf. AFRAC statement 27 "Provisions for post-employment benefits (Austrian Business Code)"). Interest expenses as well as the effects from a change of interest rate are reported in the item Staff expenses together with allocations and reversals.

Other provisions were recorded in the expected amount repayable; they take account of all identifiable risks and liabilities of yet uncertain amount. Significant non-current provisions are discounted using a market interest rate. Other provisions include obligations to pay anniversary bonuses under the collective bargaining agreement. Said provisions are determined according to the accounting and valuation methods applied to provisions for severance payments.

The item Additional Tier I capital pursuant to Part 2 Title I Chapter 3 of Regulation (EU) No. 575/2013 shows the Additional Tier 1 issue (ISIN AT000B121991) that was issued under the value date 9 April 2019 with a nominal amount of euro 220 million and an issue price of 100.00 %. The issue is credited as Additional Tier I capital under Article 52 CRR.

The item Supplementary capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) no. 575/2013 shows those supplementary capital instruments that are eligible as Tier 2 capital without restrictions under the conditions of the CRR. Supplementary capital that is eligible as own funds only due to transitional regulations is included in the item Securitised debts.

On 18 December 2020, following approval by the Supervisory Board on 19 November 2020 and the Extraordinary General Meeting on 15 December 2020, VB Regio AG's offer to repurchase the participation capital held by VB Regio AG was accepted and the participation certificates were annulled (cancellation of securitisation) on 28 December 2020.

The nominal value of off-balance-sheet transactions is shown in the items below the balance sheet. Provisions for expected losses are recorded for the latter in case of imminent use.

The comparative prior-year figures are rounded to the nearest thousand euros and added in brackets in the Notes; accordingly rounding differences cannot be excluded in the totals stated. The previous year's amounts regarding the residual terms for loans and receivables to customers and for amounts owed to credit institutions and amounts owed to customers were adjusted on the basis of a new calculation logic.

Measurement and accounting of derivative financial instruments

Derivative financial instruments of the banking book

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

Forward exchange transactions and currency swaps are measured at the reference rates published by the ECB at the balance sheet date. Accrual/deferral of the swap rate is effected pro rata over the term to maturity.

The provisions regarding corporate-law accounting pursuant to AFRAC statement 15 "Derivatives and hedging instruments (Austrian Business Code)" of September 2017, as well as the FMA Circular on accounting issues relating to derivatives (December 2012) are applied. The hedging of interest rate risks is exclusively effected through micro-hedges. For negative fair values of derivatives in the banking book, provisions are basically recorded for imminent losses, if there were open positions or no effective hedging relationships.

As at 31 December 2020, only cash margins were provided by way of hedging in connection with derivatives. The option to pledge other financial instruments was not made use of.

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

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

Moreover, cross currency swaps, forward exchange transactions, currency swaps and, in exceptional cases, foreign exchange options serve to hedge against interest rate and foreign exchange risks from loans and receivables, as well as amounts owed, to credit institutions and customers, as well as from issues denominated in foreign currencies.

As standard, hedging instruments are directly concluded with the counterparty, and subsequently (if clearing is mandatory) the transaction is subjected to clearing. External and internal derivatives are used for the accounting of valuation units. No new internal derivatives are concluded for hedging relationships.

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

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

Derivative financial instruments of the trading book

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

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

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

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

Determination of fair value

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

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

2. Explanatory notes on the balance sheet

2.1 Explanatory notes on assets

Breakdown of loans and receivables to credit institutions:

Residual term:	31 Dec 2020 Euro	31 Dec 2019 Euro thousand
repayable on demand	532,390,084.54	265,664
up to 3 months	656,971,870.68	800,262
more than 3 months up to 1 year	260,500,697.65	285,764
more than 1 year up to 5 years	808,796,905.68	1,016,196
more than 5 years	50,729,142.23	126,932
not repayable on demand	1,776,998,616.24	2,229,154
Loans and receivables to credit institutions, total	**2,309,388,700.78**	**2,494,818**

Subordinated assets:

	31 Dec 2020 Euro	31 Dec 2019 Euro thousand
Loans and receivables to credit institutions	2,400,631.56	2,401

Breakdown of loans and receivables to customers:

Residual term:	31 Dec 2020 Euro	31 Dec 2019 Euro thousand
repayable on demand	302,011,248.53	181,264
up to 3 months	68,504,174.18	74,210
more than 3 months up to 1 year	103,789,132.58	220,464
more than 1 year up to 5 years	492,259,131.32	673,085
more than 5 years	4,427,218,064.14	4,407,532
not repayable on demand	5,091,770,502.22	5,375,291
Loans and receivables to customers, total	**5,393,781,750.75**	**5,556,555**

Loans and receivables to affiliates and participating interests:

		31 Dec 2020		31 Dec 2019
	to affiliates Euro	to participations Euro	to affiliates Euro thousand	to participations Euro thousand
Loans and receivables to credit institutions	0.00	1,089,438,745.68	0	1,165,676
Loans and receivables to customers	6,871,514.86	95,047,979.43	49,115	93,184
	6,871,514.86	1,184,486,725.11	49,115	1,258,860

Composition of risk provisions:

		31 Dec 2020		31 Dec 2019
	Risk provision Euro	Collective allowance pursuant to sec. 57 (1) Austrian Banking Act Euro	Risk provision Euro thousand	Collective allowance pursuant to sec. 57 (1) Austrian Banking Act Euro thousand
Loans and receivables to credit institutions	3,120,444.27	0.00	2,255	0
Loans and receivables to customers	85,672,999.68	17,870,754.88	61,923	17,871
Provisions for off-balance sheet transactions	6,104,723.98	0.00	4,871	0
	94,898,167.93	17,870,754.88	69,049	17,871

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

31 Dec 2020:	Listed Euro	Unlisted Euro
Debt instruments issued by public bodies and similar securities	860,381,560.43	0.00
Bonds and other fixed-income securities	2,201,549,206.76	0.00
Equities and other variable-yield securities	724,917.25	33,328,263.76

31 Dec 2019:	Listed Euro thousand	Unlisted Euro thousand
Debt instruments issued by public bodies and similar securities	888,770	0
Bonds and other fixed-income securities	2,018,219	0
Equities and other variable-yield securities	725	33,018

As in the previous year, VBW did not hold any own supplementary capital or subordinated capital in its asset portfolio as at 31 December 2020. Own bonds with a book value of euro 1,197,914,527.73 (31.12.2019: euro 1,060,012 thousand) are reported as of the balance sheet date.

Breakdown of securities admitted to stock exchange trading of balance sheet items 2, 5 and 6 (excl. the accrued interest reported in the balance sheet) in tangible and current assets:

31 Dec 2020:	Tangible assets Euro	Current assets (incl. trading book) Euro
Debt instruments issued by public bodies and similar securities	858,296,310.43	2,085,250.00
Bonds and other fixed-income securities	998,962,514.08	1,202,586,692.68
Equities and other variable-yield securities	724,917.25	0.00

31 Dec 2019:	Tangible assets Euro thousand	Current assets (incl. trading book) Euro thousand
Debt instruments issued by public bodies and similar securities	838,679	50,090
Bonds and other fixed-income securities	954,640	1,063,579
Equities and other variable-yield securities	725	0

The classification into tangible or current assets is effected as determined within the Asset Liability Committee (ALCO).

The difference between the acquisition cost and the fair value, if higher, of securities not classified as tangible assets (current assets incl. trading book) and admitted to stock exchange trading amounts to euro 23,684,757.92 as at 31 December 2020 (31.12.2019: euro 16,807 thousand).

Other information on securities

The difference, to be written down pro rata temporis over the residual term, between historical cost and redemption amount in case of non-current securities amounts to euro 31,426,220.41 in total (31.12.2019: euro 30,841 thousand). As at 31 December 2020, euro 14,709,922.22 of that amount (31.12.2019: euro 16,569 thousand) need to be written down over the residual term yet.

The difference, to be written up pro rata temporis over the residual term, between historical cost and redemption amount in case of non-current securities amounts to euro 27,188,209.89 in total (31.12.2019: euro 27,212 thousand). As at 31 December 2020, euro 15,797,191.20 of that amount (31.12.2019: euro 16,922 thousand) need to be written up over the residual term yet.

With respect to the below-mentioned non-current securities that were reported above fair value, impairment was omitted, as an intention to hold them and service them in full – accordingly full recoverability – is assumed. In the 2020 business year, as in the 2019 business year, no contractual violations and no delays in payment were found due to serious financial difficulties of the issuers.

31 Dec 2020:	Fair value in euro	Carrying amount in euro	Difference in euro
Bonds and other fixed-income securities	15,981,390.00	16,109,819.57	-128,429.57
Equities and other variable-yield securities	598,606.14	724,917.27	-126,311.13
	16,579,996.14	16,834,736.84	-254,740.70

31 Dec 2019:	Fair value in euro thousand	Carrying amount in euro thousand	Difference in euro thousand
Debt instruments issued by public bodies and similar securities	1,916	1,933	-17
Loans and receivables to credit institutions	690	712	-23
Bonds and other fixed-income securities	75,064	76,981	-1,917
Equities and other variable-yield securities	684	725	-40
	78,354	80,351	-1,997

Securities with market prices from inactive markets are primarily designated as tangible assets and are periodically reviewed with a view to any required impairments.

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

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

In 2021, receivables from bonds and other fixed-income securities in the amount of euro 156,289,515.89 will mature (in 2019 for 2020: euro 194,931 thousand).

In the 2020 business year, there were genuine repurchase transactions with a carrying amount of euro 20,238,882.13 (31.12.2019: euro 20,281 thousand).

The credit institution keeps a trading book. As at 31 December 2020, securities with a fair value of euro 2,959,784.76 (31.12.2019: euro 2,624 thousand) and other financial instruments with a fair value including accrued/deferred interest in the amount of euro 4,136,224.75 (31.12.2019: euro 42,624 thousand) have been designated for this trading book, of which an amount of euro -70,126,242.94 (31.12.2019: euro -258,594 thousand) with external counterparties.

In 2020, no securities were reclassified from current assets (trading book) to tangible assets. No reclassifications of tangible assets to current assets were effected either.

Equities and other variable-yield securities
The item Equities and other variable-yield securities includes participating certificates and profit participation certificates.

Participations and shares in affiliates

Composition of participations:

Name of the company	Share	Annual accounts	Total equity Euro Thousand	Annual result Euro Thousand	Carrying amount as at 31 Dec 2020 Euro
Volksbank Kufstein-Kitzbühel Holding eG 6330 Kufstein, Unterer Stadtplatz 21	40.97 %	31 Dec 2019	63,314	-14	727,050.00
VB Beteiligung Obersdorf-Wolkersdorf-Deutsch-Wagram eG 2120 Obersdorf, Hauptstraße 57	33.64 %	31 Dec 2019	9,204	-52	160,040.00
Wiener Landwirtschaftliche Siedlungsgesellschaft mbH 1220 Vienna, Kagraner Platz 48	33.33 %	31 Dec 2019	210	-1	68,000.00
VB Verbund-Beteiligung eG 1030 Vienna, Dietrichgasse 25	29.09 %	31 Dec 2019	103,826	4,745	18,676,564.56
Volksbanken - Versicherungsdienst - Gesellschaft m.b.H. 1071 Vienna, Lindeng. 5	27.27 %	31 Dec 2019	3,958	85	156,275.24
VB Niederösterreich Süd eG 2700 Wiener Neustadt, Herzog-Leopold Straße 3	26.64 %	31 Dec 2019	30,313	-34	412,056.00
ARZ Allgemeines Rechenzentrum GmbH 6020 Innsbruck, Mitterweg 96	25.99 %	31 Dec 2019	29,592	327	294,473.45
Volksbank Kärnten eG 9020 Klagenfurt, Pernhartgasse 7	25.67 %	31 Dec 2019	127,784	645	8,760,199.00
VB Südburgenland Verwaltung eG 7423 Pinkafeld, Marktplatz 3	22.42 %	31 Dec 2019	17,982	-62	318,772.50
VB-Beteiligungsgenossenschaft der Obersteiermark eG 8700 Leoben, Hauptplatz	20.72 %	31 Dec 2019	19,312	14	1,500,047.27
Volksbanken Holding eGen 1013 Vienna, Löwelstraße 14	16.97 %	30 June 2020	99,708	39,025	18,892,000.00
PSA Payment Services Austria GmbH 1030 Vienna, Marxergasse 1B	6.89 %	31 Dec 2019	32,184	5,099	2,721,000.00
Schulze-Delitzsch Ärzte und Freie Berufe e.Gen. 1010 Vienna, Schottengasse	6.64 %	31 Dec 2019	13,600	-4,172	708,000.00
Volksbank Steiermark AG 8010 Graz, Schmiedgasse 31	5.11 %	31 Dec 2019	191,901	12,738	5,263,000.00
Volksbank Oberösterreich AG 4600 Wels, Pfarrgasse 5	1.87 %	31 Dec 2019	179,556	983	2,685,000.00
Österreichische Kontrollbank Aktiengesellschaft 1010 Vienna, Am Hof 4	1.50 %	31 Dec 2019	636,794	43,010	1,180,061.00
Wiener Börse AG (formerly: CEESEG Aktiengesellschaft) 1010 Vienna, Wallnerstraße 8	1.41 %	31 Dec 2019	382,824	26,868	1,377,582.14
Other participations					1,800,411.59
					65,704,532.75

The information about the total equity and annual result corresponds to the most recent annual financial statements pursuant to the Austrian Business Code.

