VOLKSBANK WIEN

HALF-YEAR FINANCIAL REPORT AS AT 30 JUNE 2018

KEY FIGURES OF VOLKSBANK WIEN AG

Euro million	30 Jun 2018	31 Dec 2017	31 Dec 2016
Statement of financial position			
Total assets	**10,888**	**10,616**	**10,008**
Loans and receivables to customers (net)	5,096	4,752	4,282
Amounts owed to customers	6,099	5,791	4,691
Debts evidenced by certificates	458	488	725
Subordinated liabilities	423	426	29
Own funds according to Basel III for the Volksbank Wien AG group			
Common equity tier 1 capital (CET1)	514	533	449
Additional tier 1 capital (AT1)	0	0	0
Tier 1 capital (T1)	**514**	**533**	**449**
Tier 2 capital (T2)	407	407	7
Own funds	**921**	**941**	**456**
Risk weighted exposure amount - credit risk	2,972	2,721	2,433
Total risk exposure amount settlement risk	0	0	0
Total risk exposure amount market risk	95	112	153
Total risk exposure amount operational risk	589	579	586
Total risk for credit valuation adjustment	50	59	60
Total risk exposure amount	**3,705**	**3,470**	**3,233**
Common equity tier 1 capital ratio[1)]	**13.86%**	**15.37%**	**13.88%**
Tier 1 capital ratio[1)]	**13.86%**	**15.37%**	**13.88%**
Equity ratio [1)]	**24.85%**	**27.11%**	**14.10%**
Income statement	**1-6/2018**	**1-6/2017**	**1-6/2016**
Net interest income	59.9	59.3	46.7
Risk provisions	-0.4	9.7	-2.8
Net fee and commission income	24.6	24.6	17.4
Net trading income	-0.1	5.0	-2.7
Result from financial investments	2.6	-1.4	11.5
Result from other operating activities	57.1	42.6	45.6
General administrative expenses	-115.5	-106.8	-96.8
Restructuring result	-0.1	0.0	0.0
Result from companies measured at equity	0.3	-0.1	1.7
Result before taxes	**28.5**	**32.8**	**20.6**
Income taxes	0.6	0.0	-5.0
Result after taxes	**29.1**	**32.8**	**15.6**
Non-controlling interest	0.0	0.0	0.0
Consolidated net income	**29.1**	**32.8**	**15.6**
Key ratios[2)]			
Operating cost-income-ratio	81.0%	80.5%	86.3%
ROE before taxes	10.1%	13.5%	10.5%
ROE after taxes	10.3%	13.5%	7.9%
ROE consolidated net income	10.4%	13.6%	8.0%
NPL ratio	2.2%	3.2%	2.9%
Net interest margin	1.1%	1.2%	0.9%
Leverage ratio	3.6%	3.2%	3.0%
Net stable funding ratio	141.5%	123.8%	97.0%
Loan deposit ratio	81.0%	93.2%	90.0%
Coverage ratio I	27.2%	23.8%	25.8%
Coverage ratio III	103.5%	99.1%	94.4%
Resources	**1-6/2018**	**1-6/2017**	**1-6/2016**
Staff average	**1,294**	**1,238**	**1,101**
of which domestic	1,294	1,238	1,101
	30 Jun 2018	**31 Dec 2017**	**31 Dec 2016**
Staff at end of period	**1,323**	**1,327**	**1,242**
of which domestic	1,323	1,327	1,242
Number of sales outlets	**92**	**78**	**78**
of which domestic	92	78	78
Number of customers	**357,612**	**348,488**	**368,935**

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

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While every care has been taken to ensure that the data and information provided are correct, no liability is accepted for their completeness and accuracy.

In order to improve readability, any role descriptions in this report that are used only in the masculine form apply analogously to the feminine form.
English translation by All Languages Alice Rabl GmbH.

HALF-YEAR MANAGEMENT REPORT FOR THE FIRST HALF OF 2018

Report on the business development and economic situation

Business development

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

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

Moody's rating agency continues to rate VBW with Baa1 and a stable outlook. The Aaa rating for VBW's covered bonds remains equally unchanged.

Economic environment

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

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

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

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

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

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

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

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

Group result for the first half of 2018

Due to the contributions made in the second half of 2017 and in the first half of 2018, the figures of the reporting period are comparable to those of the previous year to a limited extent only. IFRS 9 financial instruments entered into force with effect from 1 January 2018. According to IFRS 9 transitional provisions, any retrospective application to previous reporting periods is not required; therefore, the comparative figures from the 2017 financial year were not adjusted. In the course of transition to IFRS 9, also the presentation of the items was amended and the figures of the reference period were adjusted to the amended structure.

The consolidated income of VBW before taxes amounts to euro 28 million (1-6/2017: euro 33 million). The consolidated income after taxes and minority shares amounts to euro 29 million (1-6/2017: euro 33 million).

The net interest income for the first half of 2018 amounts to euro 60 million, thus exceeding the income for the reference period (1-6/2017: euro 59 million) by euro 1 million. The increase in interest income must be viewed within the context of an increase in interest expenditure from the subordinated bond issued in the fourth quarter of 2017.

In the first half of 2018, at euro -0.4 million, the risk provisions item has deteriorated against the reference period (euro +10 million). In the previous year, large amounts of individual loan loss provisions and portfolio provisions were released.

It was possible to keep the net fee and commission income stable in the reporting period (euro 25 million), compared to the previous period. The increase in individual areas must be viewed within the context of a reduced net fee and commission income from lending business due to a change in the method of calculating the effective interest rate.

Net trading income amounts to euro 0 million for the reporting period and has fallen against the previous year by euro 5 million. A decline in operations and measurement results of trading book derivatives that are used for hedging investment book items are the main reason for this decline.

The result from financial investments for the period under review amounts to euro 3 million, thus exceeding the reference period (1-6/2017: euro -1 million) by euro 4 million. Basically, higher measurement results for derivatives contribute to this increase. The valuation of SPPI-non-compliant loans results in a loss of euro -5 million. The valuation of debts evidenced by certificates that are now measured at fair value through profit or loss, due to the business model, leads to a positive result in the amount of euro 1 million.

Apart from the income from charged-out costs, the result from other operating activities includes income from the contribution of VB Horn in the amount of euro 8 million. With regard to this position, a provision was made in the amount of euro -3 million for interest claims from entrepreneur loans with floors. In the previous year, the position included the allocation to interest claims for the charging of negative interest rates in the amount of euro -2 million. Moreover, a result of euro 7 million was obtained from early redemptions of issues in the previous year. The bank levy is included with an amount of euro -1 million (1-6/2017: euro -1 million).

General administrative expenses of euro 115 million (1-6/2017: euro 107 million) have increased by comparison with the previous year. Basically, the contribution of Sparda in the third quarter of 2017 resulted in this increase. Compared to the end of 2017, the headcount decreased by 4 employees from 1,327 and amounts to 1,323 employees as at 30 June 2018. Basically, due to the contribution of Sparda, 142 employees joined VBW in the third quarter of 2017. Due to the contribution of VB Horn in the second quarter of 2018, the number of employees increased by 55.

Due to the tax planning of the next four years, it was possible, in the reporting period, to recognise deferred tax assets for part of the tax loss carried forward. For tax loss carried forward in the amount of euro 248 million (31 December 2017: euro 268 million), still no deferred tax assets are recognised. Deferred tax is recognised for the remaining valuation differences, especially in connection with the valuation of financial instruments.

Financial position

As at 30 June 2018, total assets amounted to euro 10.9 billion and have increased due to the contribution of VB Horn, compared to the end of 2017 (euro 10.6 billion).

Compared to the end of the previous period (euro 1.7 billion), loans and receivables to credit institutions have decreased to euro 1.4 billion. The decrease essentially results from lower refinancing requirements of the banks of the Association.

As at 30 June 2018, loans and receivables to customers, less risk provisions, amount to euro 5.1 billion and have increased compared to the end of the previous year (euro 4.8 billion). About half of the increase is due to the contribution of VB Horn.

The financial investments of euro 2.0 billion at the reporting date increased mainly because of investments in bonds in the business model hold compared to the end of 2017 (euro 1.8 billion).

The increase in income tax claims is basically due to the effects of initial application of IFRS 9. As at 30 June 2018, the assets held for sale show the carrying amount of IAS 40 items.

Amounts owed to credit institutions have remained stable as compared to the end of 2017 (euro 2.7 billion). Amounts owed to customers in the amount of euro 6.1 billion have increased compared to the end of 2017 (euro 5.8 billion), mainly due to the contribution of VB Horn.

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

Compared to the end of the previous year, equity has changed by euro 7 million. An amount of euro -26 million was recognised from the effects of initial application of IFRS 9. Due to the contribution of VB Horn and the associated capital increase, it was possible to increase equity by euro 17 million. The increase due to the result for the first half of 2018 is countered by opposing effects from OCI and from the distribution of VBW to their shareholders in the amount of euro 8 million.

Financial performance indicators

As at 30 June 2018, the regulatory own funds of the VBW KI Group amount to euro 0.9 billion (31 December 2017: euro 0.9 billion). As at 30 June 2018, the aggregate risk amount was euro 3.7 billion (31 December 2017: euro 3.5 billion). The CET 1 capital ratio in relation to total risk amounts to 13.86% (31 December 2017: 15.37%), the equity ratio in relation to total risk is 24.85% (31 December 2017: 27.11%). Regulatory own funds, aggregate risk amount and the key indicators calculated therefrom were determined acc. to CRR (EU Regulation No. 575/2013). For more detailed information, please refer to the Notes.

Performance indicators	1-6/2018	1-6/2017	1-6/2016
Return on Equity before taxes	10.1%	13.5%	10.5%
Return on Equity after taxes	10.3%	13.5%	7.9%
Cost-income ratio	81.0%	80.5%	86.3%

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

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

The operative cost-income ratio is calculated from operating income in relation to operating expenses. The operating income consists of net interest income, net fee and commission income, net trading income, as well as the result from other operating activities, and result from discontinued operation, if positive. The operating expenses includes the general administrative expenses as well as the result from other operating activities, and result from discontinued operation, if negative. The result from other operating activities and the result from discontinued operation are adjusted for other taxes, deconsolidation result and IFRS 5 measurement.

