ANNUAL REPORT

ASSOCIATION OF VOLKSBANKS

2021

KEY FIGURES OF THE ASSOCIATION OF VOLKSBANKS

Euro million	31 Dec 2021	31 Dec 2020	31 Dec 2019
Balance sheet			
Total assets	**32,095**	**29,370**	**27,496**
Loans and receivables customers	**21,563**	**21,287**	**21,251**
Amounts owed to customers	**22,747**	**22,153**	**21,729**
Debts evidenced by certificates	**1,877**	**1,470**	**1,482**
Subordinated liabilities	**494**	**577**	**598**
Own funds according to Basel III for the association of Volksbanks			
Common equity tier 1 capital (CET1)	1,978	2,002	1,908
Additional tier 1 capital (AT1)	220	220	224
Tier 1 capital (T1)	**2,198**	**2,222**	**2,131**
Tier 2 capital (T2)	460	494	506
Own funds	**2,658**	**2,716**	**2,638**
Risk weighted exposure amount - credit risk	12,496	12,903	13,450
Total risk exposure amount market risk	27	38	85
Total risk exposure amount operational risk	1,231	1,184	1,231
Total risk for credit valuation adjustment	9	50	44
Total risk exposure amount	**13,763**	**14,175**	**14,810**
Common equity tier 1 capital ratio	**14.4 %**	**14.1 %**	**12.9 %**
Tier 1 capital ratio	**16.0 %**	**15.7 %**	**14.4 %**
Equity ratio	**19.3 %**	**19.2 %**	**17.8 %**
Income statement	**1-12/2021**	**1-12/2020**	**1-12/2019**
Net interest income	405.9	413.1	422.4
Risk provision	89.4	-126.0	-22.1
Net fee and commission income	253.4	239.1	229.6
Net trading income	3.6	-0.5	-0.9
Result from financial instruments and investment properties	17.5	5.9	29.4
Other operating result	-2.2	37.3	55.2
General administrative expenses	-515.3	-511.8	-534.2
Result from companies measured at equity	-1.3	-0.3	0.1
Result before taxes	**251.0**	**56.8**	**179.5**
Income taxes	-31.8	-36.8	-31.0
Result after taxes	**219.1**	**20.0**	**148.5**
Result attributable to non-controlling interest	0.0	0.0	0.0
Result of the Group	**219.1**	**20.0**	**148.4**
Key ratios	**1-12/2021**	**1-12/2020**	**1-12/2019**
Operating cost-income-ratio	**77.3 %**	**73.6 %**	**80.1 %**
ROE before taxes	**10.9 %**	**2.5 %**	**8.5 %**
ROE after taxes	**9.5 %**	**0.9 %**	**7.0 %**
ROE consolidated net income	**9.5 %**	**0.9 %**	**7.0 %**
Net interest margin	**1.3 %**	**1.4 %**	**1.5 %**
NPL ratio	**1.9 %**	**1.9 %**	**2.3 %**
Leverage ratio	**6.6 %**	**7.3 %**	**7.5 %**
Liquidity coverage ratio	**223.7 %**	**194.0 %**	**142.1 %**
Net stable funding ratio	**138.0 %**	**141.3 %**	**133.5 %**
Loan deposit ratio	**91.3 %**	**92.6 %**	**104.7 %**
Coverage ratio I	**35.6 %**	**40.1 %**	**38.6 %**
Coverage ratio III	**105.4 %**	**107.4 %**	**104.4 %**
Resources	**1-12/2021**	**1-12/2020**	**1-12/2019**
Staff average	**3,211**	**3,362**	**3,604**
Thereof domestic	3,211	3,362	3,598
Thereof abroad	0	0	6
	31 Dec 2021	**31 Dec 2020**	**31 Dec 2019**
Staff at end of period	**3,128**	**3,268**	**3,496**
Thereof domestic	3,128	3,268	3,496
Number of branches	**243**	**249**	**267**
Thereof domestic	243	249	267
Number of customers	**1,021,805**	**1,046,303**	**1,072,639**

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

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Report on the business development and economic situation

Business development

The Association of Volksbanks can look back on a business year 2021 that was marked by the coronavirus pandemic, but which was economically successful overall. Due in particular to the extremely positive securi ties business, the Association of Volksbanks achieved an excellent net fee and commission income of euro 253.4 million (2020: euro 239.1 million), which is also the highest net fee and commission income ever achieved within the Association.

In the meantime, some trends are intensifying that will influence our actions in the future in a different way than before the pandemic. These include topics such as remote work, digitisation, sustainability, as well as regulatory and economic effects.

Digitisation has made a huge leap forward in internal collaboration and in retail banking; even previously "im possible" things have suddenly lent themselves to quick and flexible implementation.

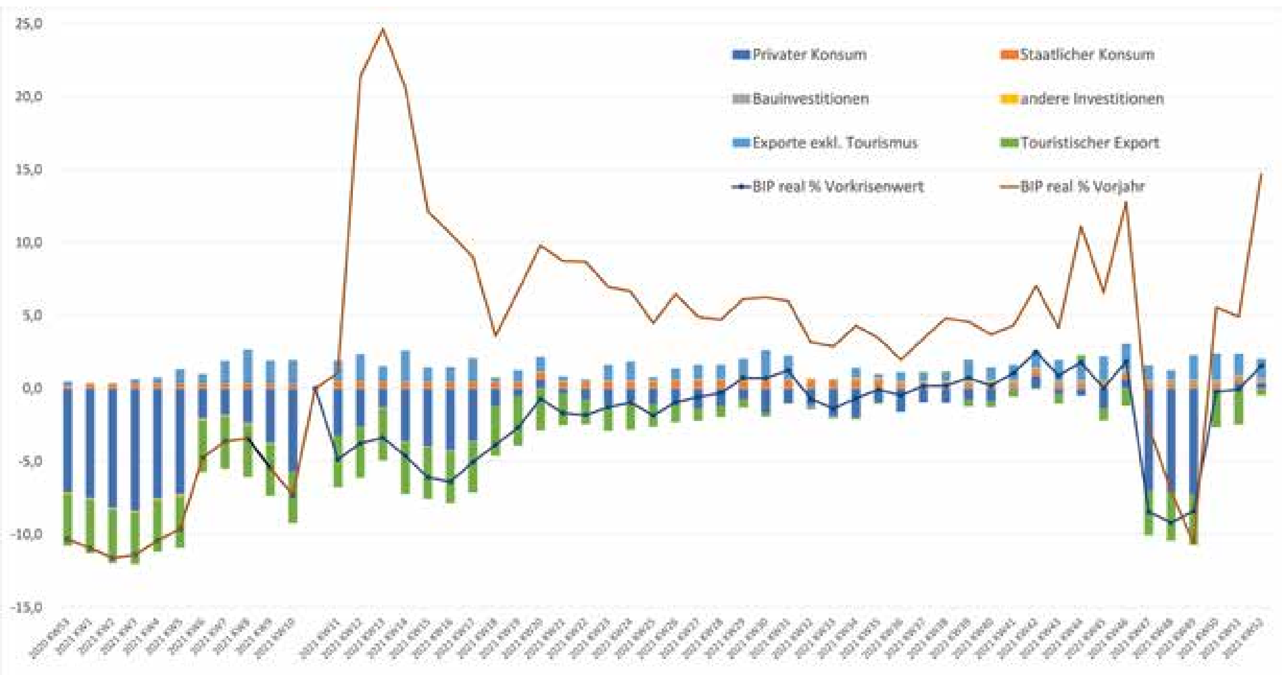
In addition, sustainability has become very important in all areas of the economy in recent months. Sustain ability is a significant asset for the Association of Volksbanks due to its regional and cooperative origins. The Association of Volksbanks has committed itself to the Paris Agreement on climate protection and has set up a comprehensive project on the topic of "sustainability". The aim is to manage ESG risks appropriately and to enhance the positive impact of its business activities on the environment and on people.

Volksbank Wien AG (VBW) participated in the June 2021 tranche of the TLTRO III programme with euro 2 billion on behalf of the Association of Volksbanks. As a result, a total of euro 3.5 billion was raised through the TLTRO III programme. The funds raised serve to refinance lending business and also enable an improvement in the liquidity structure within the Association of Volksbanks.

On 23 March 2021, VBW, as central organisation for the Association of Volksbanks, issued a senior non-preferred bond with a volume of euro 500 million and a term of 5 years with a fixed interest rate of 0.875 %.

Economic environment

Real GDP growth in 2021 according to the Weekly OeNB GDP Indicator



Contributions to real GDP growth compared with the pre-crisis level and GDP growth rate compared with pre-crisis and previous year's levels in % and percentage points, respectively

COVID-19 restrictions during the year

26.12.2020 (week 52)	Lockdown (retail limited to daily needs)
08.02.2021 (week 6)	Partial lockdown (retail shops and cable cars open, gastronomy and hospitality businesses closed)
01.04.2021 (week 13)	Lockdown in the east of Austria ("Easter Rest")
03.05.2021 (week 18)	End of hard lockdown in the east of Austria
19.05.2021 (week 20)	Opening of gastronomy, tourism and leisure businesses (3G)
01.07.2021 (week 26)	Various easing measures (leisure economy, obligation to wear masks, ...)
15.09.2021 (week 37)	Tightening of various measures such as obligation to wear masks, validity period of tests
15.11.2021 (week 46)	Lockdown for unvaccinated persons (2G rule)
22.11.2021 (week 47)	General lockdown
13.12.2021 (week 50)	Lockdown for unvaccinated persons (opening with 2G rule; gastronomy & tourism in Vienna only from 20.12., events with 2G or 2G+ test widely permitted)

In the course of the year, the pandemic was not overcome, but in economic terms it was increasingly superimposed by other factors. While individual sectors, particularly retail, gastronomy, hospitality and leisure, were still severely restricted at times, and many events were cancelled in both the leisure sphere and in a professional context, overall there was evidence of growing macroeconomic resilience. Compared with the previous year, GDP is supposed to have increased by about 4 % in 2021, with the rate fluctuating strongly with the constraints in place at the time. The export sector made consistently positive contributions to growth. Government consumption and construction investment also made a consistent contribution to growth compared with pre-crisis levels. Other investments were roughly at pre-crisis levels, but were up year-on-year, as was private consumption. For the fourth quarter, the flash estimate of the Austrian Institute of Economic Research (WIFO) assumes an annual growth rate of 5.4 %. The employment situation has improved noticeably. The unemployment rate according to the international definition, i.e. as a percentage of the working population, declined successively from 7.3 % (January) to 4.9 % (December). In addition, nearly 500,000 employees were still registered for short-time work in January (and payments were ultimately effected for 420,000). Despite the general lockdown in the retail, tourism and event sectors that was in effect for three weeks at the end of the year, the number of registrations in December was only 176,000.

Overall economic development 2021

	GDP growth % y/y	Inflation rate (HICP) % y/y	Unemployment rate %
Preliminary values as at 03.03.2022	4.1/ Q4: 5.4[1)]	2.8	6.1[1)] (nat. method: 8.0[1)])

With the rise in raw material prices, which also affected the prices of European CO_2 emission allowances due to intensified climate policy efforts, inflation accelerated noticeably in the past year. Supply bottlenecks in connection with the pandemic and the average of a cargo ship in the Suez Canal, among others, also contributed to cost inflation, which was increasingly passed on to selling prices due to robust demand. HICP inflation in Austria rose from 1.1 % in January to 4.1 % in November and declined again somewhat in December (3.8 %). Inflation at the turn of the year was thus slightly lower than in the euro zone as a whole, where it reached 5 % in December.

Real estate

The upturn on the Austrian residential real estate market continued in 2021. Price growth reached 11.8 % y/y, the strongest rate since 2012. A decrease was last recorded in 2004. In Vienna, as in 2020, the price trend was somewhat weaker (10.8 % y/y) than for residential property prices excluding Vienna (12.8 % y/y). Despite the increasing inflation rate, there has been a considerable real appreciation, which for the second time in a row is above the threshold of 6 % set in the European Semester. The strongest development was seen in single-family houses and second-hand freehold flats outside Vienna, but the differences between the categories surveyed, which all recorded double-digit price increases, were quite small overall. The differences between the various types of commercial real estate, for which there is no comparable Austrian price index, are likely to be greater. As an approximation, the index of the Association of German Pfandbrief Banks, used by the Bundesbank, indicates a stabilisation of office property prices in the first three quarters of 2021 after a brief slight decline in 2020, while retail property prices continued their downward trend in 2021; this trend has been observed in Germany since 2018.

1) WIFO forecast December 2021 or first estimate for quarterly statistics; unemployment rate – estimated full-year figures based on published monthly figures

Insolvencies

In 2021, a number of support measures from the COVID crisis have expired or have been narrowed down to a smaller group of directly affected companies. The insolvency filing requirement also came back into force in the middle of the year. While insolvencies were still well below average in the first three quarters, there was a noticeable increase in the fourth quarter. In 2021 as a whole, there were 39 % fewer insolvencies than in the pre-crisis year of 2019, according to KSV (Kreditschutzverband). However, the fourth quarter accounted for two fifths of the bankruptcies filed in 2021, and industries that potentially suffer greatly from the pandemic are shielded from some problems by the support that continues to be offered to them. The development in private sector lending was similar. Compared to the 2019 pre-crisis year, the number of debt settlement proceedings opened was lower by 23 %. Both corporate liabilities affected by insolvencies and the average amount of debt per private debtor declined in 2021.

Private sector lending, assets and income

Compared with the pre-crisis period, credit growth remained strong, but shifted somewhat towards households where the annual rate declined somewhat from 4 % in 2019 in the crisis year 2020, but returned to 5 % in the course of 2021. Housing loans achieved the strongest growth, with the annual rate accelerating to just over 7 % by November 2021. At the same time, the financial assets of private households also grew significantly. Excluding obligations (loans), which accounted for about 52 % of GDP in Q3 2021, they reached almost 200 % of GDP at that time and about 145 % net. In 2019, this rate had been less than 130 %. In addition, real estate assets increased, although price developments in this sector are increasingly being viewed critically. According to WIFO, the real disposable incomes of private households declined somewhat in 2021.

Regional and sectoral development

	AUSTRIA	BURGEN-LAND	CARIN-THIA	LOWER AUSTRIA	UPPER AUSTRIA	SALBURG	STYRIA	TYROL	VORARL-BERG	VIENNA
Q3 production value y/y %										
Manufacturing	16.8	0.8	24.8	23.3	13.9	17.8	17.4	15.7	13.0	12.4
Construction	8.3	15.0	0.8	10.3	10.2	8.0	12.1	6.1	10.5	3.8
Unemployment rate (nat. definition)	8.0	7.7	8.8	7.5	5.0	5.6	6.5	6.5	6.5	12.7
Tourism: overnight stays y/y %										
Calendar year 2021 vs 2020	-18.7	9.7	-7.8	9.4	5.2	-31.1	-10.6	-28.9	-28.3	8.9
Calendar year 2021 vs 2019	-47.9	-20.3	-23.5	-34.9	-33.1	-53.4	-32.6	-52.7	-50.2	-71.6
Contribution of tourism to gross regional product (%)[1)]	7.4	6.8	8.0	3.0	2.6	13.7	4.6	16.9	n/a	4.8

Strong increases in economic activity were observed in all Austrian federal provinces in the first half of the year. Despite rising costs, construction output grew by more than 20 % y/y in the second quarter in all federal provinces; only Tyrol, which has the highest direct and indirect share of tourism in gross regional product among all federal provinces, had a somewhat lower rate. A similar pattern can be seen in material goods production. Thanks to strong export demand, which is also evident in the OeNB index shown above, this sector grew by 30 % to 40 % in the second quarter, with only Tyrol and Vienna recording lower rates. In Vienna, a special effect from 2020 continued to have an impact, with material goods production declining far less than in Austria as a whole in the second quarter thanks, among others, to the high output of the Austrian Mint. Owing to the strong industrial activity, which pulled the other sectors of the economy along in the course of the year, material goods production in almost all Austrian federal provinces returned to its pre-crisis level as early as the second quarter. This was only slightly undercut in Burgenland and Styria, where metal processing and mechanical engineering make a major contribution and the slump had been particularly pronounced in the second quarter of 2020 due to the temporary standstill in European car production. In the third quarter, however, these sectors in particular continued catching up. In terms of employment, the west-east divide familiar from previous years was observed again.