Information on mutual participations:

Share of VBW	Participations	Share in VBW
33.64 %	VB Beteiligungsgenossenschaft Obersdorf-Wolkersdorf-Deutsch-Wagram eG	1.29 %
25.67 %	Volksbank Kärnten eG	2.22 %
22.42 %	VB Südburgenland Verwaltung eG	3.11 %
29.09 %	VB Verbund-Beteiligung eG	3.81 %
16.97 %	Volksbanken Holding eGen	0.62 %
8.33 %	VB Ost Verwaltung eG	6.61 %
5.11 %	Volksbank Steiermark AG	5.11 %
1.87 %	Volksbank Oberösterreich AG	2.76 %
0.06 %	VB Wien Beteiligung eG	10.49 %
0.003 %	Volksbank Niederösterreich AG	3.08 %

Composition of shares in affiliates:

Name of the company	Share	Annual accounts	Total equity Euro Thousand	Annual result Euro Thousand	Carrying amount as at 31 Dec 2020 Euro
VB Infrastruktur und Immobilien GmbH (formerly: VOME Holding GmbH) 1030 Vienna, Dietrichgasse 25	100.00 %	31 Dec 2019	1,231	3	434,928.38
VB ManagementBeratung GmbH 1030 Vienna, Dietrichgasse 25	100.00 %	31 Dec 2019	787	39	36,336.40
VBKA-Holding GmbH 1030 Vienna, Dietrichgasse 25	100.00 %	31 Dec 2019	25	-2	1.00
UVB-Holding GmbH 1030 Vienna, Dietrichgasse 25	100.00 %	31 Dec 2019	28	-2	0.00
VB Rückzahlungsgesellschaft mbH 1030 Vienna, Dietrichgasse 25	100.00 %	30 June 2020	53,415	-11	35,000.00
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H. 1030 Vienna, Dietrichgasse 25	99.50 %	31 Dec 2019	1,616	0	867,713.64
VOBA Vermietungs- und Verpachtungsges.m.b.H. 2500 Baden, Hauptplatz 9-13	99.00 %	31 Dec 2019	8,155	93	5,679,448.53
3V-Immobilien Errichtungs-GmbH 1030 Vienna, Dietrichgasse 25	99.00 %	31 Dec 2019	7,920	-579	8,382,000.00
Gärtnerbank Immobilien GmbH 1030 Vienna, Dietrichgasse 25	99.00 %	31 Dec 2019	887	24	34,650.00
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH 1030 Vienna, Dietrichgasse 25	99.00 %	31 Dec 2019	2,829	59	84,650.00
VB Services für Banken Ges.m.b.H. 1030 Vienna, Dietrichgasse 25	98.89 %	31 Dec 2019	3,656	1,415	344,054.63
Immo-Contract Baden Maklergesellschaft m.b.H. 2500 Baden, Hauptplatz 9-12	93.51 %	31 Dec 2019	681	104	200,648.25
VB Verbund-Beteiligung Region Wien eG (formerly: Verwaltungsgenossenschaft der IMMO-BANK eG) 1030 Vienna, Dietrichgasse 25	90.63 %	31 Dec 2019	21,072	30	3,478,092.20
ARZ-Volksbanken Holding GmbH 1030 Vienna, Dietrichgasse 25	74.51 %	30 June 2019	266	-5	231,212.58
					19,808,735.61

Relationships with affiliates

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

As at 31 December 2020, the number of group members amounts to 9 (31.12.2019: 10).

Tangible assets

The value of developed and undeveloped land amounts to euro 10,225,122.90 (31.12.2019: euro 10,609 thousand). As for the development of tangible assets, please refer to Annex 1 of these Notes.

Breakdown of other assets

	31 Dec 2020 Euro	31 Dec 2019 Euro thousand
Receivables from derivative financial instruments	137,454,603.27	372,857
Claim for profit distribution	29,200,000.00	0
Receivables from taxes and charges	4,841,423.06	6,712
Auxiliary accounts of banking business	767,890.80	627
Land and buildings acquired to secure receivables	0.00	20
Sundry other receivables	25,723,258.31	28,212
	197,987,175.44	408,428

The "claim for profit distribution" results from the profit distribution of an affiliate accounted for in the same period.

Income in the amount of euro 19,091,619.82 (31.12.2019: euro 23,869 thousand) is included in the item Other assets, which will be received only after the balance sheet date. Other assets include items with maturities of more than one year in the amount of euro 174,517.51 (31.12.2019: euro 185 thousand).

Accrued items

Accruals in the amount of euro 10,020,587.26 (31.12.2019: euro 11,435 thousand) essentially include premiums from issued bonds and the accrual of a building cost subsidy.

Deferred tax assets

As at the balance sheet date, deferred tax assets were established for temporary differences between the value recognised for the following items under fiscal and under company law:

	31 Dec 2020 Euro	31 Dec 2019 Euro thousand
Collective provisions pursuant to section 9 (3) Income Tax Act (EStG)	26,500,002.86	26,500
Portfolio loan loss provisions and impairments as per section 57 (1) Austrian Banking Act	55,536,870.62	37,520
Participations	34,449,138.37	24,312
Provision for severance payments	5,614,306.00	6,134
Provision for pensions	3,084,065.14	3,394
Provision for anniversary bonuses	2,058,934.71	2,170
Long-term provisions	213,811.32	626
Fifth part of severance payments	1,136,902.98	1,266
LIVEBank	366,666.67	433
Other temporary differences	4,914,342.22	0
Tangible assets and intangible assets	867,702.25	8
Distribution of flotation cost	4,967,231.94	6,209
	139,709,975.08	108,572
Deferred tax assets from difference amounts determined (25%)	34,927,493.77	27,143
Deferred tax assets of group members from (contractual) tax rate differences	1,214,292.75	1,449
Deferred tax assets (25%)	36,141,786.52	28,592

The effects of movements in deferred taxes on profit or loss are as follows:

	Euro
As at 31.12.2019	28,591,696.34
Change in profit or loss	7,550,090.18
As at 31.12.2020	36,141,786.52

2.2 Explanatory notes on liabilities

Breakdown of amounts owed to credit institutions:

Residual term:	31 Dec 2020 Euro	31 Dec 2019 Euro thousand
repayable on demand	2,448,258,440.38	2,588,501
up to 3 months	86,802,179.94	77,170
more than 3 months up to 1 year	1,506,947,981.69	59,405
more than 1 year up to 5 years	11,329,000.00	10,220
more than 5 years	112,442,742.72	67,615
not repayable on demand	1,717,521,904.35	214,410
Amounts owed to credit institutions, total	**4,165,780,344.73**	**2,802,911**

Breakdown of amounts owed to customers:

Residual term:	31 Dec 2020 Euro	31 Dec 2019 Euro thousand
repayable on demand	6,136,988,673.14	5,662,378
up to 3 months	298,789,371.17	229,202
more than 3 months up to 1 year	294,089,401.70	512,372
more than 1 year up to 5 years	49,279,445.66	130,082
more than 5 years	55,758.00	966
not repayable on demand	642,213,976.53	872,622
Amounts owed to customers, total	**6,779,202,649.67**	**6,535,000**

At the balance sheet date, charge money savings deposits amount to euro 14,026,958.19 (31.12.2019: euro 14,625 thousand). The underlying stock designated for this purpose consists of investment grade securities and amounts to euro 16,315,222.90 (31.12.2019: euro 18,360 thousand).

Amounts owed to affiliates and participating interests:

		31 Dec 2020		31 Dec 2019
	to affiliates Euro	to participations Euro	to affiliates Euro thousand	to participations Euro thousand
Amounts owed to credit institutions	0.00	1,775,545,056.14	0	1,756,712
Amounts owed to customers	146,516,824.52	59,016,385.56	100,354	53,172
	146,516,824.52	1,834,561,441.70	100,354	1,809,884

Securitised debts

Issued bonds will mature in the 2021 business year in the amount of euro 130,000,000.00 (in 2019 for 2020: euro 120,000 thousand).

Securitised debts do not include any subordinate bonds (31.12.2019: euro 0 thousand).

Under the value date of 27 March 2020, a covered bond (ISIN AT000B122064 or WKN A28UV8) in the nominal amount of euro 250 million and with an issue price of 103.5 % was issued. The bond will mature on 27 March 2028 and will be redeemed at a rate of 100 % of the face value.

For more information on the issued subordinated liabilities and supplementary capital as well as Additional Tier 1 capital, see the relevant details in the Notes.

Other liabilities

	31 Dec 2020 Euro	31 Dec 2019 Euro thousand
Liabilities from derivative financial instruments	138,868,250.12	393,492
Liabilities from taxes and charges	5,159,961.63	6,643
Deferred interest for own issues	6,494,402.69	6,466
Sundry other liabilities	9,956,600.89	27,703
	160,479,215.33	434,304

Expenses in the amount of euro 32,655,505.67 (31.12.2019: euro 35,299 thousand) are included in the item Other liabilities, which will be paid only after the balance sheet date.

Other liabilities (excluding fair values of derivative financial instruments) include items with a residual term of less than one year in the amount of euro 54,332,456.76 (31.12.2019: euro 68,205 thousand).

Deferred items

Deferred items in the amount of euro 9,638,633.33 (31.12.2019: euro 1,032 thousand) essentially concern premiums.

Other provisions

Other provisions break down as follows:

	31 Dec 2020 Euro	31 Dec 2019 Euro thousand
Repayment of subsidies from the reorganisation agreement	26,500,002.86	26,500
Unpaid incoming invoices	13,047,576.18	10,097
Imminent losses from derivative financial instruments	6,987,780.21	10,826
Losses and risks due to the granting of loans and guarantees	9,320,451.98	10,428
Anniversary bonuses	5,513,834.01	5,541
Redimensioning	3,135,717.29	5,294
Leave not yet taken	3,761,553.57	3,454
Other liabilities	1,017,376.61	2,118
	69,284,292.71	74,258

The item Repayment of subsidies from the reorganisation agreement includes provisions for future shareholder contributions to VB RZG on the basis of the reorganisation agreement concluded with the federal government in 2015.

Issued subordinated liabilities and supplementary capital and Additional Tier 1 capital

	31 Dec 2020 Euro	31 Dec 2019 Euro thousand
Subordinated liabilities	404,600,000.00	404,600
Supplementary capital, eligible without restrictions	4,000,000.00	4,000
Participation capital not meeting the criteria of CET1 capital	0.00	9,907
Supplementary capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No. 575/2013	408,600,000.00	418,507

	31 Dec 2020 Euro	31 Dec 2019 Euro thousand
Additional Tier 1 capital pursuant to Part 2 Title I Chapter 3 of Regulation (EU) No. 575/2013	220,000,000.00	220,000

As at 31 December 2020, the terms of the issued subordinated liabilities and supplementary capital as well as the Additional Tier 1 capital are as follows:

ISIN	Name	Nominal value	Currency	Interest rate (Dec 31)	Redemption
SSD, no security	Subordinated liabilities Sparda	2,000,000	euro	3M Eurib. +0.75%	19 March 2021
SSD, no security	Subordinated liabilities Sparda	2,000,000	euro	3M Eurib. +0.75%	19 March 2021
AT000B121967	2.75% VBWIEN FIX TO FIX 17-27	400,000,000	euro	2.750%	6 Oct 2027
QOXDBA032238	3.50% Volksbank Wien-Baden AG Subordinate tier 2 bond 2014-2022	600,000	euro	3.500%	1 Dec 2022
QOXDBA000383	ERG.KAP.SCHV. 2007-2022	4,000,000	euro	4,000%	1 Dec 2022
AT000B121991	VBW FIX TO R.R.AT1 NTS 19	220,000,000	euro	7,750%	9 April 2024

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

Expenses for subordinated liabilities and supplementary capital amount to euro 11,289,507.76 (2019: euro 11,275 thousand)

At the value date of 6 October 2017, a subordinated Tier 2 bond (WKN A19P69 or ISIN AT000B121967) in the nominal amount of euro 400 million and with an issue price of 99.747 % was issued, which represents supplementary capital under Article 63 of the CRR. The bond will mature on 6 October 2027 and will be redeemed at a rate of 100 % of the face value. Until 6 October 2022, the fixed interest rate will amount to a maximum of 2.750 % p.a. After that date, the annual coupon will be newly fixed in the amount of the 5-year swap rate then prevailing plus additional premium of 2.55 %. Interest payments will be effected on 6 October each year. The issuer may unilaterally terminate the bond on 6 October 2022. If the right of termination is exercised, repayment will be effected at a rate of 100 % of the nominal amount.

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

At the value date of 9 April 2019, an Additional Tier 1 bond (ISIN AT000B121991 or WKN A191M4) in the nominal amount of euro 220 million and with an issue price of 100.00 % was issued, which represents Additional Tier 1 capital under Article 52 of the CRR. The bond has an indefinite term with the issuer being entitled to terminate the bond on 9 April 2024 for the first time, and thereafter every five years on 9 April in each case. Until 9 April 2024, the fixed distribution will amount to 7.75 % p.a. After that date, the amount of the distribution will be newly fixed every five years on 9 April, in the amount of the 5-year swap rate then prevailing plus premium of 7.88 % p.a. Payments will be effected on 9 April and 9 October each year. The distributions are not cumulative and are subject to the discretion of the issuer, who shall be entitled to omit distributions in

Continuous issue	Right of termination	Conversion into equity	Carrying amount as at 31 Dec 2020	Balance sheet item
no sec.	impossible	no	2,000,000.00	Supplementary capital acc. to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013
no sec.	impossible	no	2,000,000.00	Supplementary capital acc. to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013
no	issuer	no	400,000,000.00	Supplementary capital acc. to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013
no	impossible	no	600,000.00	Supplementary capital acc. to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013
			404,600,000.00	Subordinated liabilities
yes	issuer	no	4,000,000.00	Supplementary capital acc. to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013
			4.000.000,00	Supplementary capital, eligible without restrictions
			408,600,000.00	**Supplementary capital acc. to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013**
no	issuer	no	220,000,000.00	Additional Tier 1 capital acc. to Part 2 Title I Chapter 3 of Regulation (EU) No 575/2013

full or in part. In the event that the issuer does not dispose of sufficient distributable items to pay the amount required for the total distributions due, that an instruction by the official authority exists, or that the proposed distributions taken together would exceed the maximum distributable amount (at the level of the issuer and/or the regulatory group), the distributions relating to the AT1 issue shall mandatorily and automatically be omitted in full or in part. The trigger for writing down the issue is a CET1 capital ratio of 5.125 % at the level of the issuer and/or the regulatory group. The option to terminate the issue may only be exercised if the actual face value corresponds to the original face value and if the relevant prerequisites of the CRR are met.