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

Report on the company's future development and risks

Future development of the company

Economic environment

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

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

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

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

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

Business development

The focus of VBW on retail banking is meant to be continued, supported, in particular, by increasing digitalisation of the sales process. In the course of medium-term planning, the Association of Volksbanks has set itself a number of strategic goals, of which the accomplishment, observance and/or undercutting/exceeding will be a management focus in the years to come. Among others, this includes achieving a cost-income ratio of 60%, a CET 1 capital ratio of at least 12%, a total capital ratio of at least 16%, an NPL (non-performing loan) ratio of no more than 3%, as well as a return on equity (RoE) of 8%.

In spite of persistently high investments in the systems, in improving data quality and in spite of the still high regulatory cost, VBW intends to achieve an annual result in the low two-digit million euro range for the 2018 business year. Despite planned growth, the CET 1 capital ratio is intended to remain at around 12% within the Group in the second half of the year.

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

Significant risks and uncertainties

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

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Condensed statement of comprehensive income

INCOME STATEMENT	1-6/2018 Euro thousand	1-6/2017 Euro thousand	Changes Euro thousand	%
Interest receivable and similar income	96,859	92,356	4,503	4.88 %
Interest and similar expenses	-36,996	-33,061	-3,935	11.90 %
Net interest income	59,863	59,295	568	0.96 %
Risk provisions	-416	9,680	-10,096	-104.29 %
Fee and commission income	38,960	40,172	-1,212	-3.02 %
Fee and commission expenses	-14,319	-15,567	1,247	-8.01 %
Net fee and commission income	24,641	24,605	35	0.14 %
Net trading income	-53	5,036	-5,089	-101.05 %
Result from financial investments	2,596	-1,449	4,045	< -200.00 %
Result from other operating activities	57,112	42,555	14,557	34.21 %
General administrative expenses	-115,466	-106,768	-8,698	8.15 %
Restructuring result	-85	0	-85	100.00 %
Result from investment in associated companies	260	-139	399	< -200.00 %
Result for the period before taxes	28,453	32,817	-4,364	-13.30 %
Income taxes	620	-14	634	< -200.00 %
Result for the period after taxes	29,073	32,802	-3,729	-11.37 %
Result attributable to shareholders of the parent company (Consolidated net result)	29,062	32,794	-3,732	-11.38 %
thereof from continued operation	29,062	32,794	-3,732	-11.38 %
Result attributable to non-controlling interest	11	8	3	38.49 %
thereof from continued operation	11	8	3	38.49 %

Other comprehensive income

	1-6/2018 Euro thousand	1-6/2017 Euro thousand	Changes Euro thousand	%
Result for the period after taxes	**29,073**	**32,802**	**-3,729**	**-11.37 %**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Fair value reserve - equity instruments	-1,850	0	-1,850	100.00 %
Deferred taxes of fair value valuation equity instruments	462	0	462	100.00 %
Revaluation of own credit risk	-2,558	0	-2,558	100.00 %
Deferred taxes of fair value valuation own credit risk	639	0	639	100.00 %
Total items that will not be reclassified to profit or loss	-3,306	0	-3,306	100.00 %
Items that may be reclassified to profit or loss				
Fair value reserve - debt instruments (including deferred taxes)				
Change in fair value	-641	6,058	-6,699	-110.58 %
Net amount transferred to profit or loss	104	-428	532	-124.27 %
Change from companies measured at equity	-752	-22	-730	> 200.00 %
Total items that may be reclassified to profit or loss	**-1,289**	**5,608**	**-6,896**	**-122.98 %**
Other comprehensive income total	**-4,594**	**5,608**	**-10,202**	**-181.93 %**
Comprehensive income	**24,479**	**38,410**	**-13,931**	**-36.27 %**
Comprehensive income attributable to shareholders of the parent company	24,468	38,402	-13,934	-36.28 %
thereof from continued operation	24,468	38,402	-13,934	-36.28 %
Comprehensive income attributable to non-controlling interest	11	8	3	39.68 %
thereof from continued operation	11	8	3	39.68 %

Condensed statement of financial position as at 30 June 2018

	30 Jun 2018 Euro thousand	31 Dec 2017 Euro thousand	Changes Euro thousand	%
ASSETS				
Liquid funds	1,897,883	1,813,951	83,932	4.63 %
Loans and receivables to credit institutions (net)	1,429,961	1,703,912	-273,951	-16.08 %
Loans and receivables to customers (net)	5,096,466	4,752,381	344,085	7.24 %
Assets held for trading	60,173	69,167	-8,994	-13.00 %
Financial investments (net)	1,976,262	1,842,992	133,270	7.23 %
Investment property	29,059	30,764	-1,705	-5.54 %
Investments in associated companies (measured at equity)	30,263	30,753	-490	-1.59 %
Participations	42,595	43,222	-627	-1.45 %
Intangible assets	22,680	23,418	-739	-3.15 %
Tangible fixed assets	131,148	132,078	-930	-0.70 %
Tax assets	60,354	47,429	12,925	27.25 %
Current taxes	2,074	1,513	561	37.12 %
Deferred taxes	58,280	45,917	12,363	26.93 %
Other assets	110,099	123,977	-13,878	-11.19 %
Assets held for sale	826	2,437	-1,611	-66.09 %
TOTAL ASSETS	**10,887,768**	**10,616,482**	**271,287**	**2.56 %**
LIABILITIES				
Amounts owed to credit institutions	2,712,479	2,743,551	-31,073	-1.13 %
Amounts owed to customers	6,099,314	5,791,374	307,940	5.32 %
Debts evidenced by certificates	457,521	487,507	-29,986	-6.15 %
Liabilities held for trading	73,943	82,010	-8,066	-9.84 %
Provisions	89,922	83,772	6,151	7.34 %
Tax liabilities	3,246	6,843	-3,596	-52.55 %
Current taxes	2,051	5,692	-3,640	-63.96 %
Deferred taxes	1,195	1,151	44	3.84 %
Other liabilities	453,185	428,148	25,037	5.85 %
Subordinated capital	423,247	425,778	-2,531	-0.59 %
Equity	574,910	567,499	7,410	1.31 %
Shareholders' equity	571,041	563,606	7,435	1.32 %
Non-controlling interest	3,868	3,893	-25	-0.63 %
TOTAL LIABILITIES	**10,887,768**	**10,616,482**	**271,287**	**2.56 %**

Condensed changes in the Group's equity

Euro thousand	Subscribed capital [1]	Capital reserves	Retained earnings	Fair value reserve [2]	Own credit risk reserve [2]	Shareholders' equity	Non-controlling interest	Equity
As at 1 January 2017	**126,938**	**212,209**	**116,624**	**11,419**		**467,189**	**3,958**	**471,147**
Consolidated net income [3]			32,794			32,794	8	32,802
Available for sale reserve (including deferred taxes)				5,630		5,630	0	5,630
Change from companies measured at equity			-3	-19		-22	0	-22
Comprehensive income	0	0	32,792	5,610	0	38,402	8	38,410
Dividends paid			-12,699			-12,699	-16	-12,715
Payment Shareholder		658	0			658		658
Umbuchung Kapitalrücklage		-10,290	10,290			0		0
As at 30 June 2017	**126,938**	**202,576**	**147,007**	**17,029**	**0**	**493,551**	**3,949**	**497,500**
As at 1 January 2018	**132,894**	**215,313**	**170,225**	**45,174**		**563,606**	**3,893**	**567,499**
Impact of adopting IFRS 9	**0**	**0**	**173,640**	**-204,449**	**4,359**	**-26,450**	**0**	**-26,450**
As at 1 January 2018 restated	**132,894**	**215,313**	**343,865**	**-159,274**	**4,359**	**537,157**	**3,893**	**541,049**
Consolidated net income [3]			29,062			29,062	11	29,073
Fair value reserve - equity instruments (including deferred taxes)				-1,387		-1,387		-1,387
Fair value reserve - debt instruments (including deferred taxes)				-537		-537		-537
Own credit risk reserve (including deferred taxes)					-1,918	-1,918		-1,918
Change from companies measured at equity			-62	-690		-752		-752
Comprehensive income	0	0	29,000	-2,614	-1,918	24,468	11	24,479
Capital increase	4,653	12,522				17,175		17,175
Dividends paid			-8,420			-8,420	-16	-8,436
Payment Shareholder		646	0			646		646
Reclassification fair value reserve due to sale			82	-82				
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation			15			15	-19	-4
As at 30 June 2018	**137,547**	**228,481**	**364,543**	**-161,971**	**2,441**	**571,041**	**3,868**	**574,910**

1) Subscribed capital corresponds to the figures reported in the financial statements of VOLKSBANK WIEN AG (VBW).
2) As at 30 June 2018, the fair value reserve included deferred taxes of euro 53,990 thousand (30 June 2017: euro -5,676 thousand).
As at 30 June 2018, the own credit risk reserve included deferred taxes of euro -814 thousand (30 June 2017: euro 0 thousand).
3) In 2018 (and 2017) the financial statements of VBW contain no currency translation differences resulted from the application of average rates of exchange in the income statement, whether for shareholders' equity nor for non-controlling interest.

Condensed cash flow statement

In euro thousand	1-6/2018	1-6/2017
Cash and cash equivalents at the end of previous period (= liquid funds)	1,809,264	1,113,587
Cash flow from operating activities	268,212	864,809
Cash flow from investing activities	-174,071	-40,847
Cash flow from financing activities	-10,424	-16,769
Cash and cash equivalents at the end of period	1,892,982	1,920,779

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

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

1) General information

VOLKSBANK WIEN AG (VBW), which has its registered office at Kolingasse 14-16, 1090 Vienna, 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 und corporate customer business are based in Austria.

The interim financial statements of VBW as at 30 June 2018 were prepared on the basis of all IFRS/IAS standards published by the International Accounting Standards Board (IASB) applicable as at the reporting date, and all interpretations (IFRIC/SIC) of the International Financial Reporting Interpretations Committee and the Standing Interpretations Committee, in so far as these have also been adopted by the European Union in the endorsement process and their application is mandatory.