There was a strong recovery in overnight stays in the summer, with Vienna and city tourism as a whole clearly lagging behind, although a slight year-on-year increase was observed here for the year as a whole, while the strong starting level from the first two and a half months of 2020 pushes the year-on-year comparison in the holiday regions into negative territory overall. Within the hospitality sector, the 4- and 5-star establishments had above-average occupancy rates. The winter season 2021/22 started with a time delay, with the numbers of overnight stays being comparatively good during the Christmas vacations. The initial figures of the winter season show again that city tourism noticeably lags behind the holiday regions.

1) Sources: WIFO (output values, unemployment rate), Statistics Austria (overnight stays, contributions according to satellite account 2018 for eight federal provinces)

International environment, financial markets and monetary policy

In 2021, the global economy was characterised by growing capacity utilisation, rising commodity prices, and shifting pressures from the pandemic and other uncertainty factors. The renewed rise in inflation in the industrialised countries prompted some central banks to prepare to exit their very loose monetary policy. However, as opposed to Norway, the Czech Republic, Poland and Hungary, for instance, there were no increases in key interest rates in the major currency areas. The European Central Bank carried out the last four of the total of ten TLTRO III refinancing operations as planned, allocating a total of euro 590 billion in funds available for up to four years in 2021, with interest rates reduced by up to -1 % for the first year thanks to a bonus for corresponding corporate lending (in total, the ten TLTRO III tranches amount to more than euro 2,000 billion). The main refinancing rate of 0 % and the deposit rate of -0.50 % including an allowance amounting to six times the minimum reserve were maintained. The ECB continued its net bond purchases under its Pandemic Emergency Purchase Programme (PEPP), launched in 2020, and the Asset Purchasing Programme (APP), which has been in place for even longer. At the end of the year, the ECB's securities portfolio amounted to euro 3,123 billion from the APP and euro 1,598 billion from the PEPP. The inflation target was changed in the summer from "below but close to 2 %" to a symmetrical 2 % target. In line with the generally good economic momentum and the inflation trend, a slight upward trend in interest rates and yields set in. In the USA, the three-month interest rate increased over the course of the year from 0.24 % to 0.32 % and the ten-year government bond yield from 0.92 % to 1.51 %. In the euro zone, where the three-month interest rate was negative for the sixth consecutive year, the three-month Euribor remained at -0.55 % at year-end, after a new interim low of -0.60 %. The yield on the ten-year Austrian government bond increased from -0.43 % to +0.10 %. The international stock markets were mostly up, with the ATX among the strongest stock indices with an annual performance of +39 %.

Result of the Association for the 2021 financial year

Following the pandemic-related slump in the economy in the previous year, the current financial year is marked by economic recovery. The result of the Association before taxes amounts to euro 251.0 million (2020: euro 56.8 million), while the result of the Association after taxes and minority interest amounts to euro 219.1 million (2020: euro 20.0 million).

Net interest income decreased from euro 413.1 million to euro 405.9 million in 2021. The main reason for this development is that the maturing lending business has higher interest rates on average than new business, as margins are increasingly under pressure due to the high level of competition in Austria.

Interest and similar income decreased from euro 505.6 million to euro 491.7 million in 2021, the main reason being that interest income from credit and money market transactions with customers was lower by euro -18.2 million due to lower average interest rates and an almost unchanged customer volume. Moreover, income from bonds and other fixed-income securities decreased by euro -7.6 million against the comparative period. This contrasts with a euro +16.5 million increase in net interest income due to participation in the European Central Bank's TLTRO III programme, of which euro 16.8 million (2020: euro 0.0 million) is attributable to special bonuses due to the achievement of the credit growth targets set by the ECB. Furthermore, interest on amounts owed to credit institutions decreased by euro +1.1 million compared to the previous year due to the continued low interest rate level, and interest expenses for debts evidenced by certificates increased from euro 16.3 million in 2020 to euro 18.9 million in 2021. Interest on amounts owed to customers decreased slightly from euro 10.7 million to euro 10.1 million.

Risk provisions improved significantly in 2021 to euro +89.5 million compared to euro -126.0 million in the comparative period. Despite the severe economic impact of the COVID crisis, significantly reduced default rates continue to be observed in 2021. This is mainly reflected by net reversals of euro +62.2 million (2020: euro -114.1 million) in the portfolio loan loss provision (incl. reversal of post-model adjustments in the amount of euro 60.6 million) and net reversals of individual loan loss provisions in the amount of euro 11.1 million (2020: euro 5.0 million). In addition, there were direct write-offs of receivables in the amount of euro -3.0 million (2020: euro -8.9 million) and net reversals of provisions for off-balance sheet business of euro +10.5 million (2020: euro -14.5 million).

Net fee and commission income amounts to euro 253.4 million in the reporting period and increased compared to the previous period (2020: euro 239.1 million) by euro +14.2 million. This increase is due to the change in securities business (euro +12.0 million), custody business (euro +3.3 million) and other service business (euro +4.0 million). By contrast, there was a decline in lending business by euro -3.1 million, as well as in giro and payment transactions by euro -2.1 million.

Net trading income amounts to euro 3.6 million for the reporting period and improved by euro +4.0 million compared to the previous year (2020: euro -0.5 million). The increase is due to measurement results of trading book derivatives that are used for economic hedging transactions of banking book items.

The result from financial instruments and investment properties for the reporting period amounts to euro 17.5 million, thus exceeding the comparative period (2020: euro 5.9 million) by euro +11.6 million. Apart from valuation gains on debts evidenced by certificates (euro +7.5 million) measured at fair value, the increase is due to valuation gains on derivatives (euro +6.8 million). On the one hand, the valuation gains on derivatives include positive effects from the valuation of guaranteed savings products (euro +10.5 million) and, on the other hand, losses in connection with the sale of the Italian government bonds are also included here (euro -4.6 million). The change in income from participations in the amount of euro +2.0 million and valuation gains from investment properties in the amount of euro +1.4 million also contribute to a positive result.

The other operating result for the 2021 financial year amounts to euro -2.2 million (2020: euro +37.3 million). The decrease is mainly due to the proceeds from the sale of the former headquarters of VBW in 1090 Vienna, Kolingasse, that were posted in the previous year in the amount of euro +32.1 million. In addition, there was a loss from the repurchase of VB Regio issues in the amount of euro -2.9 million.

General administrative expenses of euro 515.3 million (2020: euro 511.9 million) have increased slightly by euro -3.5 million in comparison with the previous year. By comparison with 31 December 2021, the average headcount decreased by 154 employees from a staff of 3,366, and now amounts to 3,212 employees. This decrease is reflected in staff expenses that were reduced by euro +6.7 million compared to the previous period. By contrast, administrative expenses increased by euro -11.8 million to euro 193.7 million (2020: euro 181.8 million), due to higher contributions to the deposit guarantee scheme and resolution fund (euro -14.0 million). Depreciation and reversal of impairment have declined by euro +1.8 million to euro 30.6 million (2020: euro 32.3 million).

In 2021, the result of the companies measured at equity amounted to euro -1.3 million (2020: euro -0.3 million). The increase is mainly due to the higher negative operating result of euro -1.2 million (2020: euro -0.4 million) of VB Verbund Beteiligung eG.

The change in income taxes of euro +5.0 million to euro -31.8 million in 2021 (2020: euro -36.8 million) results from the reduction in current tax expense (euro +10.2 million) on the one hand, and the increase in deferred tax expense (euro -5.2 million) on the other hand. Due to the tax planning of the next four years, it was possible, in the reporting period, to recognise deferred tax assets in the amount of euro 9.9 million for part of the tax loss carryforwards. For tax loss carryforwards beyond that, in the amount of euro 616 million (2020: euro 256 million), no deferred tax assets are recognised. The increase in 2021 is based on the preliminary result of an external audit, which has not yet been completed in formal terms. The current tax expense for 2021, including tax expense from previous periods, amounts to euro 21.4 million (2020: euro 31.7 million).

Financial position

As at 31 December 2021, total assets amounted to euro 32.1 billion and have slightly increased by comparison with the end of 2020 (euro 29.4 billion) by euro 2.7 billion.

The liquid funds in the amount of euro 6.9 billion (2020: euro 3.9 billion) increased by euro 3.0 billion compared with the previous year. The increase essentially results from the deposit with the OeNB due to participation in the TLTRO III Tender.

Loans and receivables to customers net of risk provisions amount to euro 21.6 billion as at 31 December 2021, and have increased slightly compared to the previous year (euro 21.3 billion) due to the expansion of business volume.

As compared to the end of the previous period (euro 0.4 billion), loans and receivables to credit institutions have decreased slightly to euro 0.3 billion due to lower deposits with credit institutions.

The financial investments of euro 2.4 billion at the reporting date have decreased mainly due to the sale of the portfolio of Italian government bonds compared to the previous year (euro 2.6 billion).

As at 31 December 2021, the item Assets held for sale shows the carrying amount of commercially used properties and vacant objects the sale of which has already been contractually agreed, or is very likely, as at 31 December 2021. In 2021, this item includes the carrying amount of a real estate portfolio held for sale in Vienna, on the one hand, and properties held for sale in Lower Austria and Salzburg, on the other hand.

Amounts owed to credit institutions increased by euro 1.9 billion to euro 3.8 billion compared to 31 December 2020, mainly due to participation in the European Central Bank's TLTRO III programme.

The increase in amounts owed to customers from euro 22.2 billion in 2019 to euro 22.7 billion as at 31 December 2021 essentially results from an increase in other deposits.

Debts evidenced by certificates amount to euro 1.9 billion as at 31 December 2021 and have increased by euro 0.4 billion compared to the previous year, mainly due to the issue of a senior non-preferred bond in the amount of euro 0.5 billion.

Since the beginning of the year, equity including business shares and non-controlling interests has increased by euro 68,4 million to euro 2.3 billion. This change is mainly due to the redemption of the government's participation capital (euro 124.0 million), the recovery of participation capital (euro 15.6 million), the coupon payment for the AT1 issue (euro 17.1 million), and the total comprehensive income of the Association in the amount of euro 227.7 million. The total comprehensive income of euro 227.7 million consisted of the result after taxes of euro 219.1 million and other comprehensive income of euro 8.5 million.

Report on branch establishments

The Association of Volksbanks does not have any branch establishments.

Financial performance indicators

As at 31 December 2021, the regulatory own funds of the group of credit institutions of the Association amount to euro 2.7 billion (31 December 2020: euro 2.7 billion). The total risk exposure amount was euro 13.8 billion as at 31 December 2021 (31 December 2020: euro 14.2 billion). The CET 1 capital ratio in relation to total risk amounts to 14.4 % (31 December 2020: 14.1 %), the own funds ratio in relation to total risk is 19.3 % (31 December 2020: 19.2 %).

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

Performance indicators	2021	2020	2019
Return on equity before taxes	10.9 %	2.5 %	8.5 %
Return on equity after taxes	9.5 %	0.9 %	7.0 %
Cost-income ratio	77.3 %	73.6 %	80.1 %

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

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

Related party transactions

For details on business relationships with related parties, please refer to the information contained in the Notes in the 2021 Annual Report of the Association, Note 46.

Non-financial performance indicators

Human Resources

Human Resources was again heavily involved in the coronavirus pandemic in 2021, although this exceptional situation is now being handled with routine. From an internal perspective, the personnel measures under the Adler programme are already coming to an end, which has allowed us to put a greater focus on defining our long-term HR strategy and anchoring our employer values.

The pandemic continues to be one of the biggest challenges for Human Resources. It is necessary to continuously assess and address the legal framework, to clarify the requirements and necessities for the workforce, and to guarantee implementation in operational terms.

In the second year of the pandemic, the Association of Volksbanks again managed to successfully address the interests of its customers and employees. The Association of Volksbanks has supported our customers without interruption as a trustworthy financial advisor, simultaneously ensuring that the highest possible standards for the safety of the workforce (remote work, protective measures, etc.) are applied.

Digital development within the Association of Volksbanks has continued during the pandemic. The development of digital skills continued to be emphasised in the Volksbank Academy's 2021 training programme. As a result, employees received practical, regional and innovative training within their functions also in the second year of the pandemic.

For reasons of fairness, the Association of Volksbanks, as an industry pioneer, introduced a teleworking allowance for all employees in 2021. The crisis situation called for new forms of work, also requiring employees to work from home to an increasing extent.

Despite all external adversities, the Association of Volksbanks was able to further strengthen its liquidity, capital and earnings situation through a balanced approach to risk, process optimisation, digitisation and sustainability. Thus, the largest single tranche of state participation capital, amounting to almost euro 125 million, was repaid on time.

This was made possible in particular by the extraordinary dedication and commitment of our employees during the pandemic period.

In recognition of their commitment, the supervisory boards of all Volksbanks decided to pay a one-time COVID bonus to all employees of the Association of Volksbanks.

In order to provide a framework for future growth, the HR managers within the Association of Volksbanks have agreed on a joint HR strategy applicable throughout the Association. This serves to support the sustainability strategy and is derived from the business strategy of the Association of Volksbanks, the corporate values of regionality, trust and customer proximity, the strategic considerations and operational requirements of the CO, as well as the stakeholder requirements relevant to HR management, and includes nine HR guiding principles that the HR objectives are based on.

Two uniform sustainability focal points that the Association of Volksbanks will be pursuing in the coming years are particularly worth mentioning:

- Employee satisfaction: Starting in 2022, an NPS (Net Promoter Score) survey will be conducted annually. The score for 2022 will then be used as a baseline for defining specific targets.
- Diversity – advancement of women: The Association of Volksbanks has set itself the target of increasing the proportion of female managers by 10 % in the period from 31 December 2021 to 31 December 2023.

The process of anchoring the common employer values within the organisation was continued. In some Volksbanks, value propositions were developed for this purpose together with their employees in the course of workshops in order to authentically define our position as employer and to communicate these values internally and externally. In this context, the employer value "Fit for the future through flexibility", in addition to the compatibility of private life, family and career, has also become increasingly important during the pandemic and is a long-term focus within the Association of Volksbanks.

Report on the future development and risks of the Association

Future development of the Association

Economic environment

At the beginning of 2022, a new wave of infections (omicron) built up, which in spite of high case numbers only led to moderate hospital occupancy, so the first cautious opening steps were initiated in February. Some countries of origin of tourists in Austria, such as Italy and Germany, took a similar approach, while others, such as Switzerland and Denmark, relaxed existing restrictions even more clearly. In view of this development, the growth forecasts published at the end of 2021 still seemed realistic, even though the IMF has published a slightly downwardly revised forecast for the euro zone in the meantime (somewhat raising expectations for 2023). The outbreak of the war in Ukraine is expected to cause an additional burden in the form of a continuing increase in energy costs, possible quantitative restrictions, reciprocal financial and economic sanctions, and their effects on the financial market. Therefore, GDP growth is likely to turn out noticeably lower in 2022 than the figures presented in the forecasts from December 2021.

While, according to business surveys, supply bottlenecks due to the pandemic are anticipated to subside during the course of the year, the war has caused a new risk to arise in terms of inflation as well, which has already become apparent in the preliminary HICP rates of change for February (preliminary estimate euro zone: 5.8 %; Austria: 5.5 %). The medium-term horizon, which is crucial for monetary policy, has shifted upwards; however, the upward trend in interest rates and yields observed in the first weeks of trading was interrupted by the Russia/Ukraine crisis. The European Central Bank had previously announced the first steps towards normalisation of the monetary policy, with the timeline for 2022 focusing on the gradual exit from net asset purchases. The Pandemic Emergency Purchase Programme is scheduled to end in March; bond purchases under the Asset Purchasing Programme are going to double to euro 40 billion per month in the second quarter to bridge the gap; they will amount to euro 30 billion in the third quarter, and return to the previous euro 20 billion per month in Q4. These measures, as well as the hike of key interest rates that was discussed may be adjusted or supplemented against the background of increased growth risks.