Equity

As at 31 December 2020, the subscribed capital of VBW amounted to euro 137,546,531.25 (31.12.2019: euro 137,546,531.25) and consisted of 1,467,163 (31.12.2019: 1,467,163) no-par shares. The shares are registered ordinary shares.

The following shareholders participate in the share capital as at 31 December 2020:

	Euro thousand	%
Volksbanks	39,307	28.58
Republic of Austria	34,387	25.00
VB Wien Beteiligung eG	14,425	10.49
VB Baden Beteiligung e.Gen.	11,511	8.37
VB Ost Verwaltung eG	9,096	6.61
VB Niederösterreich Süd eG	7,271	5.29
VB Verbund-Beteiligung eGen	5,237	3.81
VB Südburgenland Verwaltung eG	4,283	3.11
WV Beteiligung eG	4,131	3.00
VB Weinviertel Verwaltung eG	3,860	2.81
VB Beteiligung Obersdorf-Wolkersdorf-Deutsch-Wagram eG	1,779	1.29
Verwaltungsgenossenschaft Gärtnerbank e.Gen.	1,053	0.77
Volksbank Holding eGen	851	0.62
SPARDA AUSTRIA Holding eG	356	0.26
	137,547	100.00

Liability reserve pursuant section 57 (5) Austrian Banking Act

As at 31 December 2020, the liability reserve amounts to euro 44,819,308.55 (31.12.2019: euro 44,819 thousand).

2.3 Explanatory notes on contingencies

Composition of contingent liabilities:

	31 Dec 2020 Euro	31 Dec 2019 Euro thousand
Sureties and guarantees	233,813,540.66	271,200
Haftsummenzuschläge (guaranteed amounts)	22,053,599.81	22,095
Letters of credit	0.00	1,195
less: provisions	-2,569,638.12	-2,363
	253,297,502.35	292,127

Composition of credit risks:

	31 Dec 2020 Euro	31 Dec 2019 Euro thousand
Loan commitments	3,533,495,116.08	2,674,096
less: provisions	-3,535,085.86	-2,507
	3,529,960,030.22	2,671,589

2.4 Other financial obligations

Composition of liabilities from trust transactions:

	31 Dec 2020 Euro	31 Dec 2019 Euro thousand
Loans on a trust basis/deposits	79,008,868.84	67,913
Other assets from trust transactions	68,263,000.00	61,821
	147,271,868.84	129,734

Reorganisation agreement

The reorganisation agreement 2015 between, among others, the Republic of Austria ("federal government") and VBW, which was supplemented by an implementation agreement between (among others) VBW, the Volksbanks and other shareholders of VBW, regulates, among others, a participation rights issue (the "federal government's participation right") through VB Rückzahlungsgesellschaft mbH ("VB RZG"), a direct subsidiary of VBW. The federal government's participation right was issued for the purpose of meeting those commitments that were made to the federal government for the purpose of obtaining the EU Commission's approval of the reorganisation under the funding guidelines. In 2017, an adjustment of the 2015 reorganisation agreement and of the implementation agreement was carried out, which does not, however, affect the federal government's participation right.

Distributions of VB RZG on the federal government's participation right, vis-à-vis the Republic, are effected at the discretion of VBW as the sole shareholder of VB RZG. No claim for profit shares exists under the federal government's participation right. In that context, shareholders of VBW have transferred VBW shares (at a rate of 25 % of the share capital plus 1 share) to the federal government without consideration. The shares were first transferred to the federal government on 28 January 2016 with subsequent adjustments as a result of corporate actions. The federal government is obliged to transfer said shares back to the respective shareholders without consideration, as soon as the sum of the distributions, on the federal government's participation right, received by the federal government and other eligible amounts, as defined, reaches a certain amount. Should the distributions received by the federal government in respect of the federal government's participation right fail to reach certain minimum amounts defined, taking into account certain eligible amounts (such as any distributions on the shares held by the federal government in VBW) on certain contractually agreed effective dates (a "disposal event"), the federal government shall be entitled to freely dispose of such shares without any further consideration and to claim additional ordinary shares of VBW at a rate of 8 % of the share capital of VBW, without further consideration, from VBW shareholders. Overall, accordingly, in case a disposal event occurs, up to 33 % plus 1 share of the shares in VBW may pass into the (legal and beneficial) ownership of the federal government, and the federal government is entitled to freely dispose of said shares (subject to the pre-emptive right granted). In case that the pre-emptive right granted by the federal government is exercised by a purchaser nominated by VBW and that a minimum threshold for the sum of the distributions in respect of the federal government's participation right and of the eligible 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.

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

In the 2017 business year, item 4.1. of the 2015 reorganisation agreement was amended by the rider dated 12 December 2017 to the effect that profit distributions to unconsolidated holding companies are admissible under certain conditions.

In the 2020 business year, compensation payments were effected to the federal government under the reorganisation agreement based on mandatory distributions to holders of participation certificates. The second threshold determined for eligible amounts and distributions for the business year ending on 31 December 2019 has already been exceeded. The next threshold must be reached with the distribution in respect of the business year ending on 31 December 2021.

Letter of Comfort VB-Forum

The main tenant of the new headquarters of VBW (the VB Forum) is VOBA Vermietungs- und Verwaltungsgesellschaft m.b.H. (VOBA), a 99 % subsidiary of VBW. VBW has rented office premises and car parking spaces as subtenant from VOBA (the final terms of the sublease have not yet been negotiated definitively between VOBA and VBW).

With a view to moving into the VB Forum in Q4/2019, VBW has provided a written statement to the external lessor of VOBA: in the event of termination with notice of the entire lease agreement, or any parts thereof, by VOBA, VBW undertakes vis-à-vis the external lessor to nominate a new tenant (that meets certain requirements) for a successor lease agreement, unless the lease agreement is terminated with notice by VOBA with effect on certain fixed dates. In the event of VOBA giving notice of the lease with effect on any date not so fixed and simultaneous failure to conclude any successor lease, VBW undertakes to put the external lessor in the same position, in economic terms, as if a successor lease had been concluded. This results in a maximum effect of this other financial obligation in the amount of euro 13.2 million.

2.5 Additional disclosures

Breakdown of assets pledged as collateral for liabilities:

	31 Dec 2020 Euro	31 Dec 2019 Euro thousand
Loans and receivables to customers	3,850,512,164.40	3,419,876
Debt instruments issued by public bodies, bonds and other fixed-income securities	14,026,958.19	14,625
	3,864,539,122.59	3,434,501
Assets were pledged as collateral for the following obligations		
Amounts owed to credit institutions	399,200,005.19	381,105
Securitised debts	3,451,312,159.21	3,038,771
Amounts owed to customers (savings deposits)	14,026,958.19	14,625
	3,864,539,122.59	3,434,501

Assets pledged as collaterals include the underlying stock for covered bonds in the amount of euro 3,451,312,159.21 (31.12.2019: euro 3,038,771 thousand).

For the following business year, the total amount of obligations from using tangible assets not reported in the balance sheet is euro 5,294,370.76 (31.12.2019: euro 4,623 thousand), of which affiliates euro 1,394,170.22 (31.12.2019: euro 1,128 thousand) and for the following five business years euro 16,424,619.89 (31.12.2019: euro 17,398 thousand), of which affiliates euro 3,045,518.92 (31.12.2019: euro 6,031 thousand).

Total amount of assets and liabilities denominated in foreign currencies:

	31 Dec 2020 Euro	31 Dec 2019 Euro thousand
Foreign currency assets	484.437.595,23	587.444
Foreign currency liabilities	107.689.741,59	142.221

An amount of euro 4,901,000.00 (31.12.2019: euro 4,901 thousand) is included in the liquid funds, which is earmarked for the purposes of the trust fund (Leistungsfonds).

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

TOTAL								31 DEC 2020
Euro thousand	Nominal value up to 1 year	Nominal value 1-5 years	Nominal value more than 5 years	Nominal value Total	Market value	thereof hedge	Other receivables	Other liabilities
INTEREST RATE RELATED TRANSACTIONS	**487,436**	**1,099,595**	**4,317,637**	**5,904,668**	**-317,820**	**-359,090**	**133,757**	**140,907**
Caps&Floors	143,180	60,126	199,917	403,224	34	-	644	573
FRAs	-	-	-	-	-	-	-	-
Interest rate futures	4,100	-	-	4,100	2,278	-	-	-
IRS	340,155	1,039,469	4,117,720	5,497,344	-320,132	-359,090	133,113	140,334
Swaptions	-	-	-	-	-	-	-	-
EXCHANGE RATE RELATED TRANSACTIONS	**579,528**	**455,571**	**186,230**	**1,221,329**	**5,442**	**-1,740**	**2,683**	**-1,412**
Cross Currency Interest Rate Swaps	-	455,571	186,230	641,801	5,351	-1,740	2,361	-1,728
Foreign exchange options	-	-	-	-	-	-	-	-
Forward exchange transactions/FX SWAPS	579,528	-	-	579,528	91	-	323	317
OTHER TRANSACTIONS	**10,751**	**12,274**	**177,970**	**200,995**	**-1,925**	**-**	**992**	**-**
Market price guarantees Pension provision/guarantee funds	-	-	177,970	177,970	-3,274	-	-	-
Options	10,751	12,274	-	23,025	1,348	-	992	-
TOTAL	**1,077,715**	**1,567,440**	**4,681,837**	**7,326,992**	**-314,304**	**-360,830**	**137,433**	**139,495**
of which internal	134,136	99,283	256,464	489,883	-	-74,222	69,047	40

TRADING BOOK								31 DEC 2020
Euro thousand	Nominal value up to 1 year	Nominal value 1-5 years	Nominal value more than 5 years	Nominal value Total	Market value	thereof hedge	Other receivables	Other liabilities
INTEREST RATE RELATED TRANSACTIONS	**385,368**	**551,360**	**707,961**	**1,644,688**	**4,128**	**-**	**124,737**	**127,885**
Caps&Floors	135,395	58,543	197,057	390,995	72	-	644	573
Interest rate futures	4,100	-	-	4,100	2,278	-	-	-
IRS	245,873	492,817	510,903	1,249,593	1,779	-	124,093	127,313
EXCHANGE RATE RELATED TRANSACTIONS	**-**	**30,113**	**-**	**30,113**	**8**	**-**	**1,522**	**1,733**
Cross Currency Interest Rate Swaps	-	30,113	-	30,113	8	-	1,522	1,733
TOTAL TRADING BOOK	**385,368**	**581,472**	**707,961**	**1,674,801**	**4,136**	**-**	**126,259**	**129,618**
of which internal	67,068	49,828	128,232	245,128	74,262	-	69,046	-

BANKING BOOK								31 DEC 2020
Euro thousand	Nominal value up to 1 year	Nominal value 1-5 years	Nominal value more than 5 years	Nominal value Total	Market value	thereof hedge	Other receivables	Other liabilities
INTEREST RATE RELATED TRANSACTIONS	**102,068**	**548,235**	**3,609,676**	**4,259,980**	**-321,949**	**-359,090**	**9,020**	**13,022**
Caps&Floors	7,786	1,584	2,860	12,229	-38	-	-	-
IRS	94,282	546,651	3,606,817	4,247,751	-321,911	-359,090	9,020	13,022
EXCHANGE RATE RELATED TRANSACTIONS	**579,528**	**425,458**	**186,230**	**1,191,217**	**5,434**	**-1,740**	**1,161**	**-3,144**
Cross Currency Interest Rate Swaps	-	425,458	186,230	611,688	5,343	-1,740	838	-3,461
Forward exchange transactions/FX SWAPS	579,528	-	-	579,528	91	-	323	317
OTHER TRANSACTIONS	**10,751**	**12,274**	**177,970**	**200,995**	**-1,925**	**-**	**992**	**-**
Market price guarantees Pension provision/guarantee funds	-	-	177,970	177,970	-3,274	-	-	-
Options	10,751	12,274	-	23,025	1,348	-	992	-
TOTAL BANKING BOOK	**692,347**	**985,967**	**3,973,877**	**5,652,191**	**-318,440**	**-360,830**	**11,173**	**9,877**
of which internal	67,068	49,455	128,232	244,755	-74,262	-74,222	-	40

	31 DEC 2019								
Provisions	Nominal value up to 1 year	Nominal value 1-5 years	Nominal value more than 5 years	Nominal value Total	Market value	thereof hedge	Other receivables	Other liabilities	Provisions
2,853	**552,002**	**1,458,790**	**4,708,649**	**6,719,441**	**-257,103**	**-336,196**	**363,848**	**369,048**	**7,057**
43	123,414	247,790	228,189	599,393	28	-	820	643	156
-	-	-	-	-	-	-	-	-	-
-	36,300	-	-	36,300	36,435	-	-	-	-
2,810	392,288	1,211,001	4,480,460	6,083,748	-293,566	-336,196	363,028	368,405	6,901
-	-	-	-	-	-	-	-	-	-
347	**1,050,478**	**445,109**	**182,206**	**1,677,792**	**-16,376**	**-11,652**	**7,853**	**25,496**	**885**
98	428,113	445,109	182,206	1,055,428	-20,213	-11,652	3,321	24,693	230
-	-	-	-	-	-	-	-	-	-
248	622,364	-	-	622,364	3,836	-	4,532	802	655
3,788	**13,241**	**15,825**	**213,267**	**242,333**	**2,674**	**-**	**1,133**	**-**	**2,884**
3,788	-	-	213,267	213,267	1,572	-	-	-	2,884
-	13,241	15,825	-	29,066	1,102	-	1,133	-	-
6,988	**1,615,720**	**1,919,724**	**5,104,122**	**8,639,566**	**-270,805**	**-347,848**	**372,834**	**394,544**	**10,826**
-	185,955	330,753	1,025,339	1,542,047	-	-300,910	284,112	102	-