The interim financial statements do not contain all information required for full annual financial statements and should therefore be read in conjunction with the consolidated financial statements as at 31 December 2017. The accounting policies, estimates and assumptions on which these financial statements are based are the same as those used in the preparation of the consolidated financial statements as at 31 December 2017 with the exceptions stated in note 3) Changes to accounting standards (especially inital application of IFRS 9).

These condensed consolidated interim financial statements fulfil the requirements of IAS 34 - Interim Financial Reporting and have been reviewed by the statutory auditor.

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

2) Presentation and changes in the scope of consolidation

By way of an agreement on a transfer and contribution in kind dated 24 April 2018, Waldviertler Volksbank Horn registrierte Genossenschaft mit beschränkter Haftung contributed its undertaking, the Horn banking operation, to VBW, retaining cash assets in the amount of euro 0.8 million, all shares in Volksbank Wien AG, as well as in Volksbank Wien Beteiligung eGen, a fixed-income security in the amount of euro 1.1 million, a property situated in Horn, as well as income tax assets. The contribution in kind is effected against the granting of 49,629 new no-par shares of VBW. Registration in the Companies' Register was effected on 20 June 2018.

The purchase price and the fair values of the acquired assets and liabilities determined based on the purchase price allocation are shown in the table below:

Euro thousand	Horn
Liquid funds	2,561
Loans and receivables to credit institutions	88,390
Loans and receivables to customers	164,790
Risk provisions (-)	-714
Financial investments	51,344
Participations	1,343
Intangible assets	4
Tangible fixed assets	2,046
Tax assets	294
Other assets	344
Amounts owed to credit institutions	-24
Amounts owed to customers	-277,419
Debts evidenced by certificates	0
Provisions	-6,051
Tax liabilities	0
Other liabilities	-1,415
Subordinated capital	0
Net assets acquired	**25,494**
Purchase price = capital increase	17,175
Gain from bargain purchase	**8,319**
Goodwill	**0**

The profit from the corporate acquisition mainly arises from the equity capitalisation being relatively high compared to the rather low business volume of VB Horn.

As the purchase price was settled through share issues by VBW, there was no cash outflow from the Group. The cash inflow consisted of the cash reserve acquired. Impaired receivables were presented gross in the table above. That means the risk provisions acquired as part of the acquisition were reported separately to ensure data consistency in relation to the risk management systems and regulatory reports. Any adjustments to the fair value were recognised in the item loans and receivables to credit institutions or loans and receivables to customers.

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

Euro thousand	Horn
Fair value of purchased receivables	164,790
Gross sum of receivables	161,066
Estimated unrecoverable receivables	-1,114

Fair values of euro 59 thousand were determined for commitments and credit facilities commited as at the acquisition date and recognised as provisions. Maturities are mainly at one year. Cash outflows of approximately euro 59 thousand are expected during that period.

Incidental acquisition costs recognised in other operating expenses in the income statement amount to euro 71 thou-sand.

Information about the amount of net interest income and the annual result after taxes achieved in the acquired banking operation since the date of acquisition is not available, since no separate records are available after the merger.

If Horn banking operation had already been acquired on 1 January 2018, net interest income of the VBW Group would have been higher by euro 936 thousand and the annual result after taxes would have been lower by euro 9 thousand.

Participation right of the federal government

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

Distributions of RZG based on the federal government’s participation right are subject to the discretion 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. Overall, therefore, if the disposition event occurs, up to 33 % plus 1 share of the VBW shares may transfer to the (legal and beneficial) ownership of the federal government, and the latter would be able to freely dispose of said holding of shares (subject to the pre-emptive right granted). In case that the pre-emptive right granted by the federal government is exercised by a purchaser nominated by VBW and that a minimum threshold for the sum of the distributions in respect of the federal government's participation right and of the creditable amounts is missed again, the shareholders of VBW have undertaken to transfer to the federal government additional ordinary shares of VBW in the amount of the VBW shares previously transferred to the federal government and acquired by the purchaser nominated by VBW, with immediate unrestricted power of disposition of the federal government.

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

3) Accounting principles

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

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

a) Initially applied standards and interpretations

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

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

IFRS 9 – Financial instruments:

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

Classification and recognition of financial instruments

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

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

Changes of classification and measurement

Based on the list of criteria for determination of the business models and the SPPI criterion, portfolios were defined for the VBW Group within the loan and securities division and allocated to the business models. The business model assessment in the loan division has shown that the objective is basically portfolio maintenance and growth in the Retail/SME, model, commercial, project and real estate financing spheres. No performance-based, variable compensation or selling transactions are intended. Risks included in the loan portfolio are minimised using, among others, interest rate derivatives or sub-participations. Accordingly, all portfolios in the loan sphere are allocated to the Hold business model, unless there is an intention to sell loans or companies holding such loans. Portfolios or individual financial assets meant to be sold, as well as those within companies up for sale are designated as for sale and measured at fair value through profit or loss. At 31 December 2017, there were no intentions whatsoever to sell any loan portfolios or companies that hold any loans. Accordingly, as at 1 January 2018, all loans are allocated to the Hold business model within the VBW Group. As at 1 January 2018, the negative effect (reduction of equity) due to fair value measurement of loans that fail to meet the SPPI criterion amounts to euro -5.3 million (before deferred tax) and concerns a volume of approximately euro 185 million.

Identification of the business models for securities portfolios revealed that in the investment book remuneration is independent in terms of performance measurement. Performance is basically measured on the basis of net interest income. No performance-based, variable compensation has been scheduled. Within the positions in the banking book, no differentiation in terms of management and risk strategies is effected either. All banking book investments are made within the scope of the group-wide investment strategy and basically show a low credit risk profile. Accordingly, identification of the business models essentially took place on the basis of the following parameters: investment goals, such as compliance with regulatory requirements or realising returns, as well as reasons for and frequency of selling transactions. The VBW Group defines as compliant any sales of positions that do no longer fit the investment strategy due to a significant increase in default risk, that take place shortly before maturity and the sales proceeds of which approximately correspond to the remaining contractual payments, which are effected, among others, due to expiration of the basis of the business and which take place within the scope of a strategic reorientation associated with regulatory or risk-related considerations. The different portfolios within the VBW Group result from the different objectives for banking book investments. A volume of approximately euro 1,380 million was allocated to the Hold portfolio, as the intention here is to hold these financial instruments until maturity. A volume of approximately euro 379 million was allocated to the Hold and Sell portfolio, which is basically intended to hold financial investments until maturity. If, however, due to positive market conditions, an opportunity for optimised returns arises through premature sales, they may be utilised accordingly. The aim of the VBW Group is to minimise volatility within the income statement based on the fair value measurement. Therefore, the volume of securities that fail to meet the SPPI criterion is minimised to the greatest possible extent. These instruments are accordingly available for sale at any time. Within the VBW Group, this volume amounts to approximately euro 46 million. As for purchases on or after 1 January 2018, Treasury will allocate the financial instrument to a business model. In consideration of hedge accounting, the negative effect on equity due to revaluations of securities amounts to euro -30.3 million (before deferred tax).

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

For financial liabilities, classification and measurement under IFRS 9 remain unchanged, with the exception that gains and losses from a financial liability designated at fair value through profit or loss, which have emerged due to changes of the bank's own credit risk, are reported in OCI. Within the VBW Group, the fair value option is chosen for the bank's

structured own issues. At a volume of about euro 82 million, the change of equity amounts to euro -9 million (before deferred tax).

Accounting of impairments of financial assets

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

Applying IFRS 9 impairment regulations as at 1 January 2018 resulted in a positive movement of the loan loss provisions reported of euro 9.3 million (before deferred tax).

Accounting of hedging relationships

As at 1 January 2018, hedge accounting according to IFRS 9 is applied within the VBW Group. The aim of the new rules is for hedge accounting to be related more clearly to the economic risk management of the company. As previously, companies are obliged to document the respective risk management strategy including risk management goals at the beginning of a hedging relationship; but now, the relationship between the hedged underlying transaction and the hedging instrument has to correspond to the requirements of the risk management strategy.

Based on the amendments under IFRS 9, VBW has been applying new hedge constellations, such as layer hedge accounting, since 2018. Within VBW, parts of portfolios of fixed-income loans are hedged using layer hedge accounting.

Hedging relationships applied under IAS 39 remain valid for the major part. Only in case of structured own issues with a volume of approximately euro 82 million, designated as hedge accounting under IAS 39, the hedging relationship was terminated and the fair value option applied under IFRS 9. The resulting change of equity has entailed a reduction of euro -9 million (before deferred tax).

Transition

The following tables show the transition from the values stated as at 31 December 2017 according to IAS 39 to those stated after initial application of IFRS 9 as at 1 January 2018.