Economic forecasts for 2022

December 2021	GDP growth % y/y	Inflation rate (HICP) % y/y	Unemployment rate % of the working population
WIFO	5.2	3.4	4.8
OeNB	4.3	3.2	5.4

Inflation was a key economic policy issue at the beginning of the year. In the surveys among corporate decision-makers, there were slightly fewer complaints about rising costs and supply bottlenecks for upstream products at the beginning of 2022 than at the end of 2021. However, both negative factors persist. In addition, companies and private households that took advantage of deferral options during the crisis will have to make corresponding instalment payments in the current year. Demand also developed robustly enough at the beginning of the year for most companies to assume in the surveys that they will be able to pass on higher costs in their selling prices, which speaks for economic momentum but also increasing burdens on private households and possible crowding-out effects in cyclical consumption, which basically shows an upward trend. Some of the effects will be mitigated by the tax reform adopted in the previous year, which will ease the burden on private incomes and support investment in more climate-friendly economic activities, but will also affect inflation in the form of the gradual extension of the CO_2 price. However, geopolitical risks were much more serious early in 2022, potentially causing energy supply bottlenecks, economic recession or stagflation.

The fledgling upward trend in interest rates and yields is taking place at a level that would correspond to sustained negative real interest rates. Therefore, it is likely to act less as a direct cost factor for companies or a savings incentive for consumers than as an additional stress factor for emerging market currencies and financial markets, which may also be accompanied by uncertainty in the financial markets of industrialised countries. For the sectoral development in Austria, apart from geopolitics, the further course of the pandemic still is a decisive factor in view of the high shares of tourism in the value chain, which also has repercussions on the retail and service sectors, on employment and consumption. The real estate market is caught between inflation, flattening but continuing demand from the increasing number of households, affordability, and potentially rising financing costs, which should help flatten price trends.

Moreover, as regards Sberbank Europe AG, please refer to Note 49) Subsequent events in the Notes.

Business development

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

The Volksbanks have decided to implement the "Adler" programme in order to position the Association as the "relationship bank of the future". The comprehensive measures from "Adler" have been implemented, reported and controlled within the Association of Volksbanks since 2019. Due to consistent implementation, the programme is expected to be completed early in the course of 2022.

The orientation as the relationship bank of the future rests on two pillars. On a high level of processing quality for regional customer service and on the central pillar of control and service.

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

Moreover, the Volksbanks are working together more efficiently according to uniform rules and in uniform structures. The cooperative division of labour has been implemented at a rate of more than 95 %. Since mid-2020, the Volksbanks have had uniform organisational charts, and the new job descriptions and service catalogues have been implemented.

The implementation of the "Adler" programme, as well as the ongoing support by and cooperation with the central organisation are paying off. The new leaner and more efficient cooperation is reflected favourably in the cost structure.

Apart from customers, the focus for 2022 will continue to be on cooperation across the Association, on improving processes and driving digitisation.

All in all, these structural and cultural changes have contributed to establishing the Volksbanks and Österreichische Ärzte- und Apothekerbank AG as the most modern association of credit institutions in Austria.

In its medium-term planning, the Association of Volksbanks has set itself a number of strategic goals. Management will focus on achieving, maintaining or exceeding these goals over the next few years. These include an improvement in the cost-income ratio, a Tier 1 capital ratio (CET 1) of at least 11.4 %, a total capital ratio of at least 15.5 %, an NPL ratio (non-performing loans) of no more than 3.0 %, as well as a return on equity (RoE) of more than 5.5 %. In addition, the redemption of the federal government's participation right and the highest levels of satisfaction among our customers thanks to a cooperatively sustainable business model are the main goals to be achieved over the next years.

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

By forming risk provisions in 2020, the Association of Volksbanks has provided for a potential deterioration in credit quality due to the pandemic. Some of these risk provisions were reversed in the 2021 financial year, as the expected deterioration in credit quality did not materialise to the extent anticipated. In addition to various one-off effects, the reversal of risk provisions is a key driver of the clearly positive result in the 2021 financial year.

The low interest rate environment expected to continue in subsequent years calls for a continuous streamlining of the cost structure and an increase of productivity. For this purpose, additional synergies were evaluated within the Association of Volksbanks.

Please also refer to Note 49) Subsequent events in the Notes.

Significant risks and uncertainties

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

The business model requires risks to be identified, assessed, measured, aggregated and managed effectively. Risks and capital are managed by means of a framework of principles, organisational structures as well as measuring and monitoring processes that are closely aligned with the activities of the departments and divisions. As a prerequisite and basis for sound risk management, the Risk Appetite Framework (RAF) for the Association of Volksbanks is continuously refined to define the risk appetite or the degree of risk tolerance that the Association of Volksbanks is willing to accept to achieve its defined objectives. The level of risk tolerance is reflected in the definition and validation of appropriate limits and controls. The framework is verified and adjusted to regulatory requirements, changes of the market environment or the business model on an ongoing basis. By way of this framework, the Association of Volksbanks aims to develop a disciplined and constructive control environment where all employees understand and live up to their roles and responsibilities.

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

The following risks are classified as material within the Association of Volksbanks in the course of the risk inventory process:
- Credit risks
- Market risks
- Liquidity risks
- Operational risks
- Other risks (e.g. strategic risk, equity risk, earnings risk, model risk)

An expansion was started in 2021 based on the integration of ESG risks into the internal capital adequacy process by incorporating ESG risks into all elements of the internal capital adequacy process. ESG risks were not included as a separate risk type, but were mapped within the existing risk types. The methods, models and strategies used for ESG risks will be continuously developed over the next years and are meant to contribute to successively measuring inherent ESG risks more accurately.

ESG risks are analysed and assessed as part of the risk inventory using ESG heat maps. The ESG heat map is a tool to identify, analyse and assess the materiality of ESG risks and/or their risk drivers. In the ESG heat map, various risk events are described and evaluated for all relevant risk types of the Association of Volksbanks. The findings are then mapped in the risk inventory within the framework of existing risk types.

Additionally, since December 2020, ESG-related scenarios (especially with regard to climate and environmental risks) have also been calculated as part of the internal stress test in order to identify and assess the ESG risks inherent in the existing portfolio as early as possible. The scenarios are based on the assumptions of the "Network for Greening the Financial System" (NGFS) and are continuously extended to include the latest findings. More information is shown in Note 51) Risk Report.

For further explanations regarding financial instruments, the risk management targets and methods as well as the risk of price changes, default, liquidity, cash flow, and ESG risks, please refer to the information contained in the Notes in the 2021 Annual Report of the Association (especially Risk Report, Note 51).

Report on research and development

The Association of Volksbanks is not active in research and development.

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

Control environment

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

At VBW and in the Association of Volksbanks, an internal control system (ICS) has been installed according to the internationally recognised COSO standard. Detailed descriptions of ICS processes and control measures are available. The responsibilities and roles relating to the ICS are clearly defined. Regular reporting takes place for the ICS. Control activities are documented and reviewed, ICS-relevant risks are regularly evaluated and adjusted. Accordingly, a continuous optimisation process is ensured.

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

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

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

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

Risk assessment

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

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

Information and communication

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

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

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

Monitoring

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

FINANCIAL STATEMENTS

Statement of comprehensive income

INCOME STATEMENT	Note	1-12/2021 Euro thousand	1-12/2020 Euro thousand	Changes Euro thousand	%
Interest and similar income		491,692	505,649	-13,958	-2.76 %
thereof using the effective interest method		460,580	486,320	-25,740	-5.29 %
Interest and similar expenses		-85,829	-92,556	6,726	-7.27 %
Net interest income	4	405,863	413,094	-7,231	-1.75 %
Risk provision	5	89,449	-126,049	215,498	-170.96 %
Fee and commission income		277,340	263,109	14,232	5.41 %
Fee and commission expenses		-23,975	-23,971	-4	0.02 %
Net fee and commission income	6	253,366	239,138	14,228	5.95 %
Net trading income	7	3,571	-470	4,041	< -200.00 %
Result from financial instruments and investment properties	8	17,473	5,897	11,575	196.29 %
Other operating result	9	-2,208	37,334	-39,542	-105.91 %
General administrative expenses	10	-515,279	-511,826	-3,453	0.67 %
Result from companies measured at equity		-1,284	-327	-957	> 200.00 %
Result before taxes		**250,950**	**56,791**	**194,159**	**> 200.00 %**
Income taxes	11	-31,810	-36,777	4,967	-13.51 %
Result after taxes		**219,140**	**20,014**	**199,126**	**> 200.00 %**
Result attributable to shareholders of the parent company (Consolidated net result)		**219,144**	**20,026**	**199,118**	**> 200.00 %**
Result attributable to non-controlling interest		-4	-12	8	-68.87 %

Other comprehensive income

	1-12/2021 Euro thousand	1-12/2020 Euro thousand	Changes Euro thousand	%
Result after taxes	**219,140**	**20,014**	**199,126**	**> 200.00 %**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation of obligation of defined benefit plans (including deferred taxes)	6,501	15,955	-9,454	-59.25 %
Fair value reserve - equity instruments (including deferred taxes)	2,781	-1,973	4,754	< -200.00 %
Revaluation of own credit risk (including deferred taxes)	-1,621	-106	-1,514	> 200.00 %
Total items that will not be reclassified to profit or loss	**7,662**	**13,876**	**-6,214**	**-44.78%**
Items that may be reclassified to profit or loss				
Fair value reserve - debt instruments (including deferred taxes)				
Change in fair value	-837	266	-1,102	< -200.00 %
Net amount transferred to profit or loss	-13	0	-13	< -200.00 %
Cash flow hedge reserve (including deferred taxes)				
Change in fair value (effective hedge)	-11	0	-11	100.00 %
Net amount transferred to profit or loss	-18	0	-18	100.00 %
Change in deferred taxes arising from untaxed reserve	0	4	-4	-100.00 %
Change from companies measured at equity	1,755	-1,037	2,792	< -200.00 %
Total items that may be reclassified to profit or loss	**876**	**-767**	**1,643**	**< -200.00 %**
Other comprehensive income total	**8,538**	**13,109**	**-4,571**	**-34.87 %**
Comprehensive income	**227,678**	**33,123**	**194,555**	**> 200.00 %**
Comprehensive income attributable to shareholders of the parent company	**227,689**	**33,128**	**194,561**	**> 200.00 %**
Comprehensive income attributable to non-controlling interest	-11	-5	-6	111.72 %

Statement of financial position as at 31 December 2021

	Note	31 Dec 2021 Euro thousand	31 Dec 2020 Euro thousand	Changes Euro thousand	%
ASSETS					
Liquid funds	12	6,921,391	3,943,760	2,977,631	75.50 %
Loans and receivables credit institutions	13, 14	256,567	438,106	-181,540	-41.44 %
Loans and receivables customers	13, 14	21,563,128	21,287,322	275,806	1.30 %
Assets held for trading	15	39,750	55,970	-16,220	-28.98 %
Financial investments	14, 16	2,383,476	2,635,829	-252,353	-9.57 %
Investment property	17	37,512	40,977	-3,465	-8.46 %
Companies measured at equity	18	91,696	90,870	826	0.91 %
Participations	19	130,588	128,139	2,449	1.91 %
Intangible assets	20	1,687	2,591	-904	-34.88 %
Tangible assets	21	404,314	443,625	-39,312	-8.86 %
Tax assets	22	101,624	116,549	-14,925	-12.81 %
Current taxes		4,909	7,265	-2,357	-32.44 %
Deferred taxes		96,715	109,284	-12,569	-11.50 %
Other assets	23	147,838	178,481	-30,644	-17.17 %
Assets held for sale	24	15,879	8,044	7,834	97.39 %
TOTAL ASSETS		**32,095,448**	**29,370,265**	**2,725,183**	**9.28 %**
LIABILITIES					
Amounts owed to credit institutions	25	3,796,629	1,883,873	1,912,756	101.53 %
Amounts owed to customers	26	22,746,798	22,153,454	593,344	2.68 %
Debts evidenced by certificates	27	1,876,601	1,469,924	406,677	27.67 %
Lease liabillities	28	169,155	169,889	-734	-0.43 %
Liabilities held for trading	29	42,397	61,518	-19,121	-31.08 %
Provisions	30, 31	206,352	231,660	-25,308	-10.92 %
Tax liabilities	22	12,402	25,425	-13,023	-51.22 %
Current taxes		8,731	21,899	-13,168	-60.13 %
Deferred taxes		3,671	3,526	145	4.11 %
Other liabilities	32	418,231	533,264	-115,032	-21.57 %
Liabilities held for sale	33	0	122	-122	-100.00 %
Subordinated liabilities	34	494,160	576,811	-82,651	-14.33 %
Total nominal value cooperative capital shares	35	3,336	4,041	-706	-17.46 %
Subscribed capital	35	288,484	288,487	-3	0.00 %
Additional tier 1 capital	35	217,722	217,722	0	0.00 %
Reserves	35	1,821,154	1,751,967	69,188	3.95 %
Non-controlling interest	35	2,025	2,108	-82	-3.91 %
TOTAL LIABILITIES		**32,095,448**	**29,370,265**	**2,725,183**	**9.28 %**

Changes in equity and cooperative capital shares

Euro thousand	Subscribed capital 1)	Additional tier 1 capital 3)	Capital reserves	Retained earnings and other reserves	Shareholders' equity	Non-controlling interest	Equity	Cooperative capital shares 2)	Equity and cooperative capital shares
As at 01 Jan 2020	**286,725**	**221,292**	**506,560**	**1,228,084**	**2,242,661**	**2,146**	**2,244,807**	**4,547**	**2,249,354**
Consolidated net income				20,026	20,026	-12	20,014		20,014
Other comprehensive income	0	0	0	13,102	13,102	7	13,109	0	13,109
Comprehensive income	0	0	0	33,128	33,128	-5	33,123	0	33,123
Dividends paid				-700	-700	-13	-713		-713
Coupon for the AT1 emission				-17,050	-17,050		-17,050		-17,050
Changes in base amount regulation	108			0	108		108	-108	0
Change of capital	1,654	-3,570	1,916	0	0		0		0
Change in cooperative capital and participation				0	0		0	-401	-401
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation	0		879	-851	28	-19	9	3	12
As at 31 Dec 2020	**288,487**	**217,722**	**509,355**	**1,242,612**	**2,258,176**	**2,108**	**2,260,284**	**4,041**	**2,264,325**
Consolidated net income				219,144	219,144	-4	219,140		219,140
Other comprehensive income	0	0	0	8,545	8,545	-7	8,538	0	8,538
Comprehensive income	0	0	0	227,689	227,689	-11	227,678	0	227,678
Capital increase	4,038		4,019	0	8,057		8,057		8,057
Dividends paid				-124,280	-124,280	-17	-124,297		-124,297
Coupon for the AT1 emission				-17,050	-17,050		-17,050		-17,050
Changes in base amount regulation	125			0	125		125	-125	0
Changes scope of consolidation	-1,070		-3,340	-3,155	-7,564		-7,564	0	-7,564
Change in cooperative capital and participation	-2,993			-15,560	-18,553		-18,553	-581	-19,134
Change in treasury stocks	-104		223	-120	0		0	0	0
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation	0		883	-123	760	-54	706	0	706
As at 31 Dec 2021	**288,484**	**217,722**	**511,141**	**1,310,014**	**2,327,361**	**2,025**	**2,329,386**	**3,336**	**2,332,722**

1) Subscribed capital incl. participation capital and cooperative capital shares, pursuant to IFRIC 2 eligible as equity.
2) Cooperative capital shares, pursuant to IFRIC 2 not eligible as equity.
3) AT1-capital is shown in Additional tier 1 capital.

Details are shown in note 35) Equity.