	31 DEC 2019								
Provisions	Nominal value up to 1 year	Nominal value 1-5 years	Nominal value more than 5 years	Nominal value Total	Market value	thereof hedge	Other receivables	Other liabilities	Provisions
15	**449,524**	**1,037,720**	**1,528,230**	**3,015,475**	**42,618**	**-**	**356,421**	**367,123**	**134**
-	121,206	230,804	225,045	577,055	177	-	819	643	-
-	36,300	-	-	36,300	36,435	-	-	-	-
15	292,019	806,916	1,303,185	2,402,120	6,006	-	355,601	366,480	134
-	**-**	**30,613**	**-**	**30,613**	**6**	**-**	**2,073**	**2,292**	**-**
-	-	30,613	-	30,613	6	-	2,073	2,292	-
15	**449,524**	**1,068,333**	**1,528,230**	**3,046,088**	**42,624**	**-**	**358,494**	**369,414**	**134**
-	92,977	165,813	512,669	771,460	301,218	-	284,111	-	-

	31 DEC 2019								
Provisions	Nominal value up to 1 year	Nominal value 1-5 years	Nominal value more than 5 years	Nominal value Total	Market value	thereof hedge	Other receivables	Other liabilities	Provisions
2,839	**102,477**	**421,070**	**3,180,419**	**3,703,966**	**-299,721**	**-336,196**	**7,428**	**1,925**	**6,923**
43	2,209	16,986	3,144	22,338	-149	-	1	-	156
2,796	100,269	404,084	3,177,275	3,681,628	-299,572	-336,196	7,427	1,925	6,768
347	**1,050,478**	**414,495**	**182,206**	**1,647,179**	**-16,383**	**-11,652**	**5,779**	**23,204**	**885**
98	428,113	414,495	182,206	1,024,815	-20,219	-11,652	1,248	22,402	230
248	622,364	-	-	622,364	3,836	-	4,532	802	655
3,788	**13,241**	**15,825**	**213,267**	**242,333**	**2,674**	**-**	**1,133**	**-**	**2,884**
3,788	-	-	213,267	213,267	1,572	-	-	-	2,884
-	13,241	15,825	-	29,066	1,102	-	1,133	-	-
6,973	**1,166,195**	**851,391**	**3,575,892**	**5,593,478**	**-313,429**	**-347,848**	**14,340**	**25,129**	**10,693**
-	92,977	164,940	512,669	770,587	-301,218	-300,910	1	102	-

3. Explanatory notes concerning the income statement

Net interest income

	2020 Euro	2019 Euro thousand
Interest and similar income		
from loan and investment transactions		
for loans and receivables to credit institutions	14,736,935.59	13,615
for loans and receivables to customers	101,362,123.53	106,157
fees and commissions equivalent to interest	4,034,234.84	6,877
from bonds and other fixed-income securities	3,182,616.24	6,453
from other assets – total	3,883,346.18	6,641
	127,199,256.38	139,743
Interest and similar expenses		
from refinancing transactions		
for amounts owed to credit institutions	-9,193,058.16	-10,647
for amounts owed to customers	-3,359,962.90	-3,858
for securitised debts	-30,618,936.91	-28,754
fees and commissions equivalent to interest	-3,630,769.19	0
	-46,802,727.16	-43,259
	80,396,529.22	96,484

Negative interest

Due to the trend of money market interest rates towards negative reference rates, interest income (negative interest expenses) in the amount of euro 10,261,061.91 (2019: euro 9,557 thousand) and interest expenses (negative interest income) in the amount of euro 7,781,764.84 (2019: euro 7,812 thousand) were realised in the 2020 business year. The negative interest expenses were reported within interest and similar income from other assets and the negative interest income in interest and similar expenses from amounts owed to credit institutions.

Income from securities and participations

	2020 Euro	2019 Euro thousand
a) Income from equities, other share rights and variable-yield securities	1,485.14	432
b) Income from participations	1,122,561.20	1,175
c) Income from shares in affiliates	30,097,325.44	1,492
	31,221,371.38	3,099

Net fee and commission income

	2020 Euro	2019 Euro thousand
Fee and commission income		
from payment transactions	32,848,952.08	34,750
from securities business	29,418,478.14	27,316
from lending business	9,479,698.23	11,997
from other service business	10,084,777.17	10,047
from foreign exchange, foreign notes and coins, precious metals business	108,964.80	57
	81,940,870.42	84,167
Fee and commission expenses		
for payment transactions	-4,928,287.60	-5,055
for securities business	-6,111,328.59	-11,553
for lending business	-10,649,246.36	-11,560
for other service business	-26,355.95	-26
	-21,715,218.50	-28,194
	60,225,651.92	55,973

Income/expenses from financial transactions

	2020 Euro	2019 Euro thousand
Result from financial transactions		
Equity-related transactions	-12,035.37	25
Interest rate-related transactions	258,563.86	370
Foreign exchange business	916,595.92	834
Foreign notes and coins, and precious metals business	1,491,388.93	949
Other financial transactions	137,018.65	-759
	2,791,531.99	1,419

Other operating income breaks down as follows:

	2020 Euro	2019 Euro thousand
Charged-out staff expenses and administrative expenses	65,563,632.82	77,391
Charged-out flotation costs	21,498,598.85	17,901
Charged-out structural cost contributions	0.00	7,485
Income from derivative financial instruments	151,333.61	5,994
Charged-out contributions to Single Resolution Fund (SRF)	5,150,291.08	4,323
Income from the release of provisions	11,313,166.70	3,669
Income from the disposal of assets	1,185,866.65	3,261
Income from letting and leasing	2,449,639.28	2,622
From other transactions	5,854,614.09	3,252
	113,167,143.08	125,898

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

In 2020, impairments of the assets included in asset items 9 and 10 (tangible assets and intangible assets) include impairments effected in relation to land and buildings reported in tangible assets in the amount of euro 625,879.54 million (2019: euro 1.517 thousand).

Pension expenses for commitments for which provisions are recorded amount to euro 837,362.78 (2019: euro 890 thousand) in the business year. Expenditure from allocation of provisions for anniversary bonuses are included in the item Wages and salaries in the amount of euro 196,964.81 (2019: euro 119 thousand).

Other operating expenses break down as follows:

	2020 Euro	2019 Euro thousand
Charged-out expenses	8,778,023.60	10,028
Charged-out contributions to Single Resolution Fund (SRF)	5,150,291.08	4,331
Other expenses	4,704,189.95	5,406
	18,632,504.63	19,765

Charged-out expenses primarily include amounts charged out from joint advertising, as well as costs incurred under regulatory provisions.

Result from valuations and disposals:

	2020 Euro	2019 Euro thousand
Result from valuations and disposals	**-37,207,296.00**	**-4,087**
Impairments on receivables, and allocations to provisions for contingent liabilities and for credit risks	-53,314,911.12	-34,533
Lending business	-52,754,039.67	-34,302
Securities held as current assets	-560,871.45	-231
Income from the reversal of impairments on receivables and from provisions for contingent liabilities and for credit risks	25,276,465.62	31,360
Lending business	25,002,687.32	31,305
Securities held as current assets	273,778.30	55
Balance Item 11 of the income statement	-28,038,445.50	-3,173
Impairments on securities valued as financial assets, as well as on participations and shares in affiliates	-10,341,386.99	-11,510
Non-current securities	-89,190.69	-748
Participations, shares in affiliates	-10,252,196.30	-10,762
Income from impairments on securities valued as financial assets, as well as on participations and shares in affiliates	1,172,536.49	10,596
Non-current securities	1,144,369.29	4,163
Participations, shares in affiliates	28,167.20	6,433
Balance Item 12 of the income statement	-9,168,850.50	-914

In the 2020 business year, no extraordinary income occurred (2019: euro 0 thousand).

Income taxes

Income taxes only relate to the result from ordinary operations. The tax income in the amount of euro 6,614,734.50 (2019: tax expense of euro 4,799 thousand) essentially comprises a tax expense from current corporate income tax in the amount of euro 3,195,691.57 (2019: euro 1,963 thousand), tax income from previous periods of euro 194,498.58 (2019: tax expense of euro 2.222 thousand), tax income from the deferred tax change in the amount of euro 7,550,090.18 (2019: tax expense of euro 705 thousand), as well as corporate income tax income from current offsetting within the Austrian tax group of euro 2,033,983.08 (2019: euro 110 thousand).

Other taxes, unless they must be reported in item 14

Other taxes in the amount of euro 2,153,440.88 (2019: euro 1,919 thousand) essentially include the bank levy incurred in 2020 under the Stability Levy Act (Stabilitätsabgabegesetz) in the amount of euro 1,996,170.86 (2019: euro 1,743 thousand).

Movements of capital reserves and retained earnings in the income statement

In the 2020 financial year, euro 32,763,308.65 (2019: euro 34,578 thousand) were transferred to retained earnings ("other reserves") and unappropriated capital reserves of euro 413,596.37 (2019: euro 422 thousand) were released.

4. Other information

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

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

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

In 2020, the average headcount was 950.92 (2019: 1,087.7), with 951.92 (2019: 1,087.7) white-collar employees and no (2019: 0) blue-collar employees, corresponding to full-time equivalents.

Expenses for severance payments and contributions to employee pension funds include income from severance payments in the amount of euro 93,549.62 (2019: euro 3,884 thousand).

The auditing expenses for the business year are reported in the notes to the consolidated financial statements of VOLKS-BANK WIEN AG.

Return on total capital employed

Pursuant to section 64 (1) (19) Austrian Banking Act as amended by Fed. Law Gazette I 2014/184, the return on total capital employed is 0.22 % (31.12.2019: 0.25 %). Return on total capital employed under the Austrian Banking Act is the quotient of annual result after taxes divided by total assets at the balance sheet date.

Own funds requirements pursuant to Art. 92 (1) lit. a to c of Regulation (EU) No. 575/2013

By assuming the function of central organisation pursuant to section 30a Austrian Banking Act, VBW is subject to the external capital requirements based on the CRD IV and CRR of the European Union (Basel III) at individual bank level.

Pursuant to Art 92 CRR, VBW must meet the following own funds requirements at all times:
a) a CET1 capital ratio of 4.50 %,
b) a Tier 1 capital ratio of 6.00 % and
c) a total capital ratio of 8.00 %.

The total risk exposure amount pursuant to Art. 92 (3) CRR is euro 3,751,313,344.83 (2019: euro 3,994,600 thousand).

The capital ratios are calculated as follows:
a) the CET1 capital ratio derives from the CET1 capital of the bank, expressed as a percentage of the total risk exposure amount; accordingly, the CET1 capital ratio of VBW amounts to 15.24 % (31.12.2019: 13.68 %).
b) the Tier 1 capital ratio derives from the Tier 1 capital of the bank, expressed as a percentage of the total risk exposure amount; accordingly, the Tier 1 capital ratio of VBW amounts to 21.10 % (31.12.2019: 19.19 %), and
c) the total capital ratio derives from the own funds of the bank, expressed as a percentage of the total risk exposure amount; accordingly, the total capital ratio of VBW amounts to 32.27 % (31.12.2019: 29.81 %).

As at 31 December 2020, the eligible own funds of VBW pursuant to Part 2 of Regulation (EU) No. 575/2013 (CRR) amount to euro 1,210,482,222.21 (31.12.2019: euro 1,190,779 thousand) and break down as follows:

	31 Dec 2020 Euro	31 Dec 2019 Euro thousand
Core capital (Tier 1)		
CET1 capital (Common Equity Tier 1)		
Share capital	137,546,531.25	137,546
Participation capital Art. 484, 486 CRR	0.00	6,272
Open reserves	452,159,932.89	391,147
Eligible profit carried forward	3,793,273.09	33,350
	593,499,737.23	568,315
less:		
Deduction items		
Value adjustment (Art. 35 and Art. 105 CRR)	-301,723.88	-561
Intangible assets (Art. 36 (1) lit b CRR)	-1,636,727.64	-2,237
Under Article 3 CRR	-18,892,000.00	-18,892
Cross-shareholdings	-982,026.45	0
	-21,812,477.97	-21,690
CET1 capital	571,687,259.26	546,625
Additional Tier 1 capital	220,000,000.00	220,000
Supplementary capital (Tier 2)		
Supplementary capital	408,600,000.00	418,507
General credit risk adjustment (hidden reserves section 57 (1) Austrian Banking Act)	17,870,754.88	17,871
	426,470,754.88	436,378
less:		
Correction for ineligible equity	-7,675,791.92	-12,224
	-7,675,791.92	-12,224
	418,794,962.96	424,154
Eligible own funds pursuant to Part 2 CRR	1,210,482,222.21	1,190,779

The eligible profit carried forward includes the profit carried forward in the amount of euro 3,379,676.72 (2019: euro 33,034 thousand) and the profit for the financial year in the amount of euro 413,596.37 (2019: euro 422 thousand).

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

The CET1 demand, as determined for the Association of Volksbanks, amounts to 11.41 % 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 %. Any AT1/Tier2 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 %).

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 %).

As at 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.

Disclosures regarding transactions with related parties

Expenses for severance payments and pensions amount to euro 263,023.80 (2019: euro 497 thousand) for both active and former members of the Managing Board. Expenses for severance payments and pensions amount to euro 1,963,313.74 (2019: euro 6,333 thousand).

The total remuneration for the Supervisory Board members active in the business year amount to euro 288,000.00 (2019: euro 290 thousand). The total remuneration of the Managing Board (without incidental wage costs) amounted to euro 1,686,000.52 (2019: euro 1,578 thousand). The total remuneration of former Managing Board members and their surviving dependants amounted to euro 381,031.31 (2019: euro 470 thousand) in the business year.

As at 31 December 2020, there are no loans to members of the Managing Board (2019: euro 0 thousand).

As at 31 December 2020, the loans granted to members of the Supervisory Board amount to euro 363,160.88 (2019: euro 377 thousand). In the 2020 business year, euro 32,103.65 (2019: euro 23 thousand) were repaid.

All transactions with related parties were carried out on arm's length terms exclusively in the business year.

Significant events after the balance sheet date

After the close of the business year, no events of particular importance have occurred that have any significant effect on the present annual financial statements.

Appropriation of net income

The recommendation is for the net profit for the financial year of euro 3,793,273.09 to be carried forward to the new account.