Reclassification and Valuation of financial instruments

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

Euro thousand	Valuation category acc. to IAS 39	Valuation category acc. to IFRS 9	Carrying amount IAS 39 31 Dec 2017	Carrying amount IFRS 9 1 Jan 2018
Liquid funds	at amortised cost	at amortised cost	1,813,951	1,813,951
Loans and receivables to credit institutions (net)			1,703,912	1,703,904
	at amortised cost	at amortised cost	1,703,912	1,703,382
		at fair value through profit or loss - obligatory		522
Loans and receivables to customers (net)			4,752,381	4,757,163
	at amortised cost	at amortised cost	4,752,381	4,589,286
		at fair value through profit or loss - obligatory		167,877
Assets held for trading			69,167	69,167
Fixed-income securities	held for trading	at fair value through profit or loss	8,320	8,320
Positive fair values from derivatives	held for trading	at fair value through profit or loss	60,847	60,847
Financial investments (net)			1,842,992	1,812,050
Fixed-income securities			1,803,197	1,772,255
	held to maturity	at amortised cost	316,104	1,374,755
	available for sale	at fair value through OCI	1,487,093	390,230
		at fair value through profit or loss - obligatory		7,270
Equities and other variable-yield securities			39,796	39,796
	available for sale	at fair value through OCI	39,796	0
		at fair value through profit or loss - obligatory		39,796
Participations	available for sale	at fair value through OCI	43,222	43,222
Positive fair values from derivatives (investment book)	held for trading	at fair value through profit or loss	98,575	98,575
Financial assets total			**10,324,200**	**10,298,033**
Amounts owed to credit institutions	at amortised cost	at amortised cost	2,743,551	2,743,551
Amounts owed to customers	at amortised cost	at amortised cost	5,791,374	5,791,374
Debts evidenced by certificates			487,507	496,665
	at amortised cost	at amortised cost	487,507	391,838
		at fair value through profit or loss - designated		104,827
Liabilities held for trading	held for trading	at fair value through profit or loss	82,010	82,010
Negative fair values from derivatives (investment book)	held for trading	at fair value through profit or loss	378,484	378,484
Subordinated capital	at amortised cost	at amortised cost	425,778	425,778
Financial liabilities total			**9,908,704**	**9,917,861**

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

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

Financial assets

Euro thousand	Carrying amount IAS 39 31 Dec 2017	Reclassification	Valuation	Carrying amount IFRS 9 1 Jan 2018
At amortised cost				
Liquid funds	1,813,951			1,813,951
Loans and receivables to credit institutions (net)	1,703,912	-516	-14	1,703,382
Thereof reclassification into at fair value through profit or loss		-516		
Loans and receivables to customers (net)	4,752,381	-163,743	647	4,589,286
Thereof reclassification into at fair value through profit or loss		-163,743		
Fixed-income securities held to maturity	316,104	-316,104		0
Thereof reclassification into at amortised cost		-300,201		
Thereof reclassification into at fair value through OCI		-15,902		
Fixed-income securities at amortised cost		1,405,801	-31,046	1,374,755
Thereof reclassification out of held to maturity		300,201		
Thereof reclassification out of available for sale		1,105,599		
At amortised cost - total	**8,586,348**	**925,438**	**-30,412**	**9,481,374**
At fair value through profit or loss				
Assets held for trading	69,167			69,167
Loans and receivables to credit institutions (gross) - at fair value through profit or loss - obligatory	0	516	6	522
Thereof reclassification out of at amortised cost		516		
Loans and receivables to customers (gross)	0	163,743	4,135	167,877
Thereof reclassification out of at amortised cost		163,743		
Fixed-income securities - at fair value through profit or loss - obligatory		7,270	0	7,270
Thereof reclassification out of available for sale		7,270		
Equities and other variable-yield securities - at fair value through profit or loss - obligatory		39,796	0	39,796
Thereof reclassification out of available for sale		39,796		
Positive fair values from derivatives (investment book)	98,575			98,575
At fair value through profit or loss - total	**167,742**	**211,324**	**4,141**	**383,207**
At fair value through other comprehensive income				
Fixed-income securities available for sale	1,487,093	-1,487,093		0
Thereof reclassification into at fair value through OCI		-374,224		
Thereof reclassification into at amortised cost		-1,105,599		
Thereof reclassification into at fair value through profit or loss		-7,270		
Fixed-income securities at fair value through OCI		390,126	103	390,230
Thereof reclassification out of available for sale		374,224		
Thereof reclassification out of held to maturity		15,902		
Equities and other variable-yield securities available for sale	39,796	-39,796		0
Thereof reclassification into at fair value through profit or loss		-39,796		
Participations available for sale	43,222	-43,222		0
Thereof reclassification into at fair value through OCI		-43,222		

Euro thousand	Carrying amount IAS 39 31 Dec 2017	Reclassification	Valuation	Carrying amount IFRS 9 1 Jan 2018
Participations at fair value through OCI - designated		43,222		43,222
Thereof reclassification out of available for sale		43,222		
At fair value through OCI - total	**1,570,110**	**-1,136,762**	**103**	**433,452**
Financial assets total	**10,324,200**	**0**	**-26,167**	**10,298,033**

The column Valuation includes effects from revaluations and impairments.

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

Financial liabilities

Euro thousand	Carrying amount IAS 39 31 Dec 2017	Reclassification	Valuation	Carrying amount IFRS 9 1 Jan 2018
At amortised cost				
Amounts owed to credit institutions	2,743,551			2,743,551
Amounts owed to customers	5,791,374			5,791,374
Debts evidenced by certificates	487,507	-95,670		391,838
Thereof reclassification into at fair value through profit or loss		-95,670		
Subordinated capital	425,778			425,778
At amortised cost - total	**9,448,210**	**-95,670**	**0**	**9,352,541**
At fair value through profit or loss				
Debts evidenced by certificates at fair value through profit or loss - designated	0	95,670	9,158	104,827
Thereof reclassification out of at amortised cost		95,670		
Liabilities held for trading	82,010			82,010
Negative fair values from derivatives (investment book)	378,484			378,484
At fair value through profit or loss - total	**460,493**	**95,670**	**9,158**	**565,320**
Financial liabilities total	**9,908,704**	**0**	**9,158**	**9,917,861**

Impairment

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

Euro thousand	Risk provision IAS 39 31 Dec 2017	Reclassification	Valuation	Risk provision IFRS 9 1 Jan 2018
At amortised cost				
Loans and receivables to customers	57,944	-9,424	-647	47,872
Loans and receivables to credit institutions	0	0	14	14
Financial investments - fixed-income securities	0	0	681	681
At fair value through other comprehensive income				
Financial investments – fixed-income securities	0	0	72	72
Off-balance obligations - loan commitments and financial guarantees	4,212	-17	83	4,278
Risk provisions and off-balance obligations	**62,156**	**-9,441**	**201**	**52,916**

Deferred taxes

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

Euro thousand	Carrying amount IAS 39 31 Dec 2017	Effect on retained earnings	Effect on OCI-reserves	Carrying amount IFRS 9 1 Jan 2018
Deferred tax assets	45,917	4,815	6,454	57,186
Deferred tax liabilities	1,151	2,310	18	3,479

b) Standards and interpretations to be applied in future

IFRS 16 – Leases:

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

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

IFRIC 23 – Uncertainty regarding income tax treatments:

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

IFRS 17 – Insurance contracts:

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

Annual improvements to IFRS (2015-2017 Cycles)

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

c) Net interest income

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

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

Net interest income consists of:

- Interest and similar income from credit and money market transactions (including unwinding effect from risk provisions)
- Interest and similar income from fixed-income securities
- Interest and similar expenses for deposits
- Interest and similar expenses for debts evidenced by certificates and subordinated capital
- Interest components of derivatives reported in the investment book

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

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

d) Risk provisions

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

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

e) Net fee and commission income

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

f) Net trading income

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

g) Result from financial investments

The result from financial investments consists of:

- Realised gains and losses from sale of financial investments
- Revaluation gains and losses of financial instruments

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

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

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

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

h) Other operating result

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

i) General administrative expenses

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

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

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

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

j) Financial assets and liabilities

A financial asset or a financial liability is initially recognised in the balance sheet when the 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. A financial instrument is deemed to be added or disposed of at the trade date. The trade date is relevant for the initial recognition of a financial instrument in the balance sheet, its measurement in the income statement and the accounting treatment of its disposal.

Classification of financial assets

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

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

Classification of financial liabilities

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

Derecognition and modification

A financial asset is derecognised on the date on which the contractual rights to its cash flows expire. A financial liability is derecognised once it has been redeemed, i.e. when the liabilities agreed upon in the contract have either been settled, cancelled or expired.

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

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

Offsetting

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

Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a group of similar transactions, such as the 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 allocation of premiums or discounts over the term of the instrument in accordance with the effective interest method, and value adjustments or depreciation due to impairment or uncollectibility.

Measured at fair value through profit or loss

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

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

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

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

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

Impairment

There is a quarterly procedure for the evaluation of lending under which the organisational units responsible for risk are required to make a proposal for risk provisioning on the basis of current developments. The impairment model is based on the assumption that it represents expected losses. Not only losses that have already occurred, but also expected

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

Scope

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

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

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

General approach

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

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

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

Options

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

Information regarding the calculation logic

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

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

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

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

Derivatives

Derivatives are measured at fair value through profit or loss.

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

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

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

k) Loans and receivables to credit institutions and customers

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

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

Receivables are initially recognised at fair value plus all directly attributable transaction costs. Subsequent 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.

l) Risk provisions

Individual loan loss provisions and portfolio loan loss provisions are effected for the special risks of banking business.
The valuation models are based on statistically calculated parameters, such as historical default and loss ratios. The methods and parameters used are validated regularly in order to approximate the estimated and actual defaults and losses. The process for determining the impairment is computer-aided, using an impairment tool specifically developed for the purpose.
For further details please refer to note 3) j) Financial assets and liabilities.

m) Assets and liabilities held for trading

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.

n) Financial investments

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

Classification of securitised debt instruments

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

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

Measured at amortised cost

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

Measured at fair value through profit or loss

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

Measured at fair value through OCI

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

Classification of equity instruments

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

o) Investment property

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

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

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

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

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

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

This item includes subsidiaries and participations established or acquired for strategic reasons and as financial investments. Strategic investments are companies that cover the areas of business of the Group, as well as companies that support those areas of business. Subsidiaries are fully consolidated if they are material for the presentation of a true and fair view of the net assets, financial position and earnings situation of the 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 50,000 and the equity share does not exceed a carrying amount of euro 100,000. As these participations are not listed at a stock exchange and no market prices are available on an active market, the participations are measured by means of valuation methods and input factors some of which are not observable. Valuations are effected according to the discounted cash flow method and the peer group approach. Various calculation models are applied. The income approach is used if VBW controls the company or exercises any management function, and budgets are available accordingly. If the company is not controlled, the fair value calculation is performed on the basis of the dividend paid as well as the annual results of the last five years. In case of companies whose object does not permit any regular income or the result of which is controlled by the parent

company through settlements, the net assets are used as valuation criterion. In case of participations in co-operatives, the share capital is used as the fair value, provided the subscription of new shares and the cancellation of existing shares are possible at any time. If valuation reports are prepared by external valuators, they will be used for current valuation.