Cash flow statement

In euro thousand	Note	1-12/2021	1-12/2020
Annual result (before non-controlling interest)		**219,140**	**20,014**
Non-cash positions in annual result and other adjustments			
Net interest income	4	-411,895	-424,152
Income from participations	8	-4,621	-2,573
Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets	8, 10	27,264	30,136
Allocation to and release of provisions, including risk provisions	5, 10	-73,720	131,704
Gains from the sale of financial investments and fixed assets	8, 9	6,826	-30,153
Income taxes	11	31,815	36,390
Changes in assets and liabilities from operating activities			
Loans and advances to credit institutions	13	179,378	-25,935
Loans and advances to customers	13	-207,047	-150,693
Trading assets	15	1,211	-1,035
Financial investments	16	92,555	96,595
Other assets from operating activities	23	-8,189	17,638
Amounts owed to credit institutions	25	1,913,141	1,472,528
Amounts owed to customers	26	593,526	425,558
Debts evidenced by certificates	27	401,727	-8,331
Derivatives	15, 23, 29, 32	-121,996	13,803
Other liabilities	32	28,232	-17,635
Interest received		478,714	504,965
Interest paid		-57,351	-76,825
Dividends received	8	4,621	2,573
Income taxes paid		-32,254	-23,879
Cash flow from operating activities		**3,061,075**	**1,990,696**
Proceeds from the sale or redemption of			
Financial investments at amortised cost	16	150,688	6,610
Participations	19	1,553	300
Intangible and tangible assets	20, 21	23,018	96,417
Investment property	17	7,300	4,337
Disposal of subsidiaries (net of cash disposed)	2	90	0
Payments for the acquisition of			
Financial investments at amortised cost	16	-55	-164,202
Participations	19	-312	-1,227
Intangible and tangible assets	20, 21	-16,643	-15,026
Investment property	17	0	-55
Cash flow from investing activities		**165,639**	**-72,845**
Change in cooperative capital and participation capital		-17,291	-401
Dividends paid	35	-141,347	-17,763
Cash outflow of lease liabilities	28	-7,729	-6,693
Cash inflow of subordinated liabilities	34	0	1,736
Cash outflow of subordinated liabilities	34	-83,068	-22,711
Cash flow from financing activities		**-249,435**	**-45,832**
Cash and cash equivalents at the end of previous period	12	**3,923,432**	**2,051,384**
Cash flow from operating activities		3,061,075	1,990,696
Cash flow from investing activities		165,639	-72,845
Cash flow from financing activities		-249,435	-45,832
Effect of currency translation		351	29
Cash and cash equivalents at the end of period	12	**6,901,063**	**3,923,431**

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

NOTES

1) General information

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

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

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

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

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

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

The Association of Volksbanks reports concepts, results and risks in connection with environmental issues, social and employee concerns, human rights, corruption and bribery and diversity in accordance with the Sustainability and Diversity Improvement Act (Nachhaltigkeits- und Diversitätsverbesserungsgesetz - NaDiVeG) and Article 8 of the Taxonomy Regulation of the EU in a separate sustainability report. More information is shown in note 51) Risk report.

The present consolidated financial statements were signed by the Managing Board of VBW on 10 March 2022 and then subsequently released for distribution to the Supervisory Board for notice.

a) Accounting principles for the Association

The following exceptions to the application of individual IFRS apply to the 2021 and 2020 Association financial statements:

Exceptions affecting the overall scope of consolidation

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

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

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

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

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

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

The key management personnel are:

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

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

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

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

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

2) Presentation and changes in the scope of consolidation

On 30 April 2021 Volksbank Vorarlberg e. Gen. signed the sale and purchase agreement regarding the sale of all participations in its subsidiary LB25 Immo GmbH & Co KG (formerly VVB Immo GmbH & Co KG). The closing took place retrospectively on 01 January 2021.

Deconsolidation result LB25 Immo GmbH & Co KG (formerly VVB Immo GmbH & Co KG)

Euro thousand	
Assets proportional	4,071
Liabilities proportional	4,067
Disposal of net assets proportional	**-5**
Revenue proportional	95
Deconsolidation result	**90**

Due to the Adler programme the company VB Buchführung GmbH took up activities (particularly balance sheet analysis and financial accounting) for other companies of the Association of Volksbanks. Therefore, according to CRR VB Buchführung GmbH must be classified as ancillary banking service and must be included in the consolidated financial statements of the Association. The initial consolidation includes a bank deposit worth euro 68 thousand, that is completely consolidated, as well as other receivables and assets amounting to euro 206 thousand and other liabilities amounting to euro 226 thousand, which are in large part also consolidated. The results were completely paid to the mother company VB Kärnten Leasing GmbH.

Participation right of the federal government

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

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

According to its contractual obligations towards the federal government, VBW must submit to the Volksbanks a proposal for the total amount to be distributed with respect to the federal government's participation right by RZG in the subsequent calendar year and for the total amount of the primary banks' contributions required for this purpose (indirect contributions of the Volksbanks and direct contribution of VBW to RZG) by 30 November of each year. VBW is charged according to the share of its retail segment in the Association of Volksbanks (total assets UGB/BWG). Of the repayment in the amount of euro 300 million committed to the federal government, euro 200 million have already been repaid as at 31 December 2021. This means that the threshold of euro 200 million as at 31 December 2021 has been reached. The final tranche of euro 100 million is scheduled for 2023.

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

Number of consolidated companies

	31 Dec 2021			31 Dec 2020		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Fully consolidated companies						
Credit institutions	9	0	9	9	0	9
Financial institutions	4	0	4	4	0	4
Other companies	14	0	14	14	0	14
Total	**27**	**0**	**27**	**27**	**0**	**27**
Companies measured at equity						
Credit institutions	0	0	0	0	0	0
Other companies	2	0	2	2	0	2
Total	**2**	**0**	**2**	**2**	**0**	**2**

Number of unconsolidated companies

	31 Dec 2021			31 Dec 2020		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Affiliates	21	1	22	27	2	29
Associated companies	5	0	5	6	0	6
Companies total	**26**	**1**	**27**	**33**	**2**	**35**

The unconsolidated companies in their entirety were deemed immaterial to the presentation of a true and fair view of the net assets, liabilities, financial position and profit or loss of the Association. In addition to quantitative criteria like total assets and result after taxes also the effect of consolidation on specific positions as well as on the true and fair view of the consolidated financial statements for the Association is taken into account for the assessment of materiality. The calculation of the quantitative characteristics was based on the latest available financial statements of the companies and the Association's consolidated financial statements for 2021.

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

3) Accounting principles

The following accounting principles have been applied consistently.

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

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

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

Initially applied standards and interpretations

Standard	Mandatory application	Significant effects on the Association
Amendments to standards and interpretations		
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2	01 Jan 2021	No
Amendments to IFRS 16 Leases COVID-19-Related Rent Concessions	01 Jun 2020	No
Amendments to IFRS 17 and IFRS 4 Extension of the Temporary Exemption from Applying IFRS 9	01 Jan 2021	No

Standards and interpretations to be applied in the future

Standard	Mandatory application	Significant effects on the Association
Amendments to IFRS 16 COVID-19-Related Rent Concessions beyond 30 June 2021	01 Apr 2021	No
Amendments to IAS 37 - Onerous Contracts: Cost of Fulfilling a Contract	01 Jan 2022	No
Annual Improvements 2018 - 2020	01 Jan 2022	No
Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use	01 Jan 2022	No
Amendments to IFRS 3 - Reference to Conceptual Framework	01 Jan 2022	No
Amendments to IAS 1 - Classification of Liabilities as Current or Non-current	01 Jan 2023	No
IFRS 17 - Insurance Contracts	01 Jan 2023	No
Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies	01 Jan 2023	No
Amendments to IAS 8 - Definition of Accounting Estimates	01 Jan 2023	No
Amendments to IAS 12 - Deferred tax related to Assets and Liabilities arising from a Single Transaction	01 Jan 2023	No
Amendments to IFRS 10 and IAS 28: Sales or Contributions of Assets between an Investor and its Associate/Joint Venture	open	No

a) Initially applied standards and interpretations

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

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

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

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

Hedge accounting

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

At the Association of Volksbanks there is no direct dependence on Ibor interest rates as a reference interest rate for hedging transactions other than Euribor. By far the largest part of existing hedging relationships at VBW is denominated in euro. As the Euribor continues to be used as a benchmark reference, the changeover effect for these transactions is only indirect via the discounting curve used to determine the present value. Depending on the interest rate modality in the underlying collateral agreement, the corresponding discounting must be applied (EONIA vs. ESTR). For the cleared business (LCH, Eurex), the changeover from EONIA to ESTR was already carried out in the past years. The remaining bilateral hedges were converted in the course of the current year. The conversion of the discounting is carried out concurrently with the conversion of the interest rate of the underlying collateral agreement. The present value effect of the changeover (especially taking into account any compensation payments) did not have any material impact on the Group's financial position and profitability.

COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)

The amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession (e.g. rent-free periods or temporary rent reductions) is a lease modification. Lessees that apply the exemption must account for COVID-19-related rent concessions as if they were not lease modifications. The amendment applies to rent concessions that reduce rent payments due on or before 30 June 2021. The adoption into European law took place on 9 October 2021. In the meantime, this period has been extended to 30 June 2022. These exemptions are not applied to VBW as a lessee.

b) Standards and interpretations to be applied in the future

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

The amendments clarify which costs an entity includes when determining the cost of fulfilling a contract to assess whether the contract is onerous. The amendments are applicable in reporting periods beginning on or after 1 January 2022 to contracts in existence at the date of first-time application of the amendments. At the date of first-time application, the cumulative effect of applying the amendments is recognised as an adjustment to the opening balance sheet values in retained earnings or, where appropriate, in other components of equity. The comparative values are not adjusted. The Group has determined that all contracts currently in place at 31 December 2021 will be settled before the date of first-time application of the amendments.

c) Accounting and valuation methods regarding ESG risks

ESG (Environmental Social Governance) risks refer to operational risk events or conditions affecting the climate, the environment, social affairs or corporate governance, the occurrence of which might negatively impact on the value of assets or on the net assets, financial position and earnings situation, as well as the reputation of the issuer and/or the Association of Volksbanks. ESG risks arise because climate, environmental, social and governance concerns may affect counterparties, customers and other contractual partners of the issuer and/or the Association of Volksbanks. In 2021, ESG risks were started to be integrated into all elements of the internal capital adequacy process. ESG risks were not included as a separate risk type, but were mapped within the existing risk types. The methods, models and strategies used for ESG risks will be continuously developed over the next years and are meant to contribute to successively measuring inherent ESG risks more accurately. More information regarding ESG risks is shown in note 51) Risk report.

As at 31 December 2021, the Association of Volksbanks has not granted any loans or issued any bonds whose contractual cash flows are dependent on the fulfillment of certain contractually defined ESG targets.

d) Application of estimates and assumptions

Information about assumptions and estimation uncertainties as at 31 December 2021 that may be associated with a significant risk of causing a material adjustment to the carrying amounts of recognised assets and liabilities within the next financial year is included in the following disclosures:

- Disclosure (see note 11) 22): The recognition of deferred tax assets is based on the assumption that sufficient taxable income will be generated in the future to utilize the existing loss carry-forwards; where appropriate, no deferred tax assets are recognised. At the beginning of 2022, the legislator decided to gradually reduce the corporate income tax rate in Austria from 25 % to 23 %. The tax will be reduced by one percent as of 1 January 2023, and by one percent as of 1 January 2024. The impact on deferred taxes recognised as at 31 December 2021 is currently being analysed. Overall, no material effects on the deferred taxes existing as at the balance sheet date are expected.
- Disclosure (see note 17): The assessment of the recoverability of investment properties is based on forward-looking assumptions.
- Disclosure (see note 19): Different valuation models are used for the valuation of the investments.
- Disclosure (see note 31): For the valuation of existing social capital obligations, assumptions are used for interest rate, retirement age, life expectancy and future salary increases.
- Disclosure (see note 51): The basis for determining expected credit losses is provided by scenarios relating to the expected cash flows of the debt instrument. Thus, in order to determine the impairments, assumptions and projections must be made regarding the payments still to be received from the borrower or from the realisation of the collaterals, and the probability of occurrence of the respective scenario must be estimated.

Information about judgments made in the application of accounting policies that have a significant effect on the amounts recognised in the financial statements is disclosed in the following notes:

- Disclosure (see note 3)n): Derecognition and modification of a financial asset.
- Disclosure (see note 3)p) as well as note 51) Risk report): classification of financial instruments for measuring the amount of expected credit losses (valuation of the business model, SPPI assessment, tier allocation) as well as determining the methodology for considering forward-looking information and selecting models and scenario weightings to measure expected credit losses.

e) Consolidation principles

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

The financial statements of the fully consolidated companies and the companies consolidated using the equity method were prepared on the basis of the reporting date of 31 December 2021.

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

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

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

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

f) Currency translation

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

The individual financial statements of foreign subsidiaries prepared in currencies other than the euro are translated using the modified closing rate method set out in IAS 21. Under this method, all assets and liabilities are translated at the spot exchange mean rate effective on the balance sheet date, while the historical rate is applied for the translation of equity. Differences resulting from this translation are recognised in the currency translation reserve in equity. Any goodwill, disclosed hidden reserves and liabilities arising from the initial consolidation of foreign subsidiaries prior to 1 January 2005 have been translated at historical rates. Any goodwill, disclosed hidden reserves and liabilities arising from business combinations after 1 January 2005 are translated at the spot exchange mean rate. No foreign subsidiary in a foreign currency was included in the consolidated financial statement as of 31 December 2021.

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

g) Net interest income

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

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

Net interest income consists of:

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

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

h) Risk provision

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

i) Net fee and commission income

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

j) Net trading income

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

k) Result from financial instruments and investment properties

The result from financial instruments and investment properties consists of:

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

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

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

l) Other operating result

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

m) General administrative expenses

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

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

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

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

n) Financial assets and liabilities

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

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

Financial liabilities

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

Derecognition and modification

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

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

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

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

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

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

Offsetting

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

Measured at amortised cost

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

Measured at fair value through profit or loss

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

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

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

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

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

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

Derivative financial instruments

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

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

In case of cash flow hedges, the change in fair value of the derivative is recognised immediately in the hedging reserve in OCI, taking into account deferred taxes. The ineffective part of the hedge is recognised in the income statement. The underlying transaction is measured depending on its allocation to the individual categories.

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.

o) Loans and receivables credit institutions and customers

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

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

p) Risk provision

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

Impairments

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

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

Scope

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

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

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

General approach

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

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

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

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

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

Options

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

Information regarding the calculation logic

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

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

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

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

q) 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. Assets and Liabilities held for trading comprise all positive and negative fair values of derivative financial instruments that meet the regulatory requirements of the trading book. These items do not include financial assets and liabilities that fall into the category at fair value through profit or loss. Derivative financial instruments that are used as hedging instruments to manage interest rate risks in the regulatory banking book are presented in the position other assets or other liabilities.

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.

r) Financial investments

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

Classification of securitised debt instruments

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

Measured at amortised cost

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

Measured at fair value through profit or loss

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

Measured at fair value through OCI

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

Classification of equity instruments

Equity instruments are measured at fair value through profit or loss. Upon initial recognition, however, an irrevocable option (OCI option) may be exercised, individually for each instrument. This option only applies to financial instruments that are not held for trading and do not constitute a conditional consideration, which are recognised by an acquirer within the scope of a business combination under IFRS 3. If the option is exercised, all changes to the fair value are reported in

OCI (except for dividends, which are reported through profit or loss). Gains or losses reported in OCI can never be reclassified from equity to the income statement.

s) Investment property

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

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

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

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

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

t) Participations and companies measured at equity

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

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

To the extent that the discounted cash flow method is applied, the discount rates used are based on the respective current recommendations of the Fachsenat der österreichischen Kammer der Wirtschaftstreuhänder as well as of international financial data service providers and, in the 2021 financial year, range between 7.0 - 10.1 % (2020: 7.0 - 9.8 %). The market risk premium used for the calculation is 8.3 % (2020: 8.6 %), the beta values used range between 0.8 - 1.2 (2020: 0.8 - 1.2). Additional country risks did not have to be considered. Discounts due to fungibility and exercise of control in the amount of 10 % in each case are effected for two participating interests.