Boards

Managing Board:

Gerald Fleischmann
Chairman of the Managing Board

Rainer Borns
Deputy Chairman of the Managing Board

Thomas Uher
Deputy Chairman of the Managing Board

Supervisory Board:

Heribert Donnerbauer
Donnerbauer & Hübner Rechtsanwälte GmbH
Chairman

Franz Gartner
Municipality of Traiskirchen
1st Deputy Chairman

Robert Oelinger
Certified public accountant/tax consultant
2nd Deputy Chairman

Susanne Althaler
Member

Anton Fuchs
Member

Helmut Hegen
HOSP, HEGEN partnership of lawyers
Member

Eva Schütz
Law firm of Hieblinger-Schütz
Member

Christian Lind
Member

Harald Nograsek
Member

Monika Wildner
Self-employed attorney-at-law
Member

Works Council delegates:

Christian Rudorfer
Chairman of the Works council from 25 November 2020

Hermann Ehinger
Elisabeth Sölkner from 25 November 2020
Bettina Wicha from 25 November 2020
Manfred Worschischek
Andrea Mayer until 24 November 2020
Rainer Obermayer until 24 November 2020
Michaela Pokorny until 24 November 2020

State Commissioners:

Christian Friessnegg
State commissioner

Katharina Hafner
Deputy state commissioner

The Managing Board

Vienna, 24 February 2021

Gerald Fleischmann
Chairman of the Managing Board

Rainer Borns
Deputy Chairman of the Managing Board

Thomas Uher
Deputy Chairman of the Managing Board

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

Movement in non-current assets 2020
(section 226 (1) Austrian Business Code (UGB) in conjunction with section 43 (1) Austrian Banking Act (BWG); all figures are in euro)

Non-current assets		ACQUISITION 1 January 2020	Additions	Disposals	Transfers and currency conversions	31 December 2020
Securities						
2.	Debt instruments issued by public bodies and similar securities	843,347,597.36	54,634,650.12	57,772,113.04	19,064,557.86	859,274,692.30
3.	Loans and advances to credit institutions (securities)	6,588,553.54	4,021,640.00	952,127.18	-4,021,323.86	5,636,742.50
4.	Loans and advances to customers (securities))	19,884,934.77	1,947,159.55	0.00	-0.01	21,832,094.31
5.	Bonds and other fixed-income securities	955,149,890.39	141,320,975.42	81,937,520.80	-15,543,566.42	998,989,778.59
6.	Shares and other variable-yield securities	35,526,828.57	0.00	2,665,856.72	0.00	32,860,971.85
Total		**1,860,497,804.63**	**201,924,425.09**	**143,327,617.74**	**-500,332.43**	**1,918,594,279.55**
Participations						
7.	Participations	200,310,013.63	502,990.74	302,670.40	0.00	200,510,333.97
Total		**200,310,013.63**	**502,990.74**	**302,670.40**	**0.00**	**200,510,333.97**
Investments in affiliates						
8.	Investments in affiliates	179,867,205.02	489,021.85	0.00	0.00	180,356,226.87
Total		**179,867,205.02**	**489,021.85**	**0.00**	**0.00**	**180,356,226.87**
Intangible fixed assets						
9.	Intangible fixed assets	32,648,042.47	0.00	22,273,191.99	0.00	10,374,850.48
10.	Fixed assets	175,612,708.14	3,513,098.11	21,163,285.24	0.00	157,962,521.01
Total		**208,260,750.61**	**3,513,098.11**	**43,436,477.23**	**0.00**	**168,337,371.49**
Total		**2,448,935,773.89**	**206,429,535.79**	**187,066,765.37**	**-500,332.43**	**2,467,798,211.88**

DEPRECIATION					CARRYING AMOUNT	
Cumulated depreciation 1 January 2020	Depreciation in fiscal year	Appreciation	Disposals	Cumulated depreciation 31 December 2020	31 December 2020	2019 thousand Euro
4,668,241.24	0.00	0.00	3,689,859.37	978,381.87	858,296,310.43	838,679
0.00	0.00	0.00	0.00	0.00	5,636,742.50	6,589
0.00	0.00	0.00	0.00	0.00	21,832,094.31	19,885
509,964.51	0.00	0.00	482,700.00	27,264.51	998,962,514.08	954,640
5,031,705.63	89,048.12	1,135,363.53	2,253,801.75	1,731,588.47	31,129,383.38	30,495
10,209,911.38	**89,048.12**	**1,135,363.53**	**6,426,361.12**	**2,737,234.85**	**1,915,857,044.70**	**1,850,288**
132,800,932.34	2,281,702.00	0.00	276,833.12	134,805,801.22	65,704,532.75	67,509
132,800,932.34	**2,281,702.00**	**0.00**	**276,833.12**	**134,805,801.22**	**65,704,532.75**	**67,509**
152,551,571.49	7,995,919.77	0.00	0.00	160,547,491.26	19,808,735.61	27,316
152,551,571.49	**7,995,919.77**	**0.00**	**0.00**	**160,547,491.26**	**19,808,735.61**	**27,316**
30,410,636.69	600,678.14	0.00	22,273,191.99	8,738,122.84	1,636,727.64	2,237
109,039,568.19	6,248,062.51	0.00	15,544,403.69	99,743,227.01	58,219,294.00	66,573
139,450,204.88	**6,848,740.65**	**0.00**	**37,817,595.68**	**108,481,349.85**	**59,856,021.64**	**68,811**
435,012,620.09	17,215,410.54	1,135,363.53	44,520,789.92	406,571,877.18	2,061,226,334.70	2,013,923

MANAGEMENT REPORT

MANAGEMENT REPORT

1 Report on the business development and economic situation

1.1 Business development

1.1.1 Business development

In the 2020 financial year, the business development at VOLKSBANK WIEN AG (VBW) 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 31.12.2020, a total of approx. 3,920 financing solutions of some 2,750 customers were aligned with the customers' resources within the scope of COVID-19 measures; deferment measures were agreed for 3,080 accounts, while in approx. 840 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, VBW 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 fact that the negative measurement balance from allocations and reversals of impairments and provisions for the lending business and from securities serving as a liquidity reserve in the amount of euro 3.1 million in the previous year increased to euro 28.0 million in the past business year.

In operational terms, 2020 was a successful financial year for VBW. During the pandemic, VBW 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 business, which improved by euro 2.1 million in the reporting period compared to the previous year's period.

In these challenging times, the protection of the employees of VBW was particularly important. This resulted, among other things, in increased expenses for mouth-nose protection masks, Plexiglas panels, disinfectants and disinfection stands, special cleaning, etc., but also investments in digital equipment. On the other hand, reductions in travel expenses, events, promotional activities, facility 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 deposit guarantee scheme will result in an additional burden for VBW of approximately euro 11 million over the next five years. In the 2020 financial year, this resulted in additional expenditure of some euro 2.9 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 annual surplus of VBW decreased by euro 1.8 million year-on-year to euro 32.8 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.

1.1.2 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, 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, WIFO calculated a seasonally and working-day adjusted growth rate of -7.4 % in its initial 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 December. 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 % in November and 11 % in December. 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 billion, 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 credit 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 1.05 CHF/EUR rate.

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.

1.1.3 Explanatory notes regarding the income statement

Net interest income in the business year amounts to euro 80.4 million (2019: euro 96.5 million). Interest income and similar income in the amount of euro 127.2 million (2019: euro 139.7 million) include interest on loans and receivables to customers and deposits bearing negative interest rates amounting to euro 101.4 million (2019: euro 106.2 million), interest on loans and receivables to credit institutions and negative interest on amounts owed to credit institutions in the amount of euro 14.7 million (2019: euro 13.6 million), fees and commissions equivalent to interest in the amount of euro 4.0 million (2019: euro 6.9 million), interest on bonds and other fixed-income securities in the amount of euro 3.2 million (2019: euro 6.5 million), and interest on other assets in the amount of euro 3.9 million (2019: euro 6.6 million). Interest income from other assets consists of interest payments from interest rate swaps and cross-currency swaps to hedge receivables and liabilities in euro and foreign currencies.

By comparison with the previous year, interest and similar expenses increased from euro 43.3 million by euro 3.5 million to euro 46.8 million. Interest on amounts owed to credit institutions and negative interest on loans and receivables to credit institutions amounting to euro 9.2 million (2019: euro 10.7 million) and on amounts owed to customers in the amount of euro 3.4 million (2019: euro 3.9 million) have decreased primarily due to declining interest rate levels by comparison with the previous year. The interest expenditure for securitised debts in the amount of euro 30.6 million (2019: euro 28.8 million) is mainly composed of interest on the AT1 issue in April 2019 and interest on supplementary capital. The impairment of loans and receivables to customers due to market-induced contract adjustments had to be recognised for the first time in the 2020 financial year due to new accounting requirements, increasing interest expenses by euro 3.6 million.

Income from equities, other share rights and variable-yield securities amounted to euro 0.0 million in the business year (2019: euro 0.4 million). Income from participations remained constant at euro 1.1 million compared to the previous year (2019: euro 1.2 million). Income from shares in affiliates increased to euro 30.1 million (2019: euro 1.5 million). This is primarily due to a profit distribution of 3V-Immobilien Errichtung-GmbH in the amount of euro 28.9 million, which was recognised in the balance sheet in the same period.

By comparison with the previous year, net fee and commission income increased from euro 56.0 million to euro 60.2 million. Fee and commission income amounts to euro 81.9 million (2019: euro 84.2 million). The income from payment transactions of euro 32.8 million (2019: euro 34.8 million) and from lending business in the amount of euro 9.5 million (2019: euro 12.0 million) has decreased. In contrast, income from securities business increased from euro 27.3 million in the previous year to euro 29.4 million. In the service business, income has remained more or less constant at euro 10.1 million (2019: euro 10.0 million).

Fee and commission expenses amount to euro 21.7 million (2019: euro 28.2 million). The major part of the decrease against the previous year is due to lower commissions in securities business in the amount of euro 6.1 million (2019: euro 11.5 million). In the previous year, fee and commission expenses of euro 5.2 million were incurred in connection with the issuance of covered bonds and an AT1 issue. No issuing costs were incurred in the past financial year.

Fee and commission expenses in lending business (euro 10.6 million) decreased against the previous year (euro 11.6 million). In payment transactions, fee and commission expenses remained more or less constant at euro 4.9 million (2019: euro 5.1 million).

By comparison with the previous year, the result from financial transactions increased from euro 1.4 million to euro 2.8 million. Apart from the valuation result from interest-rate derivatives amounting to euro 0.1 million (2019: -0.8 million), the valuation result from precious metals (euro 1.5 million) also improved by comparison with the previous year (2019: euro 0.9 million).

Other operating income decreased against the previous year by euro 12.7 million, mainly consisting of expenses of VBW, in its capacity as central organisation of the Association of Volksbanks, that were charged out to the banks of the Association. Income from amounts charged out by the central organisation decreased in the financial year mainly due to a profit distribution – attributable to the central organisation – accounted for in the same period, reduced by the distribution-related depreciation of the shares in this affiliated company. In the previous year, the premature termination of an interest rate swap had a positive effect on the result in the amount of euro 6.0 million. The income from the release of provisions in the amount of euro 11.3 million (2019: euro 3.7 million) includes the release of provisions for interest-rate derivatives in the amount of euro 4.1 million (2019: euro 0.1 million). A breakdown of other operating income is presented in the notes under item "3 Explanatory notes regarding the income statement".

The general administrative expenses in the amount of euro 196.8 million essentially include staff expenses and other administrative expenses and decreased by euro 13.1 million in the business year compared to the previous year.

The transfer of employees to two subsidiaries at the end of 2019 to take over operational services across the Association and additional staff reduction measures led to lower staff expenses. Overall, these decreased by euro 12 million from euro 105.8 million in the previous year to euro 93.8 million.

At euro 103.0 million, other administrative expenses were down slightly on the previous year's figure of euro 104.1 million. Lower legal, auditing and consultancy expenses of euro 13.4 million (2019: euro 20.4 million) and rental and leasing expenses of euro 5.6 million (2019: euro 9.1 million) had a positive effect on administrative expenses. On the other hand, higher cost transfers from Group companies for the provision of services to VBW and the euro 2.9 million increase in contributions to the deposit guarantee fund compared to the previous year had the effect of increasing expenses. At euro 38.5 million, the largest position in administrative expenses in the business year is accounted for by data processing expenses (2019: euro 36.2 million), followed by general administrative expenses of euro 24.6 million (2019: euro 13.0 million) and legal, auditing and consultancy expenses of euro 13.4 million (2019: euro 20.4 million).

The year-on-year decline in other operating expenses by euro 1.2 million to euro 18.6 million is due in particular to lower expenses for fund liabilities and lower provisions for negative fair values of derivatives. The major part of other operating expenses, at euro 13.9 million (2019: euro 14.4 million), is accounted for by expenses charged out to the members of the Association of Volksbanks. These expenses mainly include amounts charged out from costs for joint advertising and regulatory costs.

Impairments on the assets included in items 9 and 10 include scheduled depreciations of tangible assets and amount to euro 6.8 million (2018: euro 7.8 million) in the business year, including unscheduled depreciations of tangible assets and the immediate depreciation of low-value assets. Unscheduled depreciations in the amount of euro 0.6 million essentially concern impairments of real property.

Due to the effects on earnings described above, the operating result increased significantly from euro 45.4 million to euro 65.5 million.

The result from valuations and disposals shows a negative balance of euro -37.2 million (2019: euro -4.1 million) for the business year, which primarily results from increased risk provisions following the economic effects of the COVID-19 pandemic.

The negative measurement balance from allocations and releases for impairments and provisions for the lending business and from securities serving as liquidity reserve amounts to euro -28.0 million (2019: euro -3.1 million).

In the past financial year, impairments on participations and shares in affiliates in the amount of euro 10.3 million were required. In particular, the distribution-related impairment of shares in one affiliated company in the amount of euro 7.5 million had a negative impact. In the previous year, impairments on participations and shares in affiliates in the amount of euro 10.8 million were effected. Reversals of impairments on investments and shares in affiliates increased the result from valuations and disposals by euro 6.4 million in the previous year.