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

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

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

q) Intangible assets and tangible fixed assets

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

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

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

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

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

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

r) Tax assets and liabilities

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

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

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

s) Other assets

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

t) Liabilities

The initial recognition of amounts owed to credit institutions and customers as well as debts evidenced by certificates is performed at fair value plus directly attributable transaction cost. Subsequent measurement is performed at amortised cost in accordance with the effective interest method or at fair value through profit or loss, if the FV option was drawn on. In case of financial liabilities where the FV option was drawn on, gains or losses due to a change of the company's own credit risk must be reported through OCI. Any remaining changes in value are reported in the income statement.

u) Employee benefits

Payments to defined contribution plans are expensed as incurred. Irregular payments are allocated to the respective reporting period. The VBW Group has made commitments under defined plans for individual staff members regarding the amounts of future benefits. These plans are partly unfunded, i.e. the funds required as cover are retained and the 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.

The pension fund has established an asset risk management process (ARM process) for those pension obligations transferred to it.
At BONUS Pensionskasse Aktiengesellschaft, risk is measured at VRG level using the value at risk (VaR) and shortfall risk (SFR) indicators. These quantify maximum loss probabilities under common market conditions. Scenario analyses are also performed in order to take into account rarely occurring extreme market movements. VaR and SFR are the core indicators used to manage risk at VRG level. Defined limits for VaR and SFR values along with hedging measures, applicable in the event of negative market developments, provide the framework for the investments.

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

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

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

Parameters for calculating employee benefit obligations

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

The fundamental biometric actuarial assumptions of the latest Austrian scheme for calculating pension insurance for salaried employees are applied as the basis of calculation (AVÖ 2008 P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler&Pagler, Angestelltenbestand).

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

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

v) Provisions

Provisions are recognised if a past event has given rise to a present obligation and it is likely that meeting such an obligation will result in an outflow of resources. They are established in the amount of the most probable future claims, taking into account cost estimates of contractual partners, experienced data and financial mathematical calculation methods. A contingent liability is reported if a potential obligation exists and an outflow of resources does not appear probable or no reliable estimate of the amount of the obligation can be made. Risk provisions are discounted.
Risk provisions comprise loan loss provisions for contingent liabilities (in particular financial guarantees). Other provisions contain provisions for legal disputes and restructuring. The allocation and release of risk provisions are recorded under risk provisions in the income statement. Amounts allocated to and released from the restructuring provision are included under restructuring result.

w) Other liabilities

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

x) Subordinated capital

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

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

y) Equity

Financial instruments 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.

z) Capital reserves

According to IAS 32, in case of capital reserves, the transaction cost of an equity transaction is 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 is also deducted, as far as it is covered in capital reserves. If capital reserves are insufficient, the amount is deducted from retained earnings.

aa) Retained earnings

All legal, statutory and unappropriated retained earnings in the proper sense, the liability reserve acc. to section 57 (5) of the Austrian Banking Act (BWG), the untaxed reserves and all other undistributed profits are reported in retained earnings.

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

Regulatory own funds can be broken down into three elements:

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

The first two components comprise the Tier I capital.

CET1 comprises the equity and participation capital that meets the CRR requirements. These are as follows: classification as equity with separate disclosure in the accounts, perpetual, fully loss-bearing, no reduction in the principal amount except in the case of liquidation or repayment without particular incentive mechanisms, no obligation to make distributions, and distributions not linked to the nominal price. Transition arrangements apply to existing participation capital that does not fulfil the CET1 criteria; in the period until 2021, this capital will be applied at a rate reduced by ten percentage points each year; from 2022, this capital will no longer be eligible at all. CET1 also includes capital reserves, retained earnings, other reserves and minority interests used to meet the regulatory capital requirement. Intangible assets and goodwill, deferred tax assets and participations in other credit institutions constitute significant deductions.
T2 also includes non-current subordinated liabilities.

The minimum equity ratio (total of Tier I and Tier II) is 8 %. Minimum core capital requirements are 4.5 % for CET1 and 6.0 % for Tier I. The VBW Group complied with these relevant supervisory requirements throughout the entire reporting period, even exceeding them.
A capital conservation buffer of 2.5 % which needs to consist of CET1 must be built up until 2019. For the year 2018, the required capital conservation buffer is 1.875 % (2017: 1.25 %).

Alongside the systemic risk buffer, the FMA also regulates the countercyclical capital buffer. This buffer is intended to counteract any credit bubbles that emerge. Calculation of the bank-specific countercyclical capital buffer is governed by

the provisions of the Capital Buffer Regulation and is currently set at 0.0 % for claims in Austria. Further reference is made to events after the balance sheet date.

cc) Trustee transactions

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

dd) Repurchase agreements

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 risks 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 liabilty.

ee) Contingent liabilities

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

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

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

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

ff) Cash flow statement

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

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

4) Notes to the income statement

Net interest income

Euro thousand	1-6/2018	1-6/2017
Interest and similar income from	96,859	92,356
Credit and money market transactions with credit institutions	5,210	3,631
Credit and money market transactions with customers	64,732	57,804
Fixed-income securities	20,759	22,792
Derivative instruments	6,158	8,128
Interest and similar expenses from	-36,996	-33,061
Liquid funds	-3,956	-2,483
Deposits from credit institutions (including central banks)	-3,029	-4,126
Deposits from customers	-3,009	-4,335
Debts evidenced by certificates	-6,737	-9,355
Subordinated liabilities	-5,636	-191
Derivative instruments	-14,628	-12,572
Net interest income	**59,863**	**59,295**

Net interest income according to IFRS 9 categories:

Euro thousand	1-6/2018	1-6/2017
Interest and similar income from	96,859	92,356
Financial investments at amortised cost	82,509	62,919
Financial investments at fair value through OCI	5,402	21,308
Financial investments at fair value through profit or loss - obligatory	2,790	0
Derivative instruments	6,158	8,128
Interest and similar expenses from	-36,996	-33,061
Financial investments at amortised cost	-20,811	-20,489
Financial investments at fair value through profit or loss - designated	-1,557	0
Derivative instruments	-14,628	-12,572
Net interest income	**59,863**	**59,295**

Due to the trend of money market interest rates towards negative reference rates, interest income of euro 4,425 thousand (1-6/2017: euro 3,171 thousand) and interest expenses of euro -5,088 thousand (1-6/2017: euro -3,635 thousand) were realised in the first half of 2018 business year. Negative interest income is reported in interest expenses and negative interest expenses are reported in interest income, so that all results are shown gross.

Risk provisions

Euro thousand	1-6/2018
Changes in risk reserve	-2,400
Changes in provisions for risks	-251
Direct write-offs of loans and receivables	-11
Income from loans and receivables previously written off	2,247
Revaluation result modification / derecognition	0
Risk provisions	**-416**

Euro thousand	1-6/2017
Allocation to risk provisions	-7,216
Release of risk provisions	15,888
Allocation to provisions for risks	-574
Release of provisions for risks	1,582
Direct write-offs of loans and receivables	-1,937
Income from loans and receivables previously written off	1,936
Risk provisions	**9,680**

Net fee and commission income

Euro thousand	1-6/2018	1-6/2017
Fee and commission income from	38,960	40,172
Lending operations	1,925	5,578
Securities business and custody business	13,281	16,992
Payment transactions	17,707	12,831
From foreign exchange, foreign notes and coins and precious metals transactions	11	56
Financial guarantees	977	1,115
Other services	5,059	3,601
Fee and commission expenses from	-14,319	-15,567
Lending operations	-7,486	-4,732
Securities business and custody business	-4,106	-9,192
Payment transactions	-2,374	-1,397
Financial guarantees	-343	-237
Other services	-11	-8
Net fee and commission income	**24,641**	**24,605**

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

Net trading income

Euro thousand	1-6/2018	1-6/2017
Equity related transactions	32	-14
Exchange rate related transactions	587	5,291
Interest rate related transactions	-672	-241
Net trading income	**-53**	**5,036**

Result from financial investments

Euro thousand	1-6/2018	1-6/2017
Result from financial investments measured at fair value through profit or loss	**-1,023**	**-5,487**
Valuation from financial investments measured at fair value through profit or loss - obligatory	-4,021	-56
Loans and receivables to credit institutions and customers	-4,584	0
Fixed-income securities	759	1
Investment property	-195	-50
Participations	0	-7
Valuation from financial investments measured at fair value through profit or loss - designated	1,077	0
Debts evidenced by certificates	1,077	0
Result from financial investments measured at fair value through profit or loss	81	0
Equities and other variable-yield securities	81	0
Result from fair value hedges	-1,373	-290
Result from other derivative instruments (investment book)	3,213	-5,141
Result from financial investments measured at amortised cost	**10**	**0**
Realised gains	10	0
Result from financial investments measured at fair value through OCI	**2,196**	**2,606**
Realised gains	0	745
Realised losses	-104	-333
Equities and other variable-yield securities	0	446
Participations	2,300	1,748
Result from assets for operating lease and investment property assets as well as other financial investments	**1,413**	**1,432**
Result from financial investments	**2,596**	**-1,449**

Other operating result

Euro thousand	1-6/2018	1-6/2017
Other operating income and expenses	58,044	43,714
Other operating income	71,876	51,884
Other operating expenses	-13,832	-8,170
Taxes and contribution for banking business	-932	-1,159
Other operating result	**57,112**	**42,555**

Apart from income from cost allocations, other operating income includes the result from the contribution of VB Horn amounting to euro 8 million. Furthermore, allocations for services provided by VB Services amounting to euro 11 million (1-6/2017: euro 12 million) are included. In the previous year income in the amount of euro 7 million was generated by early redemptions of issues.

Other operating expenses include provisions for interest claims from corporate loans with floors in the amount of euro -3 million. In the previous year euro -2 million were reported in this position for provisions for repayment of negative interest.

Other taxes mainly comprise the bank levy amounting to euro -0.8 million (1-6/2017: euro -1 million).

General administrative expenses

Euro thousand	1-6/2018	1-6/2017
Staff expenses	-60,447	-54,791
Wages and salaries	-43,489	-40,112
Expenses for statutory social security	-11,604	-10,586
Fringe benefits	-1,035	-886
Expenses for retirement benefits	-1,380	-1,286
Allocation to provision for severance payments and pension funds	-2,939	-1,922
Administrative expenses	-50,932	-47,855
Office space expenses	-4,828	-5,055
Office supplies and communication expenses	-515	-456
Advertising, PR and promotional expenses	-1,444	-920
Legal, advisory and consulting expenses	-11,911	-10,319
IT cost	-20,862	-21,727
Contribution to the deposit guarantee	-2,980	-2,977
Sundry administrative expenses (including training expenses for staff)	-8,393	-6,401
Depreciation and appreciation	-4,087	-4,121
Regular	-4,087	-4,121
General administrative expenses	**-115,466**	**-106,768**

Income taxes

Due to the tax planning of the next four years, deferred tax assets were recognised in respect of some tax losses carried forward in the period under review. For tax losses carried forward in the amount of euro 248 million (31 Dec 2017: euro 268 million), no deferred tax assets were recognised.