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

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

u) Intangible and tangible assets

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

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

Rights of use

On the commencement date a right of use is recognized by the lessee for the lease object in the balance sheet at acquistion costs. The cost of acquisition is made up as follows:

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

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

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

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

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

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

v) Tax assets and liabilities

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

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

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

w) 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 used to mangage interest rate risks in the ivestment book. With the exception of derivatives used in cash flow hedges, which are taken directly to other comprehensive income, changes in fair value are reported in the result from financial instruments and investment properties.

x) Assets and liabilities held for sale

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

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

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

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

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

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

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

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

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

y) Liabilities

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

Lease liability

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

- fixed lease payments, less lease incentives to be provided by the lessor
- variable payments linked to an index or interest rate
- expected residual value payments from residual value guarantees
- the exercise price of a purchase option, provided if the exercise of the option is estimated to be sufficiently certain
- any contractual penalties for terminating the lease, if the lease term takes into account, that a termination option is exercised

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

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

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

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

z) Employee benefits

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

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

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

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

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

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

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

Parameters for calculating employee benefit obligations

	2021	2020	2019	2018
Expected return on provisions for pensions	0.30 %	0.30 %	0.30 %	1.10 %
Expected return on provisions for severance payments	0.40 %	0.40 %	0.40 %	1.10 %
Expected return on anniversary pensions	0.40 %	0.40 %	0.40 %	1.10 %
Expected return on plan assets	0.30 %	0.30 %	0.30 %	1.10 %
Future salary increase	2.50 %	2.50 %	3.00 %	3.00 %
Future pension increase	1.70 %	1.70 %	2.00 %	2.00 %
Fluctuation rate	none	none	none	none

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

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 represent legally binding and irrevocable claims.

aa) Provisions

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

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

bb) Other liabilities

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

cc) Subordinated liabilities

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

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

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

dd) Equity

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

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

There is no ultimate parent company in the Association as the CO does not exercise control as defined by IFRS 10. The Association´s financial statements are therefore prepared on the basis of a group of companies which are legally independant entities, but under unified control without a parent company. The equity components of the non-controlled companies included are aggregated and the aggregated carrying amounts of the investments in these member companies are then subtracted. The remaining equity components are reported as equity under the relevant items. This type of consolidation does not result in any minority interests.

The Volksbanks' cooperative capital is reported separately under cooperative capital shares. According to IAS 32, cooperative capital is not eligible for inclusion as equity since it is "putable" – the holder may request redemption at any time, subject to a notice period. If, however, the redemption of shares is fully or partially prohibited, IFRIC 2 permits these shares to be classified as equity. Therefore, shares subject to this prohibition are recognised in subscribed capital.

Shares that are redeemable at any time are reported as a separate item alongside equity, because these are included as tier I capital in eligible own funds and capital management takes place on the basis of regulatory capital.

ee) Reserves

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

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

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

ff) Own funds

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

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

Regulatory own funds can be broken down into three elements:

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

The first two components comprise the tier I capital.

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

Just like CET1 capital, AT1 capital is available for covering losses on an ongoing basis. Core requirement is the subordination, the sustainability of the capital provision and the full discretion of the issuer, whether distributions are made or not. Additionally, it must be possible to convert the instruments into CET1 capital, or to write them off, at the latest when the CET1 capital ratio falls below the threshold of 5.125 % in proportion to the risk positions (at the latest).

T2 also includes non-current subordinated liabilities.

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

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

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

gg) Trustee transaction

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

hh) Repurchase transactions

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

ii) Contingent liabilities

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

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

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

jj) Cash flow statement

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

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

4) Net interest income

Euro thousand	2021	2020
Interest and similar income from	491,692	505,649
Deposits from credit institutions (incl. central banks)	20,486	3,958
Credit and money market transactions with credit institutions	2,970	3,824
Credit and money market transactions with customers	432,144	450,335
Bonds and other fixed-income securities	31,019	38,618
Derivative instruments	5,072	8,915
Interest and similar expenses for	-85,829	-92,556
Liquid funds	-10,403	-5,239
Deposits from credit institutions	-2,080	-3,184
Deposits from customers	-10,085	-10,724
Debts evidenced by certificates	-18,932	-16,309
Subordinated liabilities	-14,905	-15,202
Derivative instruments	-20,651	-27,539
Lease liabilities	-2,740	-3,300
Valuation result - modification	-5,958	-11,118
Valuation result - derecognition	-74	60
Net interest income	**405,863**	**413,094**

Net interest income according to IFRS 9 categories

Euro thousand	2021	2020
Interest and similar income from	491,692	505,649
Financial assets measured at amortised cost	480,998	488,688
Financial assets measured at fair value through OCI	68	1,590
Financial assets measured at fair value through profit or loss - obligatory	5,553	6,456
Derivative instruments	5,072	8,915
Interest and similar expenses for	-85,829	-92,556
Financial liabilities measured at amortised cost	-56,135	-51,288
Financial liabilities measured at fair value through OCI	0	0
Financial liabilities measured at fair value through profit or loss - designated	-3,011	-2,671
Derivative instruments	-20,651	-27,539
Valuation result - modification	-5,958	-11,118
Valuation result - derecognition	-74	60
Net interest income	**405,863**	**413,094**

Due to the trend of money market interest rates towards negative reference rates, interest income of euro 31,790 thousand (2020: euro 4,852 thousand) and interest expenses of euro 21,231 thousand (2020: euro 7,239 thousand) were realised in the 2021 business year. Negative interest income is reported in interest expenses and negative interest expenses are reported in interest income, so that all results from negative interest rates are shown gross. Interest and similar income from deposits from banks includes negative interest expenses of euro 19,639 thousand. (2020: euro 5,239 thousand) to Oesterreichische Nationalbank (OeNB).

5) Risk provision

Euro thousand	2021	2020
Changes in risk provision	73,845	-109,446
Changes in provision for risks	10,535	-14,502
Direct write-offs of loans and receivables	-3,033	-8,873
Income from loans and receivables previously written off	8,195	8,912
Valuation result modification/derecognition	-93	-2,141
Risk provision	**89,449**	**-126,049**

6) Net fee and commission income

Euro thousand	2021	2020
Fee and commission income	277,340	263,109
Lending business	19,103	22,929
Securities and custody business	101,019	84,424
Payment transactions	111,059	113,210
Foreign exchange, foreign notes and coins and precious metals transactions	1,680	1,565
Financial guarantees	6,355	6,749
Other services	38,124	34,232
Fee and commission expenses	-23,975	-23,971
Lending business	-2,530	-3,272
Securities and custody business	-10,061	-8,806
Payment transactions	-10,960	-11,011
Foreign exchange, foreign notes and coins and precious metals transactions	0	0
Financial guarantees	-138	-475
Other services	-285	-407
Net fee and commission income	**253,366**	**239,138**

Management fees for trust agreements were recognised in fee and commission income in the amount of euro 314 thousand (2020: euro 93 thousand).

7) Net trading income

Euro thousand	2021	2020
Equity related transactions	0	-12
Exchange rate related transactions	3,412	2,805
Interest rate related transactions	159	-3,263
Net trading income	**3,571**	**-470**

8) Result from financial instruments and investment properties

Euro thousand	2021	2020
Other result from financial instruments	**12,983**	**1,214**
Result from financial investments and other financial assets and liabilities measured at fair value through profit or loss	10,023	2,381
Valuation measured at fair value through profit or loss - obligatory	2,625	2,799
Loans and receivables credit institutions and customers	1,399	680
Securities	1,226	2,119
Result from other derivative instruments	4,712	-3,013
Result from fair value hedge	-1,805	-818
Valuation measured at fair value through profit or loss - designated	6,591	-872
Debts evidenced by certificates	6,591	-872
Income from equities and other variable-yield securities	807	454
Result from financial investments and other financial assets and liabilities measured at amortised cost	-4,581	90
Realised gains from disposal	74	250
Realised losses from disposal	-4,655	-159
Result from financial investments and other financial assets and liabilities measured at fair value through OCI	4,634	2,573
Realised gains from disposal	14	9
Realised losses from disposal	-1	-9
Income from participations	4,621	2,573
Result from investment properties	**4,489**	**4,683**
Rental income from investment properties and operating lease	1,696	3,298
Valuation investment properties	2,793	1,385
Result from financial instruments and investment properties	**17,473**	**5,897**

VBW has offered to VB Regio Invest AG (formerly Volksbank-Quadrat Bank AG, “VB Regio”) the shares it holds in VB Regio Invest AG participation certificates (ISIN AT0000A015R4) for repurchase in accordance with the repurchase memorandum dated 12 April 2021. VB Regio accepted this offer under the value date of 26 May 2021, and the participation certificates were transferred to VB Regio with the same value date against payment of the repurchase price. This results in a change in the result from financial instruments and investment properties of euro 2,000 thousand (including a dividend in the amount of euro 765 thousand).

The sustained burdens to be expected due to the COVID crisis and the potentially resulting negative economic effects prompted VBW – contrary to the original long-term holding intention – to examine the possibility of selling the entire bond portfolio to the Italian government at the beginning of the financial year. The bond portfolio was purchased more than 10 years ago with a long-term holding intention. The sale did not represent a change in the general intentions within the defined business models, but related exclusively to the risk policy situation. The first significant sale since the introduction of IFRS 9 was therefore made for risk minimization reasons in order to counteract the increased credit risk or cluster risk in the regulatory liquidity portfolio. The sale as at 28 February 2021 with a volume of euro 166.8 million of the entire Italian government bond portfolio was made due to the strategic policy decision described above. The realisation of the securities results in a negative amount of euro 4,613 thousand.

9) Other operating result

Euro thousand	2021	2020
Other operating income	22,243	53,842
Other operating expenses	-18,614	-10,309
Deconsolidation result from consolidated affiliates	-153	-1,344
Taxes and levies on banking business	-5,685	-4,855
Other operating result	**-2,208**	**37,334**

Other taxes include the stability tax in the amount of euro -4,080 thousand (2020: euro -3,391 thousand).

Detailed description of other operating income and other operating expenses

Euro thousand	2021	2020
Income from allocation of costs	4,105	5,353
Realised gains from disposal of fixed assets and security properties	3,605	34,638
Rental and leasing income	4,104	2,935
Repurchase of VB Regio Invest AG participation certificates	989	0
Others	9,440	10,916
Other operating income	**22,243**	**53,842**

Euro thousand	2021	2020
Allocation of costs	-3,555	-6,499
Realised losses from disposal of fixed assets and security properties	-2,432	-1,499
Allocation/release of provision for negative interest	3,306	6,528
Allocation/release of provision for legal risks	-108	-1,504
Expenses for buildings	-1,077	-1,797
Repurchase of VB Regio Invest AG participation certificates	-3,923	0
Claims	-4,429	-1,042
Others	-6,395	-4,497
Other operating income	**-18,614**	**-10,309**

10) General administrative expenses

Euro thousand	2021	2020
Staff expenses	-291,042	-297,666
Wages and salaries	-218,145	-224,311
Expenses for statutory social security	-57,164	-59,104
Fringe benefits	-3,653	-3,680
Expenses for retirement benefits	-6,346	-8,209
Allocation to provision for severance payments and pension funds	-5,735	-2,362
Administrative expenses	-193,668	-181,826
Office space expenses	-15,344	-16,040
Office supplies and communication expenses	-5,048	-5,447
Advertising, PR and promotional expenses	-13,059	-13,280
Legal, advisory and consulting expenses	-23,883	-22,979
IT expenses	-78,920	-79,608
Contribution to the deposit guarantee	-36,791	-23,746
Single Resolution Fund	-7,803	-6,866
Other administrative expenses (including training expenses)	-12,819	-13,859
Depreciation and reversal of impairment	-30,569	-32,334
Depreciation	-20,838	-22,743
Impairment/reversal of impairment	-1,509	-1,066
Right of use - lease depreciation	-8,222	-8,520
Right of use - lease impairment	0	-4
General administrative expenses	**-515,279**	**-511,826**

Staff expenses include payments for defined contribution plans totalling euro 6,495 thousand (2020: euro 6,664 thousand).

Other administrative expenses include expenses for managing contracts for investment properties to the amount of euro 25 thousand (2020: euro 161 thousand).

Expenses for short-term leases in the amount of euro 0 thousand (2020: euro 97 thousand) and for low-value assets in the amount of euro 1,372 thousand (2020: euro 1,521 thousand) are included in the administrative expenses.

For the business year, expenses for the auditor KPMG Austria GmbH Wirtschaftsprüfung und Steuerberatungsgesellschaft amounted to euro 1,756 thousand. Thereof euro 1,084 thousand fall upon the audit of the consolidated financial statements including financial statements of fully consolidated companies and joint ventures, euro 597 thousand upon other advisory services and euro 75 thousand upon other audit services. The auditor does not provide any tax advice.

Information on compensation to board members

Euro thousand	2021	2020
Total compensation	**7,133**	**7,051**
Supervisory board VBW	295	296
Managing board VBW	1,792	1,686
Member of the managing board / Managing directors Volksbanks	5,045	5,069
Expenses for severance payments and pension		
Supervisory board VBW	0	0
Managing board VBW	460	263
Member of the managing board / Managing directors Volksbanks	356	602

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

Number of staff employed during the business year

	Average number of staff		Number of staff at end of period	
	2021	2020	31 Dec 2021	31 Dec 2020
Employees	3,187	3,352	3,099	3,252
Workers	25	10	29	16
Total number of staff	**3,211**	**3,362**	**3,128**	**3,268**

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

11) Income taxes

Euro thousand	2021	2020
Current income taxes	-22,018	-26,966
Deferred income taxes	-10,372	-5,123
Income taxes for the current fiscal year	**-32,389**	**-32,089**
Income taxes from previous periods	579	-4,688
Income taxes	**-31,810**	**-36,777**

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

Euro thousand	2021	2020
Annual result before taxes - continued operation	250,950	56,791
Annual result before taxes - total	**250,950**	**56,791**
Imputed income tax 25 %	62,738	14,198
Tax relief resulting from		
Tax-exempt investment income	-1,018	-443
Investment allowances	-11	3
Other tax-exempt earnings	-437	-356
Dividend distribution on AT1 capital	-4,263	-4,263
Measurement of participation	-6,531	-971
Non-inclusion of deferred tax assets	0	24,670
Re-inclusion of deferred tax assets	-19,426	0
Other differences	1,338	-749
Income taxes for the current fiscal year	**32,389**	**32,089**
Income taxes from previous periods	-579	4,688
Reported income taxes	**31,810**	**36,777**
Effective tax rate - continued operations	**12.68 %**	64.76 %

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

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

		2021			2020	
Euro thousand	Result before tax	Income taxes	Result after tax	Result before tax	Income taxes	Result after tax
Valuation of obligation of defined benefit plans	8,669	-2,167	6,501	21,273	-5,318	15,955
Fair value reserve - equity instruments	3,789	-1,008	2,781	-2,631	658	-1,973
Valuation of own credit risk	-2,161	540	-1,621	-142	35	-106
Fair value reserve - debt instruments	-1,133	283	-850	354	-89	266
Cash flow hedge reserve	-39	10	-30	0	0	0
Change in deferred taxes of untaxed reserve	0	0	0	0	4	4
Change from companies measured at equity	1,987	-231	1,755	-1,382	346	-1,037
Other comprehensive income total	**11,111**	**-2,573**	**8,538**	**17,473**	**-4,364**	**13,109**

Notes to the consolidated statement of financial positions

12) Liquid funds

Euro thousand	31 Dec 2021	31 Dec 2020
Cash in hand	198,626	193,366
Balances with central banks	6,722,765	3,750,394
Liquid funds	**6,921,391**	**3,943,760**

Despite its comfortable liquidity position, VBW has again decided to participate in the TLTRO III facility to provide additional liquidity and to support lending to the real economy. Therefore VBW participated in the June 2021 tranche 8 of the TLTRO III programme with euro 2 billion on behalf of the KI Group. As at 31 December 2021, outstanding borrowings under the third series of the European Central Bank's (ECB) Targeted Longer-Term Refinancing Operations Programme (TLTRO III) amount to euro 3.5 billion (2020: euro 1.5 billion).