For further details and a breakdown, please refer to the breakdown of the result from valuations and disposals in the notes to the annual financial statements.

The composition and development of income tax expenses and of expenses from other taxes are shown in the Notes in item "3. Explanatory notes concerning the income statement".

1.1.4 Explanatory notes on the balance sheet and own funds

Total assets increased by approx. euro 1.5 billion to approx. euro 15.0 billion compared to the previous year. This is essentially due to the refinancing effected within the scope of the TLTRO III programme of the European Central Bank in the amount of euro 1.5 billion.

Loans and receivables to credit institutions primarily include the refinancing volume of the banks of the Association and decreased by euro 0.2 billion to euro 2.3 billion compared to the previous year.

In the course of the business year, loans and receivables to customers decreased moderately by euro 0.2 billion to euro 5.4 billion, primarily due to COVID-19-related declines in overdraft facility utilisation.

Debt instruments issued by public authorities exclusively consist of securities denominated in euro and amount to euro 0.9 billion (2019: euro 0.9 billion) at the end of the business year.

Other assets amounted to euro 198.0 million (2019: euro 408.4 million) at the end of the year, and accordingly have decreased by euro 210.4 million against the previous year. This position mostly includes the positive fair values and deferred interest from interest hedging transactions in the trading book (interest rate swaps) in the amount of euro 124.1 million (2019: euro 356.1 million). The netting of "internal derivatives" led to a decrease in other receivables and liabilities. A breakdown of other assets is shown in the Notes in item "2.1 Explanatory notes on assets".

For the major part, amounts owed to customers consist of overnight deposits denominated in euro, recording an increase from euro 6.5 billion to euro 6.8 billion in the course of business.

Amounts owed to credit institutions increased from euro 2.8 billion to euro 4.2 billion, mainly due to participation in the European Central Bank's TLTRO III programme in the amount of euro 1.5 billion. Except for the TLTRO III programme, amounts owed to credit institutions can be allocated to the banks of the Association for the major part.

Securitised debts include covered bond issues in the amount of euro 2.5 billion. At the end of the business year, securitised debts amount to euro 2.6 billion and have slightly increased compared to the previous year (2019: euro 2.5 billion).

Other liabilities in the amount of euro 160.5 million (2019: euro 434.3 million) primarily consist of negative fair values and deferred interest from interest rate hedging transactions (interest rate swaps) in the trading book in the amount of euro 127.3 million (2019: euro 366.5 million). The netting of "internal derivatives" led to a decrease in other receivables and liabilities. A breakdown of other liabilities is shown in the Notes in item "2.2 Explanatory notes on liabilities".

The repurchase and simultaneous derecognition ("confusion") of self-issued PS capital in the nominal amount of euro 9.9 million was effected in December 2020, which reduced the supplementary capital in accordance with Part 2, Title I, Chapter 4 of Regulation (EU) No 575/2013.

Retained earnings (other reserves) increased by euro 30.0 million due to the resolution on the appropriation of profits adopted at the Annual General Meeting in the 2020 financial year and due to the allocation of the annual surplus for the past financial year (2020) in the amount of euro 32.8 million, which was effected in the course of preparing the balance sheet. In addition, the portion of the purchase price for the repurchase of self-issued PS capital (see above) in the amount of euro 0.5 million above the historical issue price was offset against retained earnings (other reserves). This led to a total increase in retained earnings of euro 62.3 million, from euro 109.1 million to euro 171.4 million.

Pursuant to Art 92 CRR, VBW must meet the following own funds requirements at all times:
a) a CET1 capital ratio of 4.5 %,
b) a Tier 1 capital ratio of 6 % and
c) a total capital ratio of 8.0 %.

The assessment base for own funds requirements is the total risk exposure amount, which is euro 3.8 billion at year end (31.12.2019: euro 4.0 billion). The minimum requirements for VBW in absolute amounts are a CET1 capital of euro 168.8 million, Tier 1 capital of euro 225.1 million, and total capital of euro 300.1 million. The actual CET1 capital ratio amounts to 15.2 %, meaning that the own funds requirements were overaccomplished by euro 402.9 million at the reporting date. The Tier 1 capital ratio amounts to 21.1 % and was overaccomplished by euro 566.6 million. The total capital ratio is 32.3 %. Accordingly, at the reporting date, the statutory own funds requirements were overaccomplished by euro 910.4 million.

1.2 Report on branch establishments

VBW does not have any branch establishments.

1.3 Financial performance indicators

VBW's own funds under banking law amount to euro 1,210.5 million as at 31 December 2020 (31.12.2019: euro 1,190.8 million). At the end of 2020, the risk-weighted assets amounted to euro 3.8 billion, having decreased compared to the end of 2019 (euro 4.0 billion) by euro 0.2 billion.

Available own funds exceed the regulatory requirement by euro 910.4 million.
- The CET1 capital ratio in relation to total risk amounts to 15.2 % (31.12.2019: 13.7 %).
- The Tier 1 capital ratio in relation to total risk amounts to 21.1 % (31.12.2019: 19.2 %).
- The total capital ratio is 32.3 % (31.12.2019: 29.8 %)

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

In the reporting year, the loan-to-deposit ratio I amounts to 297.2 % (2019: 280.3 %). The loan-to-deposit ratio I is calculated as the quotient between loans and receivables to customers and savings deposits.

In the reporting year, the loan-to-deposit ratio II amounts to 57.7 % (2019: 61.7 %). The loan-to-deposit ratio II is calculated as the quotient between loans and receivables to customers and the sum of amounts owed to customers and securitised debts.

In the business year, the commission margin amounts to 0.4 % (2019: 0.4 %). The commission margin is calculated as the quotient between the balance of fee and commission income and fee and commission expenses, and total assets.

In the business year, the operating income margin amounts to 1.9 % (2019: 2.1 %). The operating income margin is calculated as the quotient between operating income and total assets.

In the business year, the operating expenses margin amounts to 1.5 % (2019: 1.8 %). The operating expenses margin is calculated as the quotient between operating expenses and total assets.

1.4 Sustainability

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

2 Report on the Company's future development and risks

2.1 Economic environment and future development of the Company

2.1.1 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 around 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.

2.1.2 Expected development of the Company

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 relationship 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 credit institutions 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 of Volksbanks 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 work 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 Finance, Controlling, Legal 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 credit institutions in Austria.

In the course of medium-term planning, the Association of Volksbanks 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 (CET1) 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 %, as well as a return on equity (RoE) of more than 8.0 %.

The focus of VBW, as a retail bank, 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 VBW, providing an opportunity to offer faster services to our customers, thus strengthening the customer relationship. It is gratifying to note that VBW now has a very competitive product on the market in the form of the "hausbanking" app.

By forming appropriate risk provisions, VBW 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 to VBW, a positive annual surplus is expected for the 2021 financial year, despite significantly higher planned risk expenditure. From today's perspective, a reduction of available distributable items is not expected in the individual financial statement of VBW.

2.2 Significant risks and uncertainties

Assuming and professionally managing the risks associated with the business activities is a core function of every bank. In its capacity as central organisation (CO) of the association of credit institutions under section 30a Austrian Banking Act, consisting of VBW and the affiliated banks of the Volksbank Sector, Volksbank Wien (VBW) performs this central task for the Association of Volksbanks, so that the latter has in place administrative, accounting and control procedures for the recognition, assessment, management and monitoring of the risks associated with 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 practice guidelines 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, earnings risk, model risk)

2.2.1 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 supervisory 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 with Common Equity Tier 1 capital and at least 75 % with 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.

2.2.2 Risk policy principles

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

2.2.3 Organisation of risk management

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

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

Within the Association of Volksbanks, risks are controlled by three decision-making bodies in VBW: (i) Risk Committee (RICO), (ii) Asset Liability Committee (ALCO), (iii) Credit Committee (CC). The responsibilities of these committees include both subject areas 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 on portfolio level, ensuring that risk policy decisions are in compliance with 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 positions in 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 responsibilities, 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.

2.2.4 Regulatory requirements

The implementation of regulatory requirements at VBW is as follows:

Pillar 1: Minimum capital requirements

Within the scope of Pillar 1, care is taken that the minimum regulatory requirements are met. With respect to both credit risk and market risk, and also for operational risk, the respective regulatory standard approaches for determining the minimum capital requirements are applied.

Pillar 2: Internal Capital & Liquidity Adequacy Assessment

By way of the Internal Capital & Liquidity Adequacy Assessment process, all measures are taken to ensure that all risks arising from current and proposed business activities are counterbalanced by an adequate liquidity and capital base at all times. The detailed design of the Internal Capital & Liquidity Adequacy Assessment process depends on the regulatory requirements and supervisory expectations of the ECB as well as on internal guidelines.

Pillar 3: Disclosure

The requirements of Pillar 3 are met by publishing the qualitative and quantitative disclosure regulations 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/offenlegung*.

2.2.5 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 the regulations for control 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 and the associated working practice guidelines govern the risk management in a binding and uniform manner. The risk strategy is also issued in the form of a General Instruction (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 extremely 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 currently prevailing basic conditions by the risk control 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, that both VBW and all affiliated banks are subject to. The ICAAP starts by identifying the material risks, followed by a risk quantification and aggregation process, 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 preparing 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 general conditions 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 to the internal capital adequacy assessment process published in November 2018. In that respect, the risk-bearing capacity calculation and the internal stress test were enhanced.

Risk inventory

The risk inventory aims to define the materiality of existing and newly assumed banking risks. The risk inventory results are summarised and analysed for VBW. The results of the risk inventory process are used to inform the risk strategy and form a starting point for the risk-bearing capacity calculation, as material risks are taken into account within the risk-bearing capacity calculation.

Risk strategy

The risk strategy of VBW is based on the risk and business strategy of the Association and provides for consistent general conditions and principles for uniform risk management. The risk strategy is reviewed for up-to-dateness and adequacy at least annually and adjusted to the respective current general conditions. It provides the rules for the handling of risks and ensures risk-bearing capacity at all times. The risk strategy is prepared in the course of business planning. Across the Association, the contents of the risk strategy and of business planning are linked up by incorporating the targets of the Risk Appetite Statement in the GI Controlling – Planning and Reporting.

Risk Appetite Statement (RAS) and limit system

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

The risk appetite, i.e. the indicators of the RAS, is derived from the business model, the current risk profile, the risk capacity and the revenue expectations and/or the strategic plan. The limit system broken down by risk subtypes and the RAS provides the framework for the maximum risk that VBW is ready to accept to achieve its strategic targets. The RAS indicators are provided with a target, a trigger and a limit value and are monitored on a current basis, as are the aggregate bank and sub 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 as follows:

- Capital ratios (e.g. CET1 ratio, T1 ratio, TC ratio, RTF)
- Credit risk ratios (e.g. NPL ratio, coverage ratio, net allocation ratio / risk provisions, forbearance ratio)
- Interest rate risk ratios (e.g. OeNB interest rate risk coefficient, PVBP, EBA interest rate risk coefficient)
- Liquidity risk ratios (e.g. LCR, NSFR)
- Ratios relating to operational risk (e.g. OpRisk losses in proportion to CET1, ICS implementation rate)
- Other risk-relevant ratios (e.g. CIR, sector concentrations)

Risk-bearing capacity calculation

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

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

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

The regulatory Pillar 1 perspective compares the total risk exposure amount calculated in accordance with applicable legal provisions with regulatory own funds. Ensuring regulatory risk-bearing capacity is stipulated under the law and constitutes a minimum requirement. The composition of the regulatory total risk position of VBW corresponds to that of any regionally operating retail bank.

The economic perspective contributes to ensuring the continued existence of the bank by foregrounding the economic value during the management of capital resources. The risk-bearing capacity under the economic perspective derives from a comparison of economic risks with internal capital (risk covering potential). Economic risks are risks that may impair the economic value of the bank, and accordingly may impair the adequacy of the capital base under an economic perspective.

During quantification of the economic risks, internal procedures – normally "value at risk" (VaR) – with a confidence level of 99.9 % and a time horizon of one year are resorted to. In doing so, all quantifiable risks are taken into account that were identified as material within the scope of the risk inventory process. Hidden reserves, the annual result achieved in the current business year, as well as own funds available for loss absorption upon continuation of the business activity are recognised as risk covering potentials. The aggregate bank risk limit is set at 95 % of available internal capital. A prerequisite for capital adequacy under an economic perspective is for internal capital to be sufficient to cover the risks and to support the strategy on an ongoing basis.

The normative perspective ensures that the bank is able, throughout a period of several years, to meet its own funds requirements and to cope with other external financial constraints. It represents the risk-bearing capacity on the basis of strategic planning under normal and adverse conditions, essentially comprising a simulation of income statement and own funds positions over three years. In the process, the strategic planning as well as various crisis scenarios are simulated and the development of regulatory own funds ratios calculated taking into account the effects of the relevant scenario. Therefore, the key parameters of the normative perspective are the regulatory own funds ratios CET1, Tier 1 and total capital. The normative perspective was implemented throughout the Association and hence also includes VBW.

Stress testing
For credit, market and liquidity risks, as well as for operational risk, risk-type-specific stress tests and/or 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 or estimated. By way of this approach, huge losses – among others – can be identified and analysed.

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

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

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

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

Recovery and resolution planning
As the Association of Volksbanks was classified as a significant institution in Austria, the Association must prepare a recovery plan and submit the same to the European Central Bank. VBW in its function as the CO of the Association of Volksbanks is

responsible for drawing up the Group Recovery Plan (GRP) for the Association. No separate recovery plan is being prepared for VBW and affiliated institutions. The GRP is updated at least once a year and takes into account changes in business activities as well as changes in 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 VBW, the responsibilities associated with credit risk are taken care of by Credit Risk Management and certain subdivisions of risk control. The departments Credit Risk Management Retail Branches, Credit Risk Management Real Estate & Corporate Financing, Restructuring & Recovery are responsible for operational credit risk management. 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 credits will basically be concluded together with the CO.