5) Notes to the consolidated statement of financial positions

Liquid funds

Euro thousand	30 Jun 2018	31 Dec 2017
Cash in hand	48,870	55,489
Balances with central banks	1,849,013	1,758,462
Liquid funds	**1,897,883**	**1,813,951**

Transition from liquid funds to cash and cash equivalents

Euro thousand	30 Jun 2018	31 Dec 2017
Liquid funds	1,897,883	1.813.951
Restricted cash and cash equivalents	-4,901	-4,687
Cash and cash equivalents	**1,892.982**	**1.809.264**

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

Loans and receivables to credit institutions and customers

Euro thousand	30 Jun 2018	31 Dec 2017
Loans and receivables to credit institutions		
Amortised cost	1,429,515	1,703,912
Fair value through profit or loss	511	0
Gross carrying amount	1,430,027	1,703,912
Risk provisions	-66	0
Net carrying amount	**1,429,961**	**1,703,912**
Loans and receivables to customers		
Amortised cost	4,956,437	4,810,325
Fair value through profit or loss	190,910	0
Gross carrying amount	5,147,347	4,810,325
Risk provisions	-50,881	-57,944
Net carrying amount	**5,096,466**	**4,752,381**
Loans and receivables to credit institutions and customers	**6,526,427**	**6,456,293**

Risk provisions

Euro thousand	Portfolio loan loss provision - Stage 1	Portfolio loan loss provision - Stage 2	Individual loan loss provision - Stage 3	Purchased originated or credit-impaired	Total
As at 1 Jan 2018	5,284	6,162	37,192	0	48,638
Increases due to origination and acquisition	398	34	208	0	641
Decreases due to derecognition	-670	-721	-2,720	0	-4,111
Changes due to change in credit risk (net)	-58	2,487	2,922	0	5,351
Decrease in allowance account due to write-offs	0	0	-14	0	-14
Other adjustments	269	149	784	0	1,202
As at 30 Jun 2018	**5,223**	**8,111**	**38,372**	**0**	**51,707**

Euro thousand	Individual impairment customers	Portfolio based allowance	Total
As at 1 Jan 2017	55,156	13,943	69,099
Currency translation	-51	-3	-53
Unwinding	-610	0	-610
Utilisation	-4,596	0	-4,596
Release	-11,691	-4,197	-15,888
Addition	7,216	0	7,216
As at 30 Jun 2017	**45,424**	**9,743**	**55,167**

Loans and receivables to customers include non-interest-bearing receivables amounting to euro 56,002 thousand (30 Jun 2017: euro 74,375 thousand). Portfolio based allowances are almost entirely related to loans and receivables to customers.

Sensitivity analysis

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

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

Loans and receivables to credit institutions and customers Euro thousand	Positive change in fair value	Negative change in fair value
Change in risk markup +/- 10 bp	796	-790
Change in risk markup +/- 100 bp	8,256	-7,630
Change in rating 1 stage down / up	852	-2,162
Change in rating 2 stages down / up	1,156	-3,216

Assets held for trading

Euro thousand	30 Jun 2018	31 Dec 2017
Fixed-income securities	7,364	8,320
Positive fair values from derivative instruments	52,810	60,847
Exchange rate related transactions	0	33
Interest rate related transactions	52,810	60,814
Assets held for trading	**60,173**	**69,167**

Since the acquisition of CO functions the company maintains a trading book. The volume of the trading book as at 30 Jun 2018 amounts to euro 3,726,743 thousand (31 Dec 2017: euro 3,951,958 thousand).

Financial investments

Euro thousand	30 Jun 2018	31 Dec 2017
Amortised cost	1,584,671	316,104
Fair value through OCI	344,443	1,526,889
Fair value through profit or loss	47,836	0
Risk provisions	-687	0
Financial investments	**1,976,262**	**1,842,992**

Participations

Euro thousand	30 Jun 2018	31 Dec 2017
Investments in unconsolidated affiliates	2,996	4,036
Investments in companies with a participating interest	3,926	3,865
Investments in other companies	35,673	35,321
Participations	**42,595**	**43,222**

Sensitivity analysis

Participations, measured by using the DCF method

Proportional market value Euro thousand 30 Jun 2018		Interest rate -0.50 %	 actual	 0.50 %
Income component	-10.00 %	12,969	12,260	11,630
	actual	14,301	**13,506**	12,814
	10.00 %	15,633	14,767	13,998

31 Dec 2017		-0.50 %	actual	0.50 %
Income component	-10.00 %	13,719	12,976	12,316
	actual	15,137	**14,313**	13,578
	10.00 %	16,556	15,648	14,840

Participations, measured by net assets

Euro thousand 30 Jun 2018	Proportional market value if assumption is decreased	 actual	 if assumption is increased
Net assets (10 % change)	4,816	**5,353**	5,886

31 Dec 2017	if assumption is decreased	actual	if assumption is increased
Net assets (10 % change)	5,749	**6,392**	7,027

Participations, measured based on external appraisals

Euro thousand 30 Jun 2018	Lower band	actual	Upper band
Proportional market value	18,232	**20,028**	22,264

31 Dec 2017	Lower band	actual	Upper band
Proportional market value	17,188	**18,811**	20,433

Other assets

Euro thousand	30 Jun 2018	31 Dec 2017
Deferred items	4,388	710
Other receivables and assets	26,431	24,692
Positive fair value from derivative instruments	79,280	98,575
Other assets	**110,099**	**123,977**

Assets held for sale

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

Euro thousand	30 Jun 2018	31 Dec 2017
Investment property	729	0
Tangible fixed assets	0	2,319
Other assets	97	118
Assets held for sale	**826**	**2,437**

Amounts owed to credit institutions

Euro thousand	30 Jun 2018	31 Dec 2017
Central banks	162,166	169,541
Other credit institutions	2,550,313	2,574,010
Amounts owed to credit institutions	**2,712,479**	**2,743,551**

Amounts owed to credit institutions are measured at amortised cost.

Amounts owed to customers

Euro thousand	30 Jun 2018	31 Dec 2017
Saving deposits	2,293,299	2,215,024
Other deposits	3,806,015	3,576,349
Amounts owed to customers	**6,099,314**	**5,791,374**

Amounts owed to customers are measured at amortised cost.

Debts evidenced by certificates

Euro thousand	30 Jun 2018	31 Dec 2017
Bonds	457,521	487,507
Amortised cost	350,095	487,507
Fair value through profit or loss - designated	107,426	0
Debts evidenced by certificates	**457,521**	**487,507**

Liabilities held for trading

Euro thousand	30 Jun 2018	31 Dec 2017
Negative fair values of derivative instruments		
Interest rate related transactions	73,943	82,010
Liabilities held for trading	**73,943**	**82,010**

Provisions

Euro thousand	30 Jun 2018	31 Dec 2017
Provisions for post-employment benefits	65,818	61,584
Provisions for off-balance and other risks	4,581	4,212
Stage 1	629	n.a.
Stage 2	468	n.a.
Stage 3	3,484	n.a.
Other provisions	19,523	17,976
Provisions	**89,922**	**83,772**

Other liabilities

Euro thousand	30 Jun 2018	31 Dec 2017
Deferred items	127	391
Other liabilities	73,541	49,273
Negative fair values from derivative instruments	379,517	378,484
Other liabilities	**453,185**	**428,148**

Subordinated liabilities

Euro thousand	30 Jun 2018	31 Dec 2017
Subordinated liabilities	407.308	407,209
Supplementary capital	15,939	18,569
Subordinated capital	**423,247**	**425,778**

Subordinated liabilities and supplementary capital are measured at amortised cost.

6) 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	30 Jun 2018	31 Dec 2017
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	341,416	324,241
Retained earnings	317,598	145,730
Accumulated other comprehensive income (and other reserves)	-106,962	96,190
Amount of capital instruments subject to phase out from CET1	8,363	9,907
Non-controlling interest	0	779
Common tier I capital before regulatory adjustments	560,415	576,846
Common tier I capital: regulatory adjustments		
Regulatory value adjustments	0	0
Goodwill (net of related tax liability)	0	0
Intangible assets (net of related tax liability)	-22,680	-23,418
Value adjustments due to the requirement for prudent valuation	-1,354	-2,228
Deferred tax assets arising from temporary difference (amount above 10 % threshold, net of related tax liability)	-3,447	0
Regulatory adjustments - transitional provisions	0	-5,294
Unrealised gains (0 %; 2017: 20 %)	0	-9,978
Loss of the current financial year (0 %; 2017: 20 %)	0	0
Intangible assets (0 %; 2017: 20 %)	0	4,684
Deferred tax assets arising from temporary difference	0	0
CET1 instruments of financial sector entities	0	0
Amount exceeding the threshold of 17.65 %	-9,866	0
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	-4,684
Additional CET 1 deductions pursuant to article 3 CRR	-9,434	-7,788
Total regulatory adjustments	-46,780	-43,411
Common equity tier I capital - CET1	**513,635**	**533,435**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	0	0
Additional tier I capital before regulatory adjustments	0	0
Additional tier I capital: regulatory adjustments		
Regulatory adjustments - transitional provisions	0	-4,684
Loss of the current financial year (0 %; 2017: 20 %)	0	0
Intangible assets (0 %; 2017: 20 %)	0	-4,684
CET1 instruments of financial sector entities	0	0
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	4,684
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**0**	**0**
Tier I capital (CET1 + AT1)	**513,635**	**533,435**
Tier I capital - instruments and provisions		
Capital instruments including share premium accounts	406,937	406,563
Capital instruments subject to phase out from tier II	153	649
Tier II capital before regulatory adjustments	407,091	407,212
Tier II capital: regulatory adjustments		
T2 instruments of financial sector entities where the institution has a significant investment	0	0
Regulatory adjustments - transitional provisions	0	0
CET1 instruments of financial sector entities	0	0
Total regulatory adjustments	0	0
Tier II capital - T2	**407,091**	**407,212**
Own funds	**920,726**	**940,647**
Common equity tier I capital ratio (tier I)	13.86 %	15.37 %
Tier I capital ratio	13.86 %	15.37 %
Equity ratio	24.85 %	27.11 %