The liabilities were recognised at the Association of Volksbanks as amounts owed to credit institutions in accordance with IFRS 9 and carried at amortised cost. On the one hand, this classification is based on the fact that TLTRO instruments have meanwhile established themselves as a refinancing market in their own right due to their long-term or regular availability and, on the other hand, that their significant volume has an impact on pricing in the secured refinancing market. VBW has therefore come to the conclusion that the terms and conditions of the TLTRO III programme do not offer any significant advantage compared to the market, which is why IAS 20 is not applicable.

The Association of Volksbanks considers the TLTRO III instruments to have a fundamentally variable interest rate, as both the underlying reference rate and the premiums are subject to ongoing adjustments by the ECB. In December 2020, for example, the ECB decided to extend the special interest rate conditions for the period between 24 June 2021 and 23 June 2022 for those banks that achieve sufficient loan volumes in an additional reference period between 1 October 2020 and 31 December 2021.

The Association of Volksbanks was able to achieve sufficient loan volumes in both the reference period between 1 March 2020 and 31 March 2021 (first Special Reference Period or SIRP) and the second reference period between 1 October 2020 and 31 October 2021 (second SIRP), which is why the interest rate for all outstanding TLTRO III transactions was 50 basis points below the average interest rate for the ECB's deposit facility in the same period.

For the TLTRO III volume raised in the amount of euro 3.5 billion (2020: euro 1.5 billion), a total of euro 16.8 million was accrued in the financial year and recognised as negative interest expense in interest income.

Transition from liquid funds to cash and cash equivalents

Euro thousand	31 Dec 2021	31 Dec 2020
Liquid funds	6,921,391	3,943,760
Restricted cash and cash equivalents	-20,328	-20,328
Cash and cash equivalents	**6,901,063**	**3,923,432**

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

13) Loans and receivables credit institutions and customers

Euro thousand	31 Dec 2021	31 Dec 2020
Loans and receivables credit institutions		
Amortised cost	256,532	437,725
Fair value through profit or loss	58	419
Gross carrying amount	256,590	438,144
Risk provisions	-23	-38
Net carrying amount	**256,567**	**438,106**
Loans and receivables customers		
Amortised cost	21,490,338	21,254,202
Fair value through profit or loss	346,154	397,077
Gross carrying amount	21,836,493	21,651,279
Risk provisions	-273,365	-363,957
Net carrying amount	**21,563,128**	**21,287,322**
Loans and receivables credit institutions and customers	**21,819,695**	**21,725,429**

Breakdown by residual term

Euro thousand	31 Dec 2021	31 Dec 2020
On demand	27,161	31,975
Up to 3 months	191,555	364,004
Up to 1 year	498	50
Up to 5 years	0	2,758
More than 5 years	37,377	39,357
Loans and receivables credit institutions (gross)	**256,590**	**438,144**

On demand	680,790	674,576
Up to 3 months	673,026	585,437
Up to 1 year	1,443,027	1,535,884
Up to 5 years	5,268,308	5,314,638
More than 5 years	13,771,341	13,540,744
Loans and receivables customers (gross)	**21,836,493**	**21,651,279**

Finance lease disclosures

Euro thousand	Until 1 year	Until 5 years	More than 5 years	Total
2021				
Total gross investment	26,867	149,558	23,083	199,508
Less paid non-interest-bearing deposits	-2,051	-10,920	-107	-13,079
Less unearned financial income	-1,017	-3,737	-459	-5,213
Present value of minimum lease payments	**23,799**	**134,901**	**22,517**	**181,217**
Total unguaranteed residual value				**7,066**
2020				
Total gross investment	27,052	168,204	24,019	219,276
Less paid non-interest-bearing deposits	-2,476	-11,864	-183	-14,524
Less unearned financial income	-1,136	-4,222	-403	-5,761
Present value of minimum lease payments	**23,440**	**152,118**	**23,433**	**198,991**
Total unguaranteed residual value				**7,382**

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

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

Sensivity analysis

Loans and receivables credit institutions and customers measured at fair value

As there are only loans and receivables credit institutions measured at fair value through profit or loss in the amount of euro 58 thousand as at 31 December 2021 (2020: euro 419 thousand), the sensitivities have not been presented in tabular form.

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

Loans and receivables customers
31 Dec 2021

Euro thousand	Positive change in fair value	Negative change in fair value
Change in risk markup +/- 10 bp	1,504	-1,490
Change in risk markup +/- 100 bp	14,111	-12,621
Change in rating 1 stage down / up	353	-509
Change in rating 2 stages down / up	581	-1,279
31 Dec 2020		
Change in risk markup +/- 10 bp	2,064	-2,065
Change in risk markup +/- 100 bp	22,120	-20,022
Change in rating 1 stage down / up	215	-340
Change in rating 2 stages down / up	355	-857

14) Risk provision

Risk provision – loans and receivables credit institutions

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 01 Jan 2020	47	1	0	48
Increases due to origination and acquisition	2	0	0	2
Decreases due to derecognition	-3	-1	0	-4
Changes due to change in credit risk	-7	-1	0	-8
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	-1	0	0	-1
As at 31 Dec 2020	38	0	0	38
Increases due to origination and acquisition	65	0	0	65
Decreases due to derecognition	-25	0	0	-25
Changes due to change in credit risk	-55	0	0	-55
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	0	0	0
As at 31 Dec 2021	**23**	**0**	**0**	**23**

Risk provision – loans and receivables customers

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 01 Jan 2020	20,687	48,002	217,495	286,185
Increases due to origination and acquisition	4,045	1,710	3,046	8,801
Decreases due to derecognition	-1,132	-3,018	-6,879	-11,029
Changes due to change in credit risk	5,183	26,420	-824	30,779
Thereof transfer to stage 1	11,192	-6,428	-4,764	0
Thereof transfer to stage 2	-8,442	9,063	-621	0
Thereof transfer to stage 3	-110	-3,747	3,857	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	52,417	29,971	0	82,388
Decrease in allowance account due to write-offs	0	0	-33,200	-33,200
Other adjustments	-2,310	-5,986	8,329	33
As at 31 Dec 2020	78,890	97,099	187,968	363,957
Increases due to origination and acquisition	4,282	2,807	3,792	10,880
Decreases due to derecognition	-1,573	-5,153	-9,823	-16,548
Changes due to change in credit risk	-10,028	5,129	-262	-5,161
Thereof transfer to stage 1	12,474	-11,724	-750	0
Thereof transfer to stage 2	-14,560	15,640	-1,079	0
Thereof transfer to stage 3	-40	-4,807	4,848	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	-36,486	-24,227	66	-60,647
Decrease in allowance account due to write-offs	0	0	-19,347	-19,347
Other adjustments	-729	-4,129	5,090	232
As at 31 Dec 2021	**34,356**	**71,526**	**167,483**	**273,365**

Risk provision – financial investments measured at cost

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 01 Jan 2020	451	0	0	451
Increases due to origination and acquisition	23	0	0	23
Decreases due to derecognition	-6	0	0	-6
Changes due to change in credit risk	322	0	0	322
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	0	0	0
As at 31 Dec 2020	791	0	0	791
Increases due to origination and acquisition	42	0	0	42
Decreases due to derecognition	-349	0	0	-349
Changes due to change in credit risk	-149	0	0	-149
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	0	0	0
As at 31 Dec 2021	**336**	**0**	**0**	**336**

Risk provision – financial investments measured at fair value through OCI

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 01 Jan 2020	9	0	0	9
Increases due to origination and acquisition	0	0	0	0
Decreases due to derecognition	-3	0	0	-3
Changes due to change in credit risk	2	0	0	2
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	0	0	0
As at 31 Dec 2020	8	0	0	8
Increases due to origination and acquisition	0	0	0	0
Decreases due to derecognition	0	0	0	0
Changes due to change in credit risk	0	0	0	0
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	0	0	0
As at 31 Dec 2021	**8**	**0**	**0**	**8**

15) Assets held for trading

Euro thousand	31 Dec 2021	31 Dec 2020
Bonds and other fixed-income securities	486	1,697
Positive fair values of derivative instruments	39,263	54,273
Exchange rate related transactions	13	28
Interest rate related transactions	39,250	54,245
Assets held for trading	**39,750**	**55,970**

Breakdown by residual term

Euro thousand	31 Dec 2021	31 Dec 2020
Up to 3 months	0	7
Up to 1 year	0	0
Up to 5 years	477	868
More than 5 years	9	823
Bonds and other fixed-income securities	**486**	**1,697**

VBW as the CO maintains a trading book. The volume of the trading book as at 31 December 2021 amounts to euro 1,281,628 thousand (2020: euro 1,677,450 thousand).

16) Financial investments

Euro thousand	31 Dec 2021	31 Dec 2020
Financial investments		
Amortised cost	2,297,529	2,455,531
Fair value through OCI	80,989	72,107
Fair value through profit or loss	5,294	108,981
Risk provision	-336	-791
Carrying amount	**2,383,476**	**2,635,829**

As the risk provision for financial investments at fair value through OCI does not reduce the carrying amount of the financial instruments concerned, it is not shown in this table.

Financial investments measured at fair value through profit or loss include equity instruments in the amount of euro 2.069 thousand (2020: euro 103.961 thousand).

Breakdown by residual term

Euro thousand	31 Dec 2021	31 Dec 2020
Up to 3 months	40,392	20,281
Up to 1 year	68,231	68,721
Up to 5 years	837,298	1,021,357
More than 5 years	1,435,822	1,422,300
Bonds and other fixed-income securities	**2,381,743**	**2,532,659**

Breakdown of debt securities in accordance with the Austrian Banking Act

Euro thousand	31 Dec 2021	31 Dec 2020
Listed securities	2,158,080	2,142,111
Bonds and other fixed-income securities	2,158,080	2,142,111
Securities allocated to fixed assets	2,160,924	2,264,346
Securities eligible for rediscounting	2,108,774	2,085,643

17) Investment property

Euro thousand	Investment properties
Costs as at 01 Jan 2020	46,706
Reclassification	913
Additions	55
Disposals	-4,931
Assets held for sale	-5,121
Costs as at 31 Dec 2020	37,621
Reclassification	0
Additions	0
Disposals	-2,594
Assets held for sale	-3,828
Costs as at 31 Dec 2021	**31,199**

Euro thousand	Investment properties
Cumulative valuation 01 Jan 2020	828
Reclassification	-228
Disposals	594
Assets held for sale	777
Valuation losses	-863
Valuation gains	2,248
Cumulative valuation 31 Dec 2020	3,356
Reclassification	0
Disposals	-362
Assets held for sale	526
Valuation losses	-233
Valuation gains	3,026
Cumulative valuation 31 Dec 2021	**6,313**

Euro thousand	Investment properties
Carrying amount 01 Jan 2020	47,533
Carrying amount 31 Dec 2020	40,977
Carrying amount 31 Dec 2021	37,512

Valuations shown in the table above are included within result from financial instruments and investment properties. These valuations include investment properties to the amount of euro 2,576 thousand (2020: euro 1,048 thousand) still held at the reporting date.

In 2021, investment properties with a carrying amount of euro 2,956 thousand (2020: euro 4,337 thousand) were disposed of.

Investment properties contain 27 completed properties (2020: 31) with a carrying amount of euro 24,463 thousand (2020: euro 27,395 thousand), as well as undeveloped land with a carrying amount of euro 13,049 thousand (2020: euro 13,582 thousand). These properties are located in Austria. At reporting date, all investment properties are measured at fair value.

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

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

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

Completed properties

	2021			2020		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	28	4,540	931	28	4,460	981
Rentable space in sqm	38	2,741	1,060	38	5,060	1,537
Occupancy rate	0.00 %	100.00 %	93.73 %	34.58 %	100.00 %	89.23 %
Discount rate	2.00 %	7.00 %	4.19 %	2.00 %	7.00 %	4.94 %

Sensitivity analysis

	Changes in the carrying amount	
Euro thousand	if assumption	if assumption
31 Dec 2021	is increased	is decreased
Discount rate (0.25 % change)	-1,520	1,713
Discount rate (0.50 % change)	-2,879	3,659
31 Dec 2020		
Discount rate (0.25 % change)	-1,513	1,675
Discount rate (0.50 % change)	-2,887	3,538

Undeveloped land

	2021			2020		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	32	2,990	1,064	26	2,850	995
Plot size in sqm	540	48,263	13,985	540	48,263	14,136
Value per sqm	5	1,197	249	5	718	175

Sensitivity analysis

	Changes in the carrying amount	
Euro thousand	if assumption	if assumption
31 Dec 2021	is increased	is decreased
Land value (10 % change)	1,383	-1,383
Land value (5 % change)	691	-691
31 Dec 2020		
Land value (10 % change)	1,393	-1,393
Land value (5 % change)	696	-696

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

18) Companies measured at equity

Euro thousand	Associates
Carrying amount as at 01 Jan 2020	92,234
Changes in the scope of consolidation	0
Comprehensive income proportional	-1,503
Impairment	0
Reversal of impairment	139
Carrying amount as at 31 Dec 2020	90,870
Changes in the scope of consolidation	592
Comprehensive income proportional	480
Impairment	-246
Reversal of impairment	0
Carrying amount as at 31 Dec 2021	**91,696**

Associates

The Association holds 77.8 % (2020: 77.7 %) of the shares in VB Verbund Beteiligungs eG (VB Verb). The company is located in Vienna and holds participations in companies within the financial sector.

Until December 2021, the associated companies within the Association also included VB Wien Beteiligung eG (VBW Bet). In December 2021, the assets of VBW Bet were split and as a result of this split a new company VBW eins Beteiligung eG (VBW eins) was created. Following the asset transfer, the Association no longer holds any shares in VBW Bet (2020: 44.8 %) but does hold shares in VBW eins amounting to 77.6 % (2020: 0 %). Upon spin-off, VBW eins, instead of VBW Bet, is included in the financial statements of the Association at equity. VBW eins is headquartered in Vienna and holds participations in companies in the financial sector.

None of these companies is listed on the stock exchange.

Below, the financial information for VB Verbund-Beteiligung eG, VB Wien Beteiligung eG and VBW eins Beteiligung eG is presented together, as none of the companies is considered material based on the proportionate financial information attributable to the Association.

Additional information regarding associates

Euro thousand	2021	2020
Assets		
Loans and receivables credit institutions	28,543	38,146
Financial investments	3,000	0
Other assets	96,540	110,728
Total assets	**128,082**	**148,874**
of which current assets	128,082	128,874
Liabilities and Equity		
Amounts owed to credit institutions	0	7,157
Other liabiliites	1,521	2,338
Equity	126,561	139,379
Total liabilities and equity	**128,082**	**148,874**
of which current liabilities	1,521	2,338
Statement of comprehensive income		
Interest and similar income	251	337
Interest and similar expense	-218	-269
Net interest income	33	68
Result before taxes	1,184	-784
Income taxes	55	-16
Result after taxes	1,239	-800
Other comprehensive income	2,062	-1,374
Comprehensive income	**3,301**	**-2,175**

Reconciliation

Euro thousand	2021	2020
Equity	126,561	139,379
Equity interest	n.a.	n.a.
Equity proportional	98,376	96,228
Cumulative impairment and reversals	-6,992	-5,670
Not recognised proportional loss	0	0
Valuation previous years	312	312
Transfer carrying amount	0	0
Carrying amount as at 31 Dec 2021	91,696	90,870

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

19) Participations

Euro thousand	31 Dec 2021	31 Dec 2020
Investments in unconsolidated affiliates	16,060	15,708
Investments in companies with participating interest	5,276	6,806
Investments in other companies	109,252	105,625
Participations	**130,588**	**128,139**

A list of unconsolidated affiliates can be found in note 55). Participations with a carrying amount of euro 1,518 thousand (2020: euro 222 thousand) were disposed of during the business year.