Decision-making process

In all units of VBW that generate credit risk, there is a strict separation of sales and risk management. All decisions in individual instances are taken strictly observing the dual-control principle; clear processes have been defined for this purpose. Limit systems play an important role in this context, as they provide a framework for the decision-making powers of the individual units.

Monitoring of exposures and collaterals

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

Limits

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

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

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

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

Intensified credit risk management

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

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

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

Forbearance: Forbearance refers to concessions made by the bank to the borrower in connection with financial difficulties or imminent financial difficulties of the borrower, but which the bank would not grant otherwise. Borrowers 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 a default of performance of more than 90 days exists and/or if complete settlement of the debt is considered unlikely, in accordance with the CRR. The Association of Volksbanks has defined 13 possible types of default event that are used for the consistent classification of default events across the Association. Among others, default identification also builds on the early warning and forbearance processes described above. Additionally, there are 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 and in the course of the second wave of infections that began in early November, strict containment measures were put in place, temporarily reducing economic activity sharply, 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 induced 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 and/or their results also form the basis of portfolio management.

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

Rating systems

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

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

Credit value at risk

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

Concentrations

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

Counterparty default risk

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

Credit risk mitigation

The consideration of collaterals within the scope of the credit risk models for CVaR and in expected loss calculations is primarily effected through the LGD models applied across the Association. The starting point for taking into account collaterals is the respective current market value, fair 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 for the purpose of determining impairments
Various influencing factors, assumptions and methods are used to measure any significant increase of credit risk.

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

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

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

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

All rating systems apply the Volksbank master scale, which consists of 20 rating levels (1A to 4E) plus 5 additional levels (5A to 5E) for defaulted customers. To any rating level, 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. For the purpose of analysing lifetime PD, the portfolio of Volksbank is divided into the following segments:
– SME and Corporate
– Private Customers
– Banks
– Sovereigns

- 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 Private Customers, SME and Corporate, and Other Exposures segments, the bank extracts long-term, representative samples of internal ratings and defaults that cover all material subsegments and rating levels. 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 Banks and Finance, Non-financial Companies and Sovereign segments, 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 economists of the bank's research department and taking into account additional market data, the bank will formulate:

- 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 more optimistic and one more pessimistic outcome of the relevant economic variables.

The prognostic process comprises both the projection 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 extreme shocks to quantify the effects of a massive deterioration of economic conditions and to analyse the necessity of re-calibration of the base case scenario and/or of the other prognostic scenarios.

Consideration of forward-looking information

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

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

Definition of stage transfer and default

A financial asset is considered to be in default (Stage 3) if:

- it is unlikely that the borrower is going to meet its loan obligations in full without recourse to measures such as the liquidation 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 capital adequacy purposes (CRR).

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

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

Further 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 balance sheet 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 portfolio) rating levels, the number of rating category 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.

Measurement of Expected Credit Loss (ECL)

The bank determines ECL on the basis of the individual instrument, regardless of the materiality of the exposure.

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

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

The bank determines the LGD parameters on the basis of the history of the rates of recovery of claims against defaulted customers. For certain portfolios, where the bank does not dispose of sufficient historical default event data, an expert estimate will be effected. 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, commercial real estate, insurance policies, others) taken into account
Banks	– Expert estimates – Regulatory benchmarks set down in the CRR
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 projected for the entire term of the instrument. The maturity coincides with the contractual term. In case of financial instruments such as loan commitments and guarantees, the contractual maturity is determined based on the first day when the bank is entitled to request redemption or to terminate any loan commitment or guarantee. In cases where the contractual term could not be determined (e.g. if the borrower has an unlimited option for extension), the total maturity of the instrument is determined to be 30 years.

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

Defaulted receivables

For defaulted customers (Stage 3), the measurement depends on the significance of the receivable.

For defaulted customers with a total exposure of more than euro 750,000 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 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 carrying amount of the financial instruments and the probability-weighted average present value of the return flows in both scenarios. Discounting is effected using the effective interest rate of the instrument.

For defaulted borrowers not subject to special treatment 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 LGD 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 anyway.

Risk provisions in relation to COVID-19

With regard to the calculation of risk provisions taking into account the economic impact of the COVID-19 pandemic (adaptation of the standard methodology used by the system, use of post-model adjustments), we refer to the disclosures on the calculation of risk provisions/impairments in the Notes to the annual financial statements.

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

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

Stage allocation is always made at the individual customer or individual account level and assumes 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 Stage 2 or Stage 1 allocation of the total portfolio of loans and receivables to customers.

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) were estimated.

The ECL measurement for Stage 3 customers uses current estimates for the fair values of the collaterals. In addition, customers subject to restructuring tend to have lower risk provisions than those subject to debt enforcement. The effects of a transition following the workout of the Bank's restructuring portfolio are also taken into account as part of the sensitivities in the NPL area.

Credit risk reporting

Credit risk reporting takes place monthly with the aim to provide a detailed presentation of the credit risk existing at a certain reporting date and to report the same to the entire Managing Board. Relevant reports are prepared for VBW, its major units and their key areas of business. The information is also included in the credit risk portions 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 up-to-date information was set up in order to continuously track developments and to be able to implement measures promptly.

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. VBW distinguishes the following types of market risk:
- Interest rate risk in the banking book
- Credit spread risk
- Market risk in the trading book
- Foreign exchange risk (open FX positions)

Interest rate risk in the banking book
Interest rate risks emerge primarily through term transformation, which arises from different fixed interest rates between assets and liabilities. Term transformation is a source of income for the bank in the form of a structural contribution.

The interest rate risk in the banking book comprises all interest-bearing transactions reported and not reported in the balance sheet, except for transactions in the trading book. The interest rate risk position associated with the retail business of VBW mainly arises from index-linked loans and variable-interest deposits (in the form of sight and savings deposits), as well as from implicit floors, in both the assets side and the liabilities side retail business. In the loan portfolio, there has been a shift from index-linked positions towards fixed-interest positions for some years now, as increasingly fixed-interest loans are granted within new business. By controlling the growth of fixed-interest volumes, the gradual development of a rolling fixed-interest position over several years is ensured. Other decisive factors are bond positions of the bank's own portfolio, own issues and the interest-rate swaps used to control the interest rate position. Variable-interest retail business is included in interest rate risk modelling by way of replication assumptions, in order to show price sensitivity to interest rate changes (e.g. for sight/savings deposits, current account overdrafts, 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.

The Asset Liability Committee (ALCO) is responsible for controlling the interest rate position of VBW within the scope of risk limits defined by Risk Control and approved by the Managing Board via the risk strategy. The ALCO is convened monthly at the CO or ad hoc as required. Asset Liability Management (ALM), which belongs to Treasury in organisational terms, is responsible for the management of the ALCO. Proposed measures to control the interest rate position are worked out by 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 book VaR based on historical simulations. Period-based interest income 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).

In both perspectives (present value and periodic), positions without fixed interest rates (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 within the balance sheet, replication modelling has a significant impact on the measurement of interest rate risk, in particular present value interest rate risk measurement.

Concentration risk
No concentration risks exist within interest rate risk.

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

Risk measurement is mainly effected via credit spread VaR and sensitivity to 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 and a holding period of one year. In the process, the portfolio is divided into 25 risk clusters, depending on credit rating, branch of industry, type of product and seniority. The VaR is included in the ICAAP as part of the risk-bearing capacity calculation.

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.

Market risk in the trading book

The market risk in the trading book of VBW is of subordinate importance. The trading book is kept centrally at the CO. The 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 Treasury and Risk Control and monthly within the ALCO.

The trading book risk is relatively low and mainly arises from euro interest rate positions. The regulatory own funds requirements of the trading book are calculated by means of the standard approach – the Association of Volksbanks, and accordingly VBW, does not use any internal model for market risk in the trading book.

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

Foreign exchange risk (open FX positions)

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

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 VBW consists of customer deposits, which have proven to be a stable source of funding in the past. Obviously, this is responsible for the major part of liquidity risk. The capital market provides VBW with additional opportunities for refinancing through securities issues, mainly covered bonds.

Both operational, short-term liquidity management and medium- to long-term liquidity management are performed in a centralised manner at VBW for the Association, in the Treasury division, through the Liquidity Management department. The monitoring and limitation of liquidity risk across the Association, as well as the methodological requirements regarding risk measurement are performed or stipulated by the Market and Liquidity Risk Control department at VBW.

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

Within liquidity risk, VBW distinguishes between illiquidity risk and funding risk. Illiquidity risk is the risk to be unable to settle payment obligations when they are due. For VBW as a retail bank, illiquidity risk typically consists in the risk of a bank run. This occurs when, due to a loss of confidence, customers withdraw large deposit volumes and at the same time alternative funding sources are not accessible (any more). Illiquidity risk is managed by holding a sufficient liquidity buffer. VBW is responsible for the central management of the liquidity buffer for the whole of the Association. The liquidity buffer mainly consists of highly liquid bonds that are LCR-eligible for the major part, of deposits with the national bank, of ECB tender potential, and covered bond issue potential. The liquidity of the liquidity buffer is tested regularly. The Liquidity Management department within the Treasury division is responsible for the current management of the liquidity buffer within the Association. At VBW, funding risk is defined as a negative income statement effect that occurs due to potential future increases of refinancing costs on the money and capital markets as well as in the retail sphere. This risk is taken into account in the risk-bearing capacity calculation within the scope of the ICAAP. Due to the funding structure at VBW, this risk is relatively low, as the company is hardly dependent on the capital market, and little price sensitivity is observed in the sphere of customer deposits.

The 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 transactions of a bank. Currently, calculation takes place weekly and on the last day of each quarter in the Market and Liquidity Risk Control department for VBW. The survival period is the period during which, under a given stress scenario, the liquidity buffer held is sufficient to cover cumulated net liquidity outflows. Currently, five stress scenarios of varying degrees of severity are calculated. The scenario assumptions include a crisis of the Volksbank sector, a national banking crisis and pan-European stressed market conditions. The least favourable of the scenarios calculated is applied to the survival period. The survival period is calculated at the level of the Association, not the individual bank.

The funding risk is measured by way of a scenario analysis that takes into account the effect on funding costs, considering general planning uncertainties and adverse idiosyncratic conditions. These calculations provide input to the ICAAP as well as stress testing activities across the Association.

Concentration risk

Due to diversified funding through customer deposits, concentration risk is not material. The only risk clusters exist at customer level. Accordingly, the largest deposits at customer level are monitored both in Risk Control and also within operational liquidity management. Generally, they amount to less than 1 % of total assets. There are only a few temporary exceptions with a few major accounts for implementing payment transactions or balancing liquidity peaks. These deposits are regularly monitored and reported on within the scope of liquidity risk management.

Operational liquidity management

The Liquidity Management department in the Treasury division is responsible for operational liquidity management. The department is the central unit at VBW and within the Association of Volksbanks for matters regarding the pricing of liquidity (transfer pricing), the central management of collaterals across the Association, the determination of the funding structure, the disposition of available liquid funds, and compliance with the refinancing strategy; it takes care of the following essential duties:

- Cash management (settlement of all transactions of the Association as well as disposition of the banking connections maintained by VBW)
- Collateral management: ECB-eligible collateral of the association (bonds and credit claims)
- Issue planning
- Daily liquidity projection 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/affiliated banks and ALCO reports
- Monitoring of Asset Encumbrance Ratio

e) Operational risk

VBW defines operational risk as the risk of losses due to the inadequacy or failure of internal procedures (processes), people, systems or to external events, and the associated legal risks. The reputational, conduct, model, IT and security risks are closely associated with operational risk and are actively taken into account. The calculation of regulatory capital adequacy requirements is effected using the standard approach. An internal method based on loss data and scenarios is used for the economic perspective.

Organisation

Within VBW, line management is responsible for the management of operational risks (OpRisk Management). It is supported in this function by central and decentral experts in 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. Moreover, close cooperation with the organisational units "compliance", "internal audit" and "security & outsourcing-governance" enable an optimal, 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 instance – the execution of risk analyses, the performance of stress tests at the level of the Association, the determination and monitoring of risk appetite and of the risk indicators, as well as the preparation of the operational risk event database. Qualitative control measures are reflected in the implementation of training events, awareness building measures, risk analyses, the preparation of the operational risk event database incl. analysis of causes, the implementation of uniform ICS checks, as well as in risk reporting.

If the key indicators defined for operational risk are exceeded, the defined escalation process is applied. This process provides for a detailed analysis of causes and subsequently initiation of adequate measures.

The following principles, derived from the risk strategy of the Association of Volksbanks, apply in OpRisk Management at VBW:

- The primary aim of the entire OpRisk Management system is to optimise processes to decrease the likelihood of operational risk events occurring and/or the impact of operational losses.
- Operational risk events are documented fully and in a sufficiently transparent manner via an electronic platform to enable third-party experts to benefit from the documentation. Operational risk events are recorded in a uniform manner across the Association. The resulting transparency with respect to the occurrence of operational risk events 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 instance, awareness-building measures/training events, the monitoring of the OpRisk indicators, maintaining the confidentiality, availability and integrity of customer and corporate data, as well as business continuity planning, but also – in particular – the adequate separation of responsibilities, as well as observance of the dual-control principle. Operational (residual) risks that cannot be avoided, reduced or transferred must be accepted formally and demonstrably by the management.
- The efficiency of OpRisk Management is confirmed through periodic and independent internal audits.

Internal control system

Within VBW, an internal control system (ICS) has been put in place according to the principles of the internationally recognised standards of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Detailed descriptions of ICS processes and control measures are available. The responsibilities and roles relating to the ICS are clearly defined. Regular reporting takes place for the ICS. Control activities are documented and reviewed, ICS-relevant risks are regularly evaluated and adjusted. Accordingly, a continuous optimisation process is ensured. Internal Audit, in its capacity as independent supervisory body, audits the ICS. Both the effectiveness and adequacy of the ICS, as well as compliance with instructions are audited. The OpRisk and ICS framework describes the 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, VBW faces strategic risk, equity risk, direct real estate risk, model risk and earnings risk.

Strategic risk is the risk of negative effects on capital and earnings due to business policy decisions or insufficient adjustment to changes of the economic environment.