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	30 Jun 2018	31 Dec 2017
Risk weighted exposure amount - credit risk	2,971,971	2,720,792
Total risk exposure amount - settlement risk	47	77
Total risk exposure amount for position, foreign exchange and commodities risks	94,846	111,792
Total risk exposure amount for operational risk	588,705	578,570
Total risk exposure amount for credit valuation adjustment (cva)	49,749	59,092
Total risk exposure amount	**3,705,317**	**3,470,323**

The following table shows the own funds of the VBW credit institution group pursuant to CRR - fully loaded:

Euro thousand	30 Jun 2018	31 Dec 2017
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	341,416	324,241
Retained earnings	317,598	145,730
Accumulated other comprehensive income (and other reserves)	-106,962	96,190
Common tier I capital before regulatory adjustments	552,052	566,160
Common tier I capital: regulatory adjustments		
Goodwill (net of related tax liability)	0	0
Intangible assets (net of related tax liability)	-22,680	-23,418
Value adjustments due to the requirement for prudent valuation	-1,354	-2,228
Deferred tax assets arising from temporary difference (amount above 10 % threshold, net of related tax liability)	-4,283	0
Amount exceeding the threshold of 17.65 %	-10,654	0
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	0
Additional CET 1 deductions pursuant to article 3 CRR	-9,434	-9,735
Total regulatory adjustments	-48,403	-35,381
Common equity tier 1 capital - CET1	**503,649**	**530,780**
Additional tier 1 capital: instruments		
Capital instruments including share premium accounts	0	0
Additional tier 1 capital before regulatory adjustments	0	0
Additional tier 1 capital: regulatory adjustments		
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	0
Total regulatory adjustments	0	0
Additional tier 1 capital - AT1	**0**	**0**
Tier 1 capital (CET1 + AT1)	**503,649**	**530,780**
Tier 2 capital - instruments and provisions		
Capital instruments including share premium accounts	415,300	416,470
Tier 2 capital before regulatory adjustments	415,300	416,470
Tier 2 capital: regulatory adjustments		
T2 instruments of financial sector entities where the institution has a significant investment	0	0
Total regulatory adjustments	0	0
Tier 2 capital - T2	**415,300**	**416,470**
Own funds	**918,949**	**947,250**
Common equity tier 1 capital ratio (tier I)	13.61 %	15.32 %
Tier 1 capital ratio	13.61 %	15.32 %
Equity ratio	24.83 %	27.33 %
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	30 Jun 2018	31 Dec 2017
Risk weighted exposure amount - credit risk	2,967,912	2,715,925
Total risk exposure amount - settlement risk	47	77
Total risk exposure amount for position, foreign exchange and commodities risks	94,846	111,792
Total risk exposure amount for operational risk	588,705	578,570
Total risk exposure amount for credit valuation adjustment (cva)	49,749	59,092
Total risk exposure amount	**3,701,258**	**3,465,456**

In accordance with IFRS reporting, the scope of consolidation differs from the scope of consolidation under CRR as the IFRS provides for the inclusion of other entities not belonging to the financial sector. According to CRR, companies in the financial sector that are under the control of the parent or where the Group helds a majority of shares either direct or indirect, are fully consolidated. The carrying amount of institutions, financial institutions and subsidiaries providing 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 first half of 2018, no substantial, practical or legal obstacles existed which would have prevented the transfer of equity or the repayment of liabilities between the parent institution and institutions subordinated to the former.

7) Financial assets and liabilities

The following table shows the financial assets and liabilities in the specifc categories as well as their fair values.

Euro thousand	Amortised cost	Fair value through OCI	Fair value through profit or loss	Carrying amount - total	Fair value
30 Jun 2018					
Liquid funds	1,897,883	0	0	1,897,883	1,897,883
Loans and receivables to credit institutions (gross)	1,429,515	0	511	1,430,027	
Individual loan loss provision	0	0	0	0	
Loans and receivables to credit institutions less individual loan loss provision	1,429,515	0	511	1,430,027	1,434,521
Loans and receivables to customers (gross)	4,956,437	0	190,910	5,147,347	
Individual loan loss provision	-38,372	0	0	-38,372	
Loans and receivables to customers less individual loan loss provision	4,918,064	0	190,910	5,108,975	5,006,063
Assets held for trading	0	0	60,173	60,173	60,173
Financial investments (gross)	1,584,671	344,443	47,836	1,976,950	
Individual loan loss provision	0	0	0	0	
Financial investments less individual loan loss provision	1,584,671	344,443	47,836	1,976,950	1,995,735
Participations	0	42,595	0	42,595	42,595
Derivative instruments	0	0	79,280	79,280	79,280
Financial assets total	**9,830,133**	**387,038**	**378,711**	**10,595,882**	**10,516,249**
Amounts owed to credit institutions	2,712,479	0	0	2,712,479	2,715,246
Amounts owed to customers	6,099,314	0	0	6,099,314	6,099,083
Debts evidenced by certificates	350,095	0	107,426	457,521	465,925
Liabilities held for trading	0	0	73,943	73,943	73,943
Derivative instruments	0	0	379,517	379,517	379,517
Subordinated capital	423,247	0	0	423,247	416,283
Financial liabilities total	**9,585,135**	**0**	**560,887**	**10,146,022**	**10,149,998**

Euro thousand	Amortised cost	Fair value through OCI	Fair value through profit or loss	Carrying amount - total	Fair value
31 Dec 2017					
Liquid funds	1,813,951	0	0	1,813,951	1,813,951
Loans and receivables to credit institutions (gross)	1,703,912	0	0	1,703,912	
Individual loan loss provision	0	0	0	0	
Loans and receivables to credit institutions less individual loan loss provision	1,703,912	0	0	1,703,912	1,708,992
Loans and receivables to customers (gross)	4,810,325	0	0	4,810,325	
Individual loan loss provision	-44,047	0	0	-44,047	
Loans and receivables to customers less individual loan loss provision	4,766,278	0	0	4,766,278	4,688,398
Assets held for trading	0	0	69,167	69,167	69,167
Financial investments (gross)	316,104	1,526,889	0	1,842,992	
Individual loan loss provision	0	0	0	0	
Financial investments less individual loan loss provision	316,104	1,526,889	0	1,842,992	1,842,025
Participations	0	43,222	0	43,222	43,222
Derivative instruments	0	0	98,575	98,575	98,575
Financial assets total	**8,600,244**	**1,570,110**	**167,742**	**10,338,097**	**10,264,330**
Amounts owed to credit institutions	2,743,551	0	0	2,743,551	2,743,616
Amounts owed to customers	5,791,374	0	0	5,791,374	5,799,307
Debts evidenced by certificates	487,507	0	0	487,507	511,392
Liabilities held for trading	0	0	82,010	82,010	82,010
Derivative instruments	0	0	378,484	378,484	378,484
Subordinated capital	425,778	0	0	425,778	424,151
Financial liabilities total	**9,448,210**	**0**	**460,493**	**9,908,704**	**9,938,959**

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

Euro thousand	Level 1	Level 2	Level 3	Total
30 Jun 2018				
Loans and receivables to credit institutions	0	0	511	511
Loans and receivables to customers	0	0	190,910	190,910
Assets held for trading	2,535	57,638	0	60,173
Financial investments	348,563	8,913	34,803	392,279
Fair value through profit or loss	4,120	8,913	34,803	47,836
Fair value through OCI	344,443	0	0	344,443
Participations	0	0	42,529	42,529
Fair value through OCI - designated	0	0	42,529	42,529
Derivative instruments	0	79,280	0	79,280
Total	**351,098**	**145,832**	**268,754**	**765,683**
Debts evidenced by certificates	0	0	107,426	107,426
Liabilities held for trading	0	73,943	0	73,943
Derivative instruments	0	379,517	0	379,517
Subordinated capital	0	0	0	0
Total	**0**	**453,461**	**107,426**	**560,887**

Euro thousand	Level 1	Level 2	Level 3	Total
31 Dec 2017				
Loans and receivables to credit institutions	0	0	0	0
Loans and receivables to customers	0	0	0	0
Assets held for trading	8,320	60,847	0	69,167
Financial investments	1,460,779	32,329	33,780	1,526,889
Available for sale	1,460,779	32,329	33,780	1,526,889
Participations	0	0	43,161	43,161
Derivative instruments	0	98,575	0	98,575
Total	**1,469,100**	**191,751**	**76,942**	**1,737,792**
Debts evidenced by certificates	0	0	0	0
Liabilities held for trading	0	82,010	0	82,010
Derivative instruments	0	378,484	0	378,484
Total	**0**	**460,493**	**0**	**460,493**

In 2018 there were no reclassifications between the levels. In 2017 financial instruments with a carrying amount of euro 6,071 thousand were reclassified from level 2 to level 1.

Fair value hierarchy

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

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

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

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

When determining market values for level 2 financial investments, 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 credit speads or transactions in comparable products performed on active markets. The system prices are then

adjusted accordingly if necessary. The main level 2 input factors are interest rates including associated interest rate volatilities, foreign exchange swap points, exchange rates, share prices, index rates, including related volatilities and credit spreads obtained from brokers on a daily basis. Market valuation adjustments are made through linear interpolations of the directly obtained broker data. The input factors used undergo daily quality assurance and are archived in the valuation system.