The most significant participation in other participations is Volksbanken Holding eGen with a carrying amount of euro 83,837 thousand (2020: euro 83,837 thousand), Oesterreichische Kontrollbank Aktiengesellschaft with a carrying amount of euro 4,394 thousand (2020: euro 4,051 thousand) and PSA Payment Services Austria GmbH with a carrying amount of euro 5,274 thousand (2020: euro 3,298 thousand). The dividends of the participations are included in the income statement in the item Result from financial instruments and investment properties.

Income from participations includes dividends of euro 4,590 thousand from participations measured at fair value through OCI (2020: euro 2,021 thousand). Dividends from participations measured at fair value through OCI that were derecognised in the 2021 financial year amounted to euro 545 thousand (2020: euro 0 thousand).

All participations that represent strategically or operationally significant business relationships within the Association of Volksbanks are measured at fair value through OCI.

Sensitivity analysis

Participations valued by DCF method

Euro thousand		Interest rate		
31 Dec 2021		**-0.50 %**	**Actual**	**0.50 %**
	-10.00 %	15,328	14,440	13,652
Income component	**Actual**	17,031	**16,045**	15,168
	10.00 %	18,735	17,649	16,685
31 Dec 2020				
	-10.00 %	15,164	14,399	13,717
Income component	**Actual**	16,654	**15,548**	15,046
	10.00 %	18,144	17,208	16,375

Participations valued by net assets

Euro thousand	Proportional market value		
31 Dec 2021	**If assumption is decreased**	**Actual**	**If assumption is increased**
Net assets (10 % change)	17,925	**19,916**	21,908
31 Dec 2020			
Net assets (10 % change)	15,656	**17,199**	19,135

Participations valued by external appraisals

Euro thousand	Proportional market value		
31 Dec 2021	**Lower band**	**Actual**	**Upper band**
Proportional market value	77,980	**86,644**	95,308
31 Dec 2020			
Proportional market value	79,203	**88,114**	97,021

20) Intangible assets

Euro thousand	Software	Goodwill	Others	Total
Costs as at 01 Jan 2020	40,938	866	573	42,377
Change in the scope of consolidation	0	0	0	0
Reclassification	18	0	-18	0
Additions	156	0	0	156
Disposals	-22,571	0	0	-22,571
Costs as at 31 Dec 2020	18,542	866	555	19,962
Change in the scope of consolidation	15	0	0	15
Reclassification	22,273	0	0	22,273
Additions	14	0	0	14
Disposals	-6,606	0	0	-6,606
Costs as at 31 Dec 2021	**34,238**	**866**	**555**	**35,658**
Cumulative valuation 01 Jan 2020	-37,885	-866	-249	-38,999
Change in the scope of consolidation	0	0	0	0
Reclassification	-7	0	7	0
Disposals	22,565	0	0	22,565
Depreciation	-921	0	-17	-937
Cumulative valuation 31 Dec 2020	-16,247	-866	-259	-17,371
Change in the scope of consolidation	-15	0	0	-15
Reclassification	-22,273	0	0	-22,273
Disposals	6,577	0	0	6,577
Depreciation	-873	0	-15	-888
Cumulative valuation 31 Dec 2021	**-32,832**	**-866**	**-273**	**-33,971**
Carrying amount 01 Jan 2020	3,054	0	324	3,377
Carrying amount 31 Dec 2020	2,295	0	296	2,591
Thereof with unlimited useful life		0		0
Thereof with limited useful life	2,295		296	2,591
Carrying amount 31 Dec 2021	1,406	0	281	1,687
Thereof with unlimited useful life		0		0
Thereof with limited useful life	1,406		281	1,687

21) Tangible assets

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Costs as at 01 Jan 2020	504,619	24,296	180,286	5,133	714,334
Change in the scope of consolidation	0	0	0	0	0
Reclassification	848	-7,035	5,197	78	-913
Additions	4,575	395	9,479	421	14,870
Disposals	-29,029	-2,335	-14,056	-1,120	-46,540
Assets held for sale	-6,439	0	0	0	-6,439
Costs as at 31 Dec 2020	474,573	15,321	180,905	4,512	675,312
Change in the scope of consolidation	0	9	0	0	9
Reclassification	9	0	-2,069	2,061	2
Additions	6,984	699	7,633	1,314	16,629
Disposals	-31,100	-1,999	-6,874	-1,616	-41,588
Assets held for sale	-31,169	0	0	0	-31,169
Costs as at 31 Dec 2021	**419,298**	**14,030**	**179,596**	**6,271**	**619,194**
Cumulative valuation 01 Jan 2020	-239,577	-20,599	-149,329	-3,076	-412,581
Change in the scope of consolidation	0	0	0	0	0
Reclassification	-1,002	5,102	-3,432	-76	592
Disposals	19,407	2,325	13,298	863	35,892
Assets held for sale	2,912	0	0	0	2,912
Depreciation	-11,724	-865	-8,537	-680	-21,806
Impairment	-1,088	0	0	0	-1,088
Reversal of impairment	22	0	0	0	22
Cumulative valuation 31 Dec 2020	-231,051	-14,036	-147,999	-2,969	-396,056
Change in the scope of consolidation	0	-8	0	0	-8
Reclassification	9	0	1,754	-1,765	-2
Disposals	12,929	1,999	6,521	1,458	22,907
Assets held for sale	19,146	0	0	0	19,146
Depreciation	-10,970	-607	-7,502	-871	-19,950
Impairment	-1,004	0	-505	0	-1,509
Reversal of impairment	0	0	0	0	0
Cumulative valuation 31 Dec 2021	**-210,941**	**-12,653**	**-147,730**	**-4,146**	**-375,471**
Carrying amount 01 Jan 2020	265,041	3,697	30,957	2,058	301,753
Carrying amount 31 Dec 2020	243,522	1,284	32,906	1,543	279,256
Carrying amount 31 Dec 2021	208,356	1,377	31,865	2,125	243,723

Right of use

Euro thousand	Vehicles	Branches	Administration buildings	Total
31 Dec 2020				
Amortised cost	77	149,054	31,207	180,337
Additions	0	16,164	0	16,164
Depreciation	-30	-6,628	-1,866	-8,525
Carrying amount	**10**	**135,332**	**29,028**	**164,369**
31 Dec 2021				
Amortised cost	77	153,497	31,207	184,780
Additions	0	2,906	0	2,906
Depreciation	-10	-6,487	-1,724	-8,222
Carrying amount	**0**	**133,287**	**27,303**	**160,590**

At the Association of Volksbanks buildings were sold, and the branches located therein were subsequently leased back again. This transction leads to an insignificant impact on the result and to a cash inflow in the amount of euro 3,482 thousand (2020: euro 7,883 thousand).

22) Tax assets and liabilities

	31 Dec 2021		31 Dec 2020	
Euro thousand	**Tax assets**	**Tax liabilities**	**Tax assets**	**Tax liabilities**
Current tax	4,909	8,731	7,265	21,899
Deferred tax	96,715	3,671	109,284	3,526
Tax total	**101,624**	**12,402**	**116,549**	**25,425**

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

	31 Dec 2021		31 Dec 2020		Net deviation 2021		
Euro thousand	**Tax assets**	**Tax liabilities**	**Tax assets**	**Tax liabilities**	**Total**	**In income statement**	**In other comprehen-sive income**
Loans and receivables credit institutions	505	717	509	134	-588	-588	0
Loans and receivables customers	59,892	33,663	64,718	37,472	-1,016	-1,016	0
Assets held for trading	9,119	0	4	0	9,116	9,116	0
Financial investments	719	55,047	1,089	91,742	36,325	36,041	283
Investment property	0	4,535	0	4,001	-534	-534	0
Participations	9,110	4,375	7,565	5,084	2,253	3,261	-1,008
Intangible and tangible assets	40,264	42,252	44,667	43,298	-3,358	-3,358	0
Amounts owed to credit institutions	0	2	0	0	-2	-2	0
Amounts owed to customers	1,042	2,349	24	2,630	1,299	1,299	0
Debts evidenced by certificates and subordinated liabilities	10,043	937	27,088	235	-17,747	-18,287	540
Lease liabilities	42,289	0	42,472	0	-183	-183	0
Liabilities held for trading	0	9,141	0	0	-9,141	-9,141	0
Provisions for pensions, severance payments and other provisions	29,612	4,494	32,098	4,991	-1,989	179	-2,167
Other assets and liabilities	63,877	25,633	109,315	36,448	-34,623	-34,633	10
Other balance sheet items	0	219	0	219	0	0	0
Tax loss carryforwards	9,937	0	2,462	0	7,475	7,475	0
Deferred taxes before netting	**276,408**	**183,364**	**332,012**	**226,254**	**-12,714**	**-10,372**	**-2,342**
Offset between deferred tax assets and deferred tax liabilities	-	-179,693	-222,728	-222,728	0	0	0
Reported deferred taxes	**96,715**	**3,671**	**109,284**	**3,526**	**-12,714**	**-10,372**	**-2,342**

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

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

For tax loss carryforwards in the amount of euro 615,633 thousand (2020: euro 344,757 thousand) no deferred taxes were recognised. Of these taxable loss carryforwards euro 615,633 thousand (2020: euro 344,757 thousand) can be carried forward without restriction and are mainly attributable to VBW. The increase in 2021 is based on the preliminary result of an external audit, which has not yet been formally completed.

In accordance with IAS 12.39 deferred tax liabilities for temporary differences regarding participations in subsidiaries in the amount of euro 54,700 thousand (2020: euro 60,402 thousand) as well as deferred tax assets in the amount of euro 19,239 thousand (2020: euro 18,238 thousand) were not recognised as a reversal is not expected soon.

23) Other assets

Euro thousand	31 Dec 2021	31 Dec 2020
Deferred items	3,957	3,391
Other receivables and assets	68,028	59,287
Positive fair values of derivative instruments	75,853	115,803
Other assets	**147,838**	**178,481**

Other receivables and assets essentially consist auxiliary accounts of deferrals of euro 18,775 thousand (2020: euro 10,516 thousand), receivables from property sales in the amount of euro 15,345 thousand (2020: euro 3,345 thousand) the banking business and other allocations amounting to euro 14,678 thousand (2020: euro 25,678 thousand) and receivables against employees in the amount of euro 4,839 thousand (2020: euro 5,017 thousand). In addition to derivatives that are used for hedge accounting in accordance with IFRS 9, the position positive market values from derivative financial instruments also includes derivatives in the amount of eur 31,445 thousand (2020: eur 46,939 thosand) that are used for managing interest rate risks in the banking book.

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

	31 Dec 2021		31 Dec 2020	
Euro thousand	Fair value hedge	Cash flow hedge	Fair value hedge	Cash flow hedge
Interest rate related transactions	44,407	0	68,864	0
Positive fair values of derivative instruments	**44,407**	**0**	**68,864**	**0**

24) Assets held for sale

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

Euro thousand	31 Dec 2021	31 Dec 2020
Loans and receivables credit institutions	0	21
Investment property	3,303	4,344
Tangible assets	12,576	3,361
Other assets	0	318
Assets held for sale	**15,879**	**8,044**

The increase is due, on the one hand, to a real estate portfolio held for sale in Vienna and to properties held for sale in Lower Austria and Salzburg, on the other hand.

Due to the potential of the properties in Vienna, in particular for developers as development and portfolio properties, a sales process was started in October 2021, and the bidding process was successfully completed on 28 December 2021. It is expected that the sale will be completed in the first half of 2022. In addition to the situation described above, individual banks of the Association have adopted further resolutions on the sale of company-owned retail branches and on the sale of part of the head office at Volksbank Salzburg.

The progress of negotiations regarding these sales is such that the individual sales transactions are expected to be concluded in the 2022 business year.

25) Amounts owed to credit institutions

Euro thousand	31 Dec 2021	31 Dec 2020
Central banks	3,579,956	1,588,920
Other credit institutions	216,673	294,953
Amounts owed to credit institutions	**3,796,629**	**1,883,873**

Amounts owed to credit institutions are measured at amortised cost.

The change in liabilities to central banks in the amount of euro 2 billion (2020: euro 1.5 billion) results from participation in the TLTRO III programme. Details of the TLTRO III programme are presented in note 12) Liquid funds.

Breakdown by residual term

Euro thousand	31 Dec 2021	31 Dec 2020
On demand	146,309	183,357
Up to 3 months	22,488	53,674
Up to 1 year	3,500,068	1,515,233
Up to 5 years	16,154	16,060
More than 5 years	111,611	115,550
Amounts owed to credit institutions	**3,796,629**	**1,883,873**

26) Amounts owed to customers

Euro thousand	31 Dec 2021	31 Dec 2020
Savings deposits	7,009,484	7,618,074
Other deposits	15,737,315	14,535,380
Amounts owed to customers	**22,746,798**	**22,153,454**

Amounts owed to customers are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2021	31 Dec 2020
On demand	21,183,144	19,527,686
Up to 3 months	411,266	676,674
Up to 1 year	687,465	1,246,716
Up to 5 years	411,006	600,559
More than 5 years	53,918	101,820
Amounts owed to customers	**22,746,798**	**22,153,454**

27) Debts evidenced by certificates

Euro thousand	31 Dec 2021	31 Dec 2020
Bonds	1,869,153	1,442,836
Amortised cost	1,782,974	1,352,961
Fair value through profit or loss - designated	86,179	89,875
Others	7,448	27,088
Debts evidenced by certificates	**1,876,601**	**1,469,924**

Other debts evidenced by certificates are measured at amortised cost.

In financial year 2021, the fair value change of own credit risk in the amount of euro -1,621 thousand was recognised (2020: euro -106 thousand) in other comprehensive income. The cumulative amount of the fair value change of own credit risk was euro 374 thousand (2020: euro 1,994 thousand). The redemption amount that VBW would contractually have to pay at maturity was euro 51,000 thousand (2020: euro 61,000 thousand).

For the purpose of optimizing the portfolio of ECB-eligible collaterals, VBW as CO of the Association of Volksbanks issued an 8-year covered bond with variable interest rate (interest rate period equal to 3-month Euribor) and a Moody's rating of Aaa in the first half of 2020. The volume amounted to euro 250 million and was meant, among others, to replace 2 issues retained at the same time, with a total volume of euro 120 million.

Breakdown by residual term

Euro thousand	31 Dec 2021	31 Dec 2020
Up to 3 months	6,275	13,650
Up to 1 year	1,386	26,000
Up to 5 years	1,254,374	310,028
More than 5 years	614,567	1,120,247
Debts evidenced by certificates	**1,876,601**	**1,469,924**

28) Lease liabilities

Euro thousand	31 Dec 2021	31 Dec 2020
Up to 3 months	1,893	1,969
Up to 1 year	5,396	5,576
Up to 5 years	32,265	32,590
More than 5 years	129,601	129,754
Lease liabilities	**169,155**	**169,889**

Cash inflow and cash outflow of the lease liabilities

Euro thousand	Lease liabilities
As at 01 Jan 2020	**183,300**
Cash inflow	0
Cash outflow	-6,693
Non-cash changes	
Others	-6,718
Total non-cash changes	-6,718
As at 31 Dec 2020	**169,889**
Cash inflow	0
Cash outflow	-7,729
Non-cash changes	
Others	6,995
Total non-cash changes	6,995
As at 31 Dec 2021	**169,155**

29) Liabilities held for trading

Euro thousand	31 Dec 2021	31 Dec 2020
Negative fair values of derivative instruments		
Exchange rate related transactions	0	1
Interest rate related transactions	42,397	61,517
Liabilities held for trading	**42,397**	**61,518**

30) Provisions

Provisions for off-balance risks

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 01 Jan 2020	3,157	5,913	7,067	16,137
Increases due to origination and acquisition	1,339	2,011	340	3,690
Decreases due to derecognition	-263	-354	-1,346	-1,963
Changes due to change in credit risk	-426	970	1,250	1,794
Thereof transfer to stage 1	540	-540	0	0
Thereof transfer to stage 2	-662	665	-3	0
Thereof transfer to stage 3	-10	-102	112	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	7,719	3,144	0	10,863
Other adjustments	242	-287	42	-3
As at 31 Dec 2020	11,769	11,397	7,353	30,519
Increases due to origination and acquisition	1,643	655	1,093	3,391
Decreases due to derecognition	-257	-615	-1,401	-2,273
Changes due to change in credit risk	-2,149	-594	-215	-2,958
Thereof transfer to stage 1	371	-371	0	0
Thereof transfer to stage 2	-594	601	-7	0
Thereof transfer to stage 3	-1	-114	115	0
Changes due to modifications without derecognition	-362	0	0	-362
Post-Model Adjustment	-5,931	-2,471	0	-8,403
Other adjustments	-72	-757	830	1
As at 31 Dec 2021	**4,642**	**7,614**	**7,660**	**19,915**

Further details regarding off-balance sheet credit risks are contained in note 51) Risk report.