VBW defines equity risk as the risk of an instable composition of internal equity in relation to the bank's type and size, or difficulties in quickly raising additional internal capital if needed.

The direct real estate risk describes the risk of negative value changes in the real estate portfolio (real estate in the company's own balance sheet or in the balance sheet of any subsidiary).

The earnings risk is the risk arising from the volatility of earnings and hence the risk of no longer being able to (fully) cover 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.

Investment risk is defined by the bank as the risk that any participation held is lost or impaired. As this risk is material for the Bank, it is quantified and taken into account in the risk-bearing capacity calculation. For this purpose, investment risk is divided into the following types:

- Risk of loss of participations
- Risk of impairment of participations
- FX risk from participations

The risk of loss of participations is calculated using the credit value-at-risk model and reported within the scope of credit risk reporting as well as taken into account in the UGB-compliant financial statements, with not only participations in the classic sense being considered within this type of risk, but also loans to such participations that meet the definition of IAS 24 Related Parties.

The risk of impairment of participations is accounted for by way of discounts from the carrying amounts of the participations in the risk-bearing capacity calculation.

The FX risk from participations describes the risk of value changes of consolidated core capital components in currencies other than the euro, due to exchange rate fluctuations, and is calculated by means of value-at-risk via the internal market risk model.

As at 31 December 2020, the volume of participations at acquisition values amounts to euro 380,9 million (2019: euro 380.2 million), of which euro 180.4 million (2019: euro 179.9 million) from affiliates and euro 200.5 million (2019: euro 200.3 million) from participations. The participations and shares in affiliates are primarily attributable to the financial service sector. As at 31 December 2020, cumulated impairments of shares in affiliates amount to euro 160.6 million (2019: euro 152.6 million) and to euro 134.8 million (2019: euro 132.8 million) for participations. Impairments of participations and affiliates were effected in the amount of euro 10.3 million (2019: euro 10.8 million) in 2020. In the business year, no reversals of impairments were effected (2019: euro 6.4 million).

Due to the persistently challenging economic development, especially also in banking, there is a risk of decreasing profits and distributions from participations. In future, this may lead to lower fair values.

Non-standard risks and/or non-financial risks (conduct risks, compliance risks, legal risks, model risks, as well as IT and system risks) are taken into account, among others, in the compliance framework and the framework for operational risks, and in the outsourcing framework.

Organisational and process-based measures, in particular, have been implemented to manage other risks.

2.3 Use of financial instruments

At VBW, interest rate- and currency-related as well as other derivative financial instruments are used. As regards the volumes (schedule of derivatives) and information on financial instruments pursuant to section 238 Austrian Business Code, please refer to the Notes ("Additional disclosures") of the annual financial statements as at 31 December 2020. In the banking book, financial instruments are primarily used for hedging purposes, i.e. to hedge liquidity, foreign currency and interest rate risks.

The regulations of AFRAC statement "Derivatives and hedging instruments (Austrian Business Code)" of December 2020, on the accounting of derivatives and hedging instruments, are applied. Other risks and imminent losses from derivative financial instruments that have arisen in the 2020 business year were taken into account in the amount of the negative fair values through allocation to provisions. Effectivity measurements are performed for valuation units on a current basis. Appropriate risk provisions are set up for negative fair values from ineffective valuation units as well as for the ineffective portion of effective hedging relationships (negative market backlog of the derivative).

In the trading book, financial instruments are used for the purpose of controlling customer cash flows, and to capitalise on existing or expected differences between purchase and selling prices or market price fluctuations in the short term. Compliance with the limits, both in the trading book and in the banking book, is permanently monitored by a separate market risk department and is regulated in the market risk policy. For the purpose of market risk control in the trading book, backtesting calculations are performed to check the plausibility and reliability of risk indicators through reverse comparisons (backtesting) on a daily basis.

The counterparty risk for positive fair values from unsecured interest rate management derivatives of the trading book is taken into account by way of credit value adjustments (CVA) – as approximation function of the potential future loss associated with counterparty default risk. The CVA charge (adjustment of credit valuation) is the adjustment of a portfolio of transactions with a counterparty at the mean fair value. Said adjustment reflects the fair value of the counterparty's credit risk in relation to the bank, but not the fair value of the bank's credit risk in relation to the counterparty. For all unlisted derivatives of the trading book, the calculation is effected with respect to all business activities of a bank (incl. securities financing transactions, if the regulatory authority finds any significant CVA risk in this respect).

3 Report on research and development

VBW is not involved in any research and development activities.

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

The aim of the internal control system is to support the management in such a way that it is able to ensure effective internal controls with respect to accounting. The Managing Board is responsible for establishing and designing a suitable internal control and risk management system for the accounting process.

At VBW, an internal control system (ICS) has been installed according to the internationally recognised COSO standard. Detailed descriptions of ICS processes and control measures are available. The responsibilities and roles relating to the ICS are clearly defined. Regular reporting takes place for the ICS. Control activities are documented and reviewed, ICS-relevant risks are regularly evaluated and adjusted. Accordingly, a continuous optimisation process is ensured. Internal Audit verifies compliance with internal regulations independently and regularly, also in the sphere of accounting. As a staff function, Internal Audit is allocated to the Managing Board, and the head of the Internal Audit unit directly reports to the entire Managing Board and also to the Supervisory Board on a quarterly basis.

4.1 Control environment

Observance of all relevant legal provisions is the ultimate ambition of VBW within the scope of financial reporting. The Managing Board is responsible for establishing and organising an appropriate internal control and risk management system with respect to the accounting process and provides a framework for implementation applicable to the entire group in the ICS group policy. Within VBW, responsibility for implementation lies with the OPRISK and Risk Governance group. For entries in the general ledger, observance of the dual-control principle is applied. The employee posting the entry is electronically documented in the general ledger accounting system. Electronic accounting documents are released according to the dual-control principle within the system.

4.2 Risk assessment

Risks relating to the accounting process are ascertained and monitored by process managers to ensure, in particular, complete and accurate recording of all transactions, timely transfer of invoices and correct calculation and timely payment of taxes. In the process, the focus is on risks that are to be considered significant.

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 to the following items and facts of the financial statements in particular: the recoverability of financial assets, banking risks, social capital, as well as the outcome of legal disputes. In some cases, publicly available sources will be used or external experts will be consulted in order to minimise the risk of inaccurate estimates.

4.3 Control measures

Control measures are applied within the current business process to ensure that potential errors are prevented and/or deviations in financial reporting are revealed and corrected. These control measures range from a review of the various results for the period by the management to reconciliation of specific accounts and items and analysis of ongoing accounting processes. A distinction is made between two types of control in the internal control system.

Operational controls include manual controls performed by employees according to specific tasks, automatic controls carried out by means of IT systems, preventive controls aimed at avoiding errors and risks in advance through separation of functions, competence rules and access authorisations.

Management controls serve to ensure, on a random sample basis, that operational controls are observed by executives. An internal control plan has been prepared in which the relevant manager (division manager, department manager, group manager) has determined how frequently checks are to be performed, depending on the level of risk. The spot checks must be documented in the control plan in a way that is verifiable by third parties. The results are reported to the immediate line manager at half-yearly intervals (management reporting).

The entire control documentation (operational controls and management controls) is effected by means of the BART software.

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

4.4 Information and communication

Guidelines and regulations regarding financial reporting are regularly updated by the heads of departments and divisions and communicated to all employees concerned.

Employees in accounting are also provided with ongoing training on accounting reforms, so that risks of unintentional false reporting can be identified at an early stage.

A management report, which is prepared at least quarterly, contains information on the completeness, transparency, active implementation and effectiveness of the control system with regard to the accounting process.

4.5 Monitoring

The Managing Board regularly receives summary financial reports, such as monthly and quarterly reports on the development of the respective segments and the most important financial performance indicators. Financial statements that must be published are subjected to a final check by executive employees within accounting, divisional management and the Managing Board before they are forwarded to the competent bodies.

The results of monitoring activities in relation to accounting processes are reported within the management report. The report includes a qualitative risk assessment of the processes. Moreover, the report contains documentation as to how many controls were carried out in relation to the control requirements.

In addition, the "Internal Audit" staff unit performs a monitoring and supervisory function.

Vienna, 24 February 2021

The Managing Board

Gerald Fleischmann
Chairman of the Managing Board

Rainer Borns
Deputy Chairman of the Managing Board

Thomas Uher
Deputy Chairman of the Managing Board

AUDITOR'S REPORT

REPORT ON THE FINANCIAL STATEMENTS

Audit Opinion

We have audited the Financial Statements of

VOLKSBANK WIEN AG,
Vienna,

which comprise the Balance Sheet as of 31 December 2020, the Income Statement for the year then ended, and the Notes.

In our opinion, the financial statements present fairly, in all material respects, the balance sheet of the Company as at 31 December 2020 and its financial performance for the year then ended, in accordance with Austrian Generally Accepted Accounting Principles of the Austrian Commercial Code and Austrian Banking Act.

Basis for our Opinion

We conducted our audit in accordance with the Regulation (EU) 537/2014 ("AP Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the Company, in accordance with Austrian company law and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained up to the date of the auditor's report is sufficient and appropriate to provide a basis for our audit opinion on this date.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. These matters were addressed in the context of our audit of the financial statements as a whole, however, we do not provide a separate opinion thereon.

Valuation of loans and receivables to customers

Risk for the financial statements

Loans and receivables to customers ("receivables from customers") amount to EUR 5,393,781,750.75 in the balance sheet. The Managing Board of VOLKSBANK WIEN AG describes the approach to determine loan loss provisions in the section "Accounting and valuation principles" of the Notes to the financial statements.

As part of monitoring receivables from customers, the bank 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 exisiting 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 by the bank 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

AUDITOR'S REPORT

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 by the bank to the initial result.

This results in the risk for the financial statements 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 made by the bank 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 bank's documentation of the applied method for consistency with the requirements of IFRS 9. Additionally, we evaluated, based on the bank's 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 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 financial statements are appropriate.

Other Information

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

Our opinion on the financial statements does not cover other information and we do not provide any kind of assurance thereon.

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

AUDITOR'S REPORT

Responsibilities of Management and the Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Austrian Generally Accepted Accounting Principles as well as other legal or regulatory requirements and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance but provides no guarantee that an audit conducted in accordance with the AP Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Moreover:
- We identify and assess the risks of material misstatements in the financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other

AUDITOR'S REPORT

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

Management Report

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

Management is responsible for the preparation of the 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 management reports.

Opinion

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

Statement

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

Additional Information in accordance with Article 10 AP Regulation

We were elected as auditors at the Annual General Meeting on 16 May 2019 and were appointed by the supervisory board on 28 May 2019 to audit the financial statements of Company for the financial year ending 31 December 2020.

On 14 May 2020 we were elected for the year ending 31 December 2021 and on 26 May 2020 the supervisory board appointed us to audit the financial statements.

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

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

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

Engagement Partner

The engagement partner is Mr Walter Reiffenstuhl.

Vienna, 24 February 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.

STATEMENT OF ALL LEGAL REPRESENTATIVES

VOLKSBANK WIEN AG
Statement of all Legal Representatives

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

Vienna, 24 February 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

OFFICERS AND ADRESSES

VOLKSBANK WIEN AG

HEADQUARTERS

VOLKSBANK WIEN AG
A-1030 Vienna, Dietrichgasse 25
Telephone: +43 (1) 40137-0
Telefax: +43 (1) 40137-7600
e-Mail: kundenservice@volksbankwien.at
Internet: www.volksbankwien.at

CONTACTS

Digital Transformation
Horst Weichselbaumer-Lenck
e-mail: horst.weichselbaumer-lenck@volksbankwien.at
Telephone: +43 (1) 40137-4883
Telefax: +43 (1) 40137-84883

Retail Branches
Bernhard Bregesbauer
e-mail: bernhard.bregesbauer@volksbankwien.at
Telephone: +43 (1) 40137-7530
Telefax: +43 (1) 40137-87530

Finance
Martin Scheibenreif
e-mail: martin.scheibenreif@volksbankwien.at
Telephone: +43 (1) 40137-3386
Telefax: +43 (1) 40137-83386

Real Estate Financing
Martin Rosar
e-mail: martin.rosar@volksbankwien.at
Telephone: +43 (1) 40137-3399
Telefax: +43 (1) 40137-83399

Investor Relations
Karl Kinsky
e-mail: investorrelations@volksbankwien.at
Telephone: +43 (1) 40137-3338
Telefax: +43 (1) 40137-83338

Communication / Marketing
Wolfgang Layr
e-mail: wolfgang.layr@volksbankwien.at
Telephone: +43 (1) 40137-3550
Telefax: +43 (1) 40137-83550

HR Management
Alexander Riess
e-mail: alexander.riess@volksbankwien.at
Telephone: +43 (1) 40137-5471
Telefax: +43 (1) 40137-85471

Private Banking / Treasury
Michael Santer
e-mail: michael.santer@volksbankwien.at
Telephone: +43 (1) 40137-3178
Telefax: +43 (1) 40137-83178

Corporate Financing
Robert Walenta
e-mail: robert.walenta@volksbankwien.at
Telephone: +43 (1) 40137-5474
Telefax: +43 (1) 40137-85474

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:

Media owner and producer:
VOLKSBANK WIEN AG
A-1030 Vienna, Dietrichgasse 25
Telephone: +43 (1) 40137-0
e-Mail: kundenservice@volksbankwien.at
Internet: www.volksbankwien.at

Annual Report-Team and Editors:
Sven Steiner, Robert Bortolotti,
Christian Haberer, Philipp Ackerl,
Monika Bäumel, Christina Eder

Design and Production:
Bianca Statna
VOLKSBANK WIEN AG
A-1030 Vienna, Dietrichgasse 25

Photos:
Robert Polster, Paul Wilke

Translation:
All Languages Alice Rabl GmbH

Copy deadline:
April 2021

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

1) In relation to total risk 2) End-of-period figure Austrian Business Code/unconsolidated 3) Staff at end-of-period based on full-time equivalent
As at 31 December 2020, VOLKSBANK WIEN AG including the function as central organisation