Development of level 3 fair values financial assets

Euro thousand	Loans and receivables to credit institutions	Loans and receivables to customers	Financial investments	Participations	Debts evidenced by certificates	Total
As at 01 Jan 2018	522	167,877	33,780	43,161	104,827	350,168
Changes in the scope of consolidation	0	38,810	0	1,334	0	40,144
Additions	0	13,272	97	0	1,118	14,487
Disposals	-11	-24,464	0	-48	0	-24,523
Valuation						
Through profit or loss	0	-4,585	926	0	-1,077	-4,736
Through OCI	0	0	0	-1,919	2,558	639
As at 30 Jun 2018	**511**	**190,910**	**34,803**	**42,529**	**107,426**	**376,180**

Euro thousand	Financial investments	Participations	Total
As at 01 Jan 2017	29,384	8,552	37,935
Changes in the scope of consolidation	0	0	0
Additions	176	0	176
Disposals	0	0	0
Valuation			
Through profit or loss	-5	0	-5
Through OCI	1,023	-281	742
As at 30 Jun 2017	**30,578**	**8,271**	**38,849**

The valuations shown in the table above are included in the item income from financial investments (income statement) or the fair value reserve (other comprehensive income). The valuations recorded in the income statement include holdings of financial assets to the amount of euro -3,564 thousand (1-6/2017: euro -5 thousand) at the reporting date.

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

As at 30 Jun 2018 financial investments include participation certificates with a carrying amount of euro 31,503 thousand (31 Dec 2017: euro 30,481 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 2019 is assumed as the estimated final maturity. The extended redemption period results from the Managing Board's assessment that a redemption by the Volksbanks of the participation capital held by VB Regio as an asset is subject to approval by the ECB. Only after such approval will VB Regio be able to redeem its own participation certificates. Moreover, a valuation report is required for the redemption of participation certificates in each case.

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

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

30 Jun 2018 Euro thousand	Positive change in fair value	Negative change in fair value
Change in maturity + 1 year	0	-1,386
Change in markup +/- 100 bp	465	-459
Change in redemption value - 5 %	0	-1,540

31 Dec 2017	Positive change in fair value	Negative change in fair value
Change in maturity + 1 year	0	-1,375
Change in markup +/- 100 bp	621	-607
Change in redemption value - 5 %	0	-1,485

Please refer to note 3) p) Investments in associated companies (measured at equity) and participations for a description of the valuation procedures used for participations.

8) Number of staff

Number of staff employed during the business year

	Average number of staff		Number of staff at end of period	
	1-6/2018	1-6/2017	30 Jun 2018	31 Dec 2017
Employees	1,288	1,225	1,315	1,319
Workers	6	13	8	8
Number of staff total	**1,294**	**1,238**	**1,323**	**1,327**

All staff is domestic.

9) Branches

	30 Jun 2018	31 Dec 2017
Domestic	92	78
Total number of branches	**92**	**78**

10) Related party disclosures

Euro thousand	Unconsolidated affiliates	Companies with a participating interest	Associated companies	Companies which exercise a significant influence on the parent as shareholders
30 Jun 2018				
Loans and receivables to credit institutions (net)	0	0	20,375	0
Loans and receivables to customers (net)	220	4,410	9,664	0
Fixed-income securities (net)	0	0	92	594,994
Amounts owed to credit institutions	0	0	170,190	0
Amounts owed to customers	3,201	202	97,086	0
Provisions	0	5	14	0
Transactions	3,719	19,373	317,925	0
31 Dec 2017				
Loans and receivables to credit instituitions (net)	0	0	18,020	0
Loans and receivables to customers (net)	284	2,814	16,120	0
Fixed-income securities (net)	0	0	0	759,712
Amounts owed to credit instituions	0	0	181,967	0
Amounts owed to customers	4,832	321	100,044	0
Provisions	0	11	10	0
Transactions	3,177	35,327	312,931	0

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

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

The Republic of Austria exercises a significant influence on the VBW Group as a shareholder. The information stated is limited to securities of the issuer republic of Austria.

Loans and receivables to credit institutions and customers contain transactions with the Volksbank-Sector amounting to euro 998,334 thousand (31 Dec 2017: euro 1,261,907 thousand) and amounts owed to credit institutions and owed to customers include transactions with the Volksbank-Sector amounting to euro 2,393,169 thousand (31 Dec 2017: euro 2,388,510 thousand).

11) Segment reporting by business segments

1-6/2018

Euro thousand	Retail	CO	Consolidation	Total
Net interest income	52,846	7,017	0	59,863
Risk provisions	-3,201	2,786	0	-416
Net fee and comission income	27,021	-2,410	30	24,641
Net trading income	157	-210	0	-53
Result from financial investments	-3,638	7,820	-1,585	2,596
Other operating result	5,977	71,547	-20,411	57,112
General administrative expenses	-75,785	-61,648	21,967	-115,466
Restructuring result	-160	75	0	-85
Result from investments in associated companies	579	-318	0	260
Result for the period before taxes	**3,795**	**24,658**	**0**	**28,453**
Income taxes	5,409	-4,789	0	620
Result for the period after taxes	**9,205**	**19,868**	**0**	**29,073**
30 Jun 2018				
Total assets	**6,267,507**	**5,875,661**	**-1,255,400**	**10,887,768**
Loans and receivables to customers (net)	4,767,113	383,355	-54,002	5,096,466
Investments in associated companies	22,097	8,166	0	30,263
Amounts owed to customers	5,521,628	641,769	-64,083	6,099,314
Debts evidenced by certificates, including subordinated liabilities	119,567	761,202	0	880,768

1-6/2017

Euro thousand	Retail	CO	Consolidation	Total
Net interest income	40,306	18,989	0	59,295
Risk provisions	7,551	2,129	0	9,680
Net fee and comission income	26,482	-1,990	113	24,605
Net trading income	94	4,943	0	5,036
Result from financial investments	1,106	489	-3,043	-1,449
Other operating result	-376	59,214	-16,284	42,555
General administrative expenses	-58,504	-66,019	17,756	-106,768
Restructuring result	0	0	0	0
Result from investments in associated companies	-139	0	0	-139
Result for the period before taxes	**16,520**	**17,755**	**-1,458**	**32,817**
Income taxes	-684	667	2	-14
Result for the period after taxes	**15,836**	**18,422**	**-1,456**	**32,802**
31 Dec 2017				
Total assets	**5,952,603**	**6,008,002**	**-1,344,123**	**10,616,482**
Loans and receivables to customers (net)	4,423,419	383,526	-54,564	4,752,381
Investments in associated companies	21,992	8,761	0	30,753
Amounts owed to customers	5,234,090	623,209	-65,926	5,791,374
Debts evidenced by certificates, including subordinated liabilities	126,065	787,220	0	913,285

12) Events after the balance sheet date

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

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

13) Quarterly financial data

Euro thousand	04-06/2018	01-03/2018	10-12/2017	07-09/2017
Net interest income	30,084	29,779	28,046	33,382
Risk provisions	1,773	-2,188	-10,875	3,625
Net fee and commission income	11,982	12,659	14,608	14,565
Net trading income	567	-620	-389	950
Result from financial investments	-3,151	5,747	3,512	-3,017
Other operating result	28,519	28,593	-8,869	31,520
General administrative expenses	-52,775	-62,691	-49,977	-48,131
Restructuring result	-85	0	1,276	0
Result from companies measured at equity	-447	707	6,386	-70
Result for the period before taxes	**16,467**	**11,987**	**-16,283**	**32,823**
Income taxes	914	-294	6,997	-2,357
Result for the period after taxes	**17,381**	**11,692**	**-9,286**	**30,466**
Result attributable to shareholders of the parent company (consolidated net result)	**17,374**	**11,689**	**-9,286**	**30,463**
Result attributable to non-controlling interest	7	3	0	3

COMPLIANCE STATEMENT

VOLKSBANK WIEN AG
Statement of all legal representatives

We confirm to the best of our knowledge that the condensed half year 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 important events that have occurred during the first six months of the financial year and their impact on the condensed half year financial statements and of the principal risks and uncertainties for the remaining six months of the financial year.

Vienna, 29 August 2018

Gerald Fleischmann
Chairman of the Managing Board

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

Josef Preissl
Deputy Chairman of the Managing Board

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

Rainer Borns
Member of the Managing Board

Control, Financial Data Steering, Finance, Legal and Compliance

Thomas Uher
Member of the Managing Board

Credit risk management, Risk controlling, Transition Credit

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Ref 14044578/10154196

Vienna, 29 August 2018

Report on the review of the condensed consolidated interim financial statements

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of VOLKSBANK WIEN AG, Vienna, for the period from 1 January 2018 to 30 June 2018. These condensed interim consolidated financial statements comprise the condensed statement of financial position as of 30 June 2018 and the condensed statement of comprehensive income, the condensed cash flow statement and condensed changes in the Group's for the period from 1 January 2018 to 30 June 2018 and the condensed notes, summarizing the significant accounting policies and other explanatory notes.

Management is responsible for the preparation of the condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRS's) for interim reporting as adopted by the EU.

Our responsibility is to express a conclusion on these condensed consolidated interim financial statements. Our liability towards the Company and towards third parties is limited in accordance with section 62a Austrian Banking Act (BWG) in conjunction with section 275 par 2 of the Austrian Commercial Code (UGB).

Scope of review

We conducted our review in accordance with Austrian Standards for Chartered Accountants, in particular in compliance with KFS/PG 11 "Principles of Engagements to Review Financial Statements" and with the International Standard on Review Engagements (ISRE 2410) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements is limited primarily to making inquiries, primarily of Company personnel, responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG Austria GmbH
an Austrian member firm of KPMG International,
a Swiss cooperative.

Sitz und Firmenbuchgericht Wien
Firmenbuch-Nr. FN 269873 y
WT-Code 804140
DVR-Nr. 3000081
UID-Nr. ATU62210413

Conclusion

Based on our review, nothing came to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with International Financial Reporting Standards (IFRS's) for Interim Reporting as adopted by the EU.

Statement on the consolidated interim management report for the 6 month period ended 30 June 2018

We have read the half-year management report and evaluated whether it does not contain any apparent inconsistencies with the condensed interim consolidated financial statements. Based on our evaluation, the consolidated interim management report does not contain any apparent inconsistencies with the condensed interim consolidated financial statements.

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Walter Reiffenstuhl
Wirtschaftsprüfer
(Austrian Chartered Accountant)

Note: The condensed interim consolidated financial statements together with our review report may be published or transmitted only as agreed by us.

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