Other provisions

Euro thousand	Restructuring	Interest claims in connection with loans with floors	Pending litigations	Others	Total
As at 01 Jan 2020	4,869	10,813	4,366	7,300	27,349
Transfer of staff	0	0	0	0	0
Reclassification	0	0	0	0	0
Unwinding	0	0	0	3	3
Utilisation	-1,071	-172	-595	-1,609	-3,447
Release	-1,326	-7,014	-1,858	-1,901	-12,100
Addition	1,406	2,002	1,366	4,525	9,300
As at 31 Dec 2020	3,879	5,629	3,279	8,318	21,105
Transfer of staff	119	0	0	0	119
Reclassification	0	-197	197	0	0
Unwinding	0	0	0	0	0
Utilisation	-600	-190	-330	-859	-1,979
Release	-382	-3,306	-622	-1,970	-6,281
Addition	131	1,332	730	5,448	7,641
As at 31 Dec 2021	**3,146**	**3,268**	**3,253**	**10,937**	**20,605**

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

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

31) Long-term employee provisions

Euro thousand	Provision for pensions	Provision for severance payments	Provision for anniversary bonuses	Total
Net present value as at 01 Jan 2020	50,696	139,984	22,941	213,621
Transfer of staff	0	0	0	0
Current service costs	138	6,127	1,760	8,026
Interest costs	154	584	99	837
Payments	-5,524	-9,890	-828	-16,242
Actuarial gains or losses arising from changes in financial assumptions	-2,284	-18,989	-3,945	-25,219
Net present value as at 31 Dec 2020	43,180	117,816	20,027	181,023
Transfer of staff	0	25	18	43
Current service costs	110	5,039	1,297	6,446
Interest costs	129	491	85	705
Payments	-3,137	-7,429	-828	-11,394
Actuarial gains or losses arising from changes in financial assumptions	-1,768	-6,901	-1,294	-9,962
Net present value as at 31 Dec 2021	**38,515**	**109,041**	**19,305**	**166,861**

Net present value of plan assets

Euro thousand	Provision for pensions
Net present value of plan assets as at 01 Jan 2020	971
Result from plan assets	15
Contributions to plan assets	2
Payments	0
Actuarial gains or losses arising from changes in financial assumptions	0
Net present value of plan assets as at 31 Dec 2020	987
Result from plan assets	42
Contributions to plan assets	0
Payments	0
Actuarial gains or losses arising from changes in financial assumptions	0
Net present value of plan assets as at 31 Dec 2021	**1,029**

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

Contribution payments to plan assets are expected in the amount of euro 0 thousand in 2022 (2020: euro 4 thousand).

Euro thousand	Provision for pensions	Provision for severance payments	Provision for anniversary bonuses	Total
31 Dec 2020				
Long-term employee provision	43,180	117,816	20,027	181,023
Net present value of plan assets	-987	0	0	-987
Net liability recognised in balance sheet	**42,193**	**117,816**	**20,027**	**180,036**
31 Dec 2021				
Long-term employee provision	38,515	109,041	19,305	166,861
Net present value of plan assets	-1,029	0	0	-1,029
Net liability recognised in balance sheet	**37,486**	**109,041**	**19,305**	**165,832**

Historical information

Euro thousand	2021	2020	2019	2018	2017
Net present value of obligations	166,861	181,023	213,621	209,492	225,161
Net present value of plan assets	1,029	987	971	5,014	8,605

Composition of plan assets

	31 Dec 2021			31 Dec 2020		
Euro thousand	Plan assets - quoted	Plan assets - non-quoted	Plan assets - total	Plan assets - quoted	Plan assets - non-quoted	Plan assets - total
Bond issues regional administration bodies	150	0	150	155	0	155
Bond issues credit institutions	35	0	35	48	0	48
Other bond issues	280	0	280	289	0	289
Shares EU countries	102	0	102	131	0	131
Shares USA and Japan	143	0	143	99	0	99
Other shares	102	0	102	82	0	82
Derivatives	17	43	60	23	27	50
Real estate	0	92	92	0	72	72
Fixed deposit	0	1	1	0	3	3
Cash in hand	0	65	65	0	59	59
Total	**828**	**200**	**1,029**	**826**	**161**	**987**

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

Sensitivity analysis

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

	Change in the present value	
Euro thousand	increase of assumption	decrease of assumption
31 Dec 2020		
Discount rate (0.75 % modification)	-13,725	16,191
Future wage and salary increases (0.50 % modification)	8,262	-7,286
Future pension increases (0.25 % modification)	1,164	-1,109
Future mortality (1 year modification)	2,642	-2,533
31 Dec 2021		
Discount rate (0.75 % modification)	-12,454	14,520
Future wage and salary increases (0.50 % modification)	7,297	-6,523
Future pension increases (0.25 % modification)	1,048	-998
Future mortality (1 year modification)	2,349	-2,249

As of 31 December 2021, the weighted average term of defined-benefit obligations for pensions was 10.4 years (2020: 10.4 years) and for severance payments 12.3 years (2020: 12.5 years).

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

32) Other liabilities

Euro thousand	31 Dec 2021	31 Dec 2020
Deferred items	1,938	1,627
Other liabilities	131,318	88,867
Negative fair values of derivative instruments	284,974	442,770
Other liabilities	**418,231**	**533,264**

Other liabilities essentially consist of taxes and fiscal liabilities in the amount of euro 47,239 thousand (2020: euro 21,984 thousand), deferrals and trade payables in the amount of euro 33,788 thousand (2020: euro 25,489 thousand), auxiliary accounts of the banking business in the amount of euro 20,058 thousand (2020: euro 14,917 thousand) as well as liabilities to employees in the amount of euro 17,898 thousand (2020: euro 17,243 thousand. In addition to derivatives that are used for hedge accounting in accordance with IFRS 9, the position negative market values of derivative instruments also includes derivatives in the amount of eur 22,604 thousand (2020: eur 28,299 thosand) that are used for managing interest rate risks in the banking book.

The table below shows the negative fair values of derivatives included in the item other liabilities which are used in hedge accounting according to IFRS 9

	31 Dec 2021		31 Dec 2020	
Euro thousand	**Fair value hedge**	**Cash flow hedge**	**Fair value hedge**	**Cash flow hedge**
Exchange rate related transactions	1,579	0	1,732	0
Interest rate related transactions	260,755	37	412,738	0
Negative fair values of derivative instruments	**262,334**	**37**	**414,471**	**0**

33) Liabilities held for sale

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

Euro thousand	31 Dec 2021	31 Dec 2020
Other liabilities	0	122
Liabilities held for sale	**0**	**122**

34) Subordinated liabilities

Euro thousand	31 Dec 2021	31 Dec 2020
Subordinated capital	484,268	501,819
Supplementary capital	9,892	74,991
Subordinated liabilities	**494,160**	**576,811**

Subordinated liabilities are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2021	31 Dec 2020
On demand	701	0
Up to 3 months	11,104	5,443
Up to 1 year	28,571	16,210
Up to 5 years	40,137	55,692
More than 5 years	413,648	499,466
Subordinated liabilities	**494,160**	**576,811**

Cash inflow and cash outflow of subordinated liabilities

Euro thousand	Subordinated liabilities
As at 01 Jan 2020	**597,542**
Cash inflow	1,736
Cash outflow	-22,711
Non-cash changes	
Others	243
Total non-cash changes	243
As at 31 Dec 2020	**576,811**
Cash inflow	0
Cash outflow	-83,068
Non-cash changes	
Others	418
Total non-cash changes	418
As at 31 Dec 2021	**494,160**

The issued open amount of every subordinated emission is less than 10 % of the total volume of subordinated liabilities. In subordinated liabilities with a residual term of more than five years a volume of euro 0 thousand (2020: euro 12,230 thousand) is included without a determined residual term. Every subordinated emission has the possibility of termination or repayment soonest after five years with the prior consent of the FMA in accordance with article 77 CRR.

35) Equity

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

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

		Other reserves						
Euro thousand	**Retained earnings**	**IAS 19 reserve**	**Revaluation reserve**	**Fair value reserve - equity instruments**	**Fair value reserve - debt instruments**	**Cash flow hedge reserve**	**Own credit risk reserve**	**Retained earnings and other reserves**
As at 01 Jan 2020	**2,198,910**	**-55,358**	**2,234**	**-920,600**	**798**	**0**	**2,100**	**1,228,084**
Consolidated net income	20,026							20,026
Other comprehensive income	-163	15,948		-2,843	266		-106	13,102
Dividends paid	-700							-700
Coupon for the AT1 emission	-17,050							-17,050
Change in treasury stocks	0							0
Reclassification fair value reserve due to sale	-3,383			3,383				0
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation	-851							-851
As at 31 Dec 2020	**2,196,789**	**-39,409**	**2,234**	**-920,060**	**1,063**	**0**	**1,994**	**1,242,612**
Consolidated net income	219,144							219,144
Other comprehensive income	0	6,509		4,536	-850	-30	-1,621	8,545
Dividends paid	-124,280							-124,280
Coupon for the AT1 emission	-17,050							-17,050
Changes scope of consolidation	-8,697			5,542				-3,155
Change in cooperative capital and participation capital	-15,560							-15,560
Change in treasury stocks	-120							-120
Reclassification fair value reserve due to sale	526			-526				0
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation	-55	-68						-123
As at 31 Dec 2021	**2,250,699**	**-32,969**	**2,234**	**-910,508**	**214**	**-30**	**374**	**1,310,014**

Participation capital

Due to expiry of the grandfathering for certain own funds instruments as at 31 December 2021 in accordance with Art. 484 in conjunction with Art. 486 CRR, restructuring measures for participation certificates of individual banks of the Association were approved in coordination with the ECB. In this context, participation certificates in the amount of euro 18.6 million were either repurchased or redeemed in the 2021 financial year.

Return on total assets

The return on total assets for the business year 2021 was 0.68 % (2020: 0.07 %) and was calculated as the ratio of the annual result after taxes to total assets as at the reporting date.

Non-controlling interest

	Minority interest		
Company name	**2021**	**2020**	**Assignment**
3V-Immobilien Errichtungs-GmbH; Wien	<0.001 %	<0.001 %	Other companies
Gärtnerbank Immobilien GmbH; Wien	<0.001 %	<0.001 %	Other companies
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Wien	<0.001 %	<0.001 %	Other companies
VB Services für Banken Ges.m.b.H.; Wien	0.000 %	1.110 %	Other companies
VB Verbund-Beteiligung Region Wien eG in Liqu.; Wien	9.360 %	9.370 %	Other companies
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	1.000 %	1.000 %	Other companies
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Wien	0.005 %	0.005 %	Other companies

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

Additional information non-controlling interest

	Other companies	
Euro thousand	**2021**	**2020**
Assets		
Loans and receivables credit institutions	35,095	84,782
Loans and receivables customers	204	314
Financial investments	0	285
Other assets	15,991	19,605
Total assets	**51,291**	**104,986**
Liabilities and Equity		
Amounts owed to credit institutions	6,697	6,775
Other liabilities	3,047	45,836
Equity	41,546	52,375
Total liabilities	**51,291**	**104,986**
Statement of comprehensive income		
Interest and similar income	13	23
Interest and similar expense	-122	-718
Net interest income	-109	-695
Rental income from investment property and operating lease	401	489
Result before taxes	241	33,175
Income taxes	-55	-2,066
Result after taxes	186	31,109
Other comprehensive income	0	592
Comprehensive income	186	31,701

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

36) Own funds

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

Euro thousand	31 Dec 2021	31 Dec 2020
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	787,067	782,055
Retained earnings	1,622,148	1,402,016
Accumulated other comprehensive income (and other reserves)	-326,664	-165,543
Amount of capital instruments subject to phase out from CET1	3,336	1,259
Common tier I capital before regulatory adjustments	2,085,886	2,019,787
Common tier I capital: regulatory adjustments		
Regulatory value adjustments	0	0
Intangible assets (net of related tax liability)	-1,687	-2,591
Cash flow hedge reserve	30	0
Cumulative gains and losses due to changes in own credit risk on fair valued liabilities	-374	0
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	1	0
Value adjustments due to the requirement for prudent valuation	-1,092	-1,473
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-9,560	0
Insufficient coverage for non-performing exposures	-5,026	0
Other foreseeable tax charges	-219	0
Regulatory adjustments - transitional provisions	36,635	100,135
Adjustments to be made due to transitional regulations under IFRS 9	36,635	100,135
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	0
Additional CET1 deductions pursuant to article 3 CRR	-126,359	-113,509
Total regulatory adjustments	-107,651	-17,438
Common equity tier I capital - CET1	**1,978,235**	**2,002,349**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	220,000	220,000
Additional tier I capital before regulatory adjustments	220,000	220,000
Additional tier I capital: regulatory adjustments		
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**220,000**	**220,000**
Tier I capital (CET1 + AT1)	**2,198,235**	**2,222,349**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts	438,533	456,144
Capital instruments subject to phase out from tier II	21,591	37,998
Tier II capital before regulatory adjustments	460,124	494,142
Tier II capital: regulatory adjustments		
Total regulatory adjustments	0	0
Tier II capital - T2	**460,124**	**494,142**
Own funds total - TC (T1 + T2)	**2,658,359**	**2,716,491**

Common equity tier I capital ratio	14.37 %	14.13 %
Tier I capital ratio	15.97 %	15.68 %
Equity ratio	19.31 %	19.16 %
each in relation to total risk exposure amount		

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

Euro thousand	31 Dec 2021	31 Dec 2020
Risk weighted exposure amount - credit risk	12,496,033	12,903,051
Total risk exposure amount for position, foreign exchange and commodities risks	27,414	37,895
Total risk exposure amount for operational risk	1,230,868	1,183,790
Total risk exposure amount for credit valuation adjustment (cva)	8,914	49,981
Total risk exposure amount	**13,763,229**	**14,174,717**

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

Euro thousand	31 Dec 2021	31 Dec 2020
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	787,067	782,055
Retained earnings	1,622,148	1,402,016
Accumulated other comprehensive income (and other reserves)	-326,664	-165,543
Common tier I capital before regulatory adjustments	2,082,551	2,018,528
Common tier I capital: regulatory adjustments		
Regulatory value adjustments	0	0
Intangible assets (net of related tax liability)	-1,687	-2,591
Cash flow hedge reserve	30	0
Cumulative gains and losses due to changes in own credit risk on fair valued liabilities	-374	0
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	1	0
Value adjustments due to the requirement for prudent valuation	-1,092	-1,473
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-9,560	0
Insufficient coverage for non-performing exposures	-5,026	0
Other foreseeable tax charges	-219	0
Additional CET1 deductions pursuant to article 3 CRR	-126,359	-113,509
Total regulatory adjustments	-144,286	-117,573
Common equity tier I capital - CET1	**1,938,264**	**1,900,955**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	220,000	220,000
Additional tier I capital before regulatory adjustments	220,000	220,000
Additional tier I capital: regulatory adjustments		
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**220,000**	**220,000**
Tier I capital (CET1 + AT1)	**2,158,264**	**2,120,955**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts	438,533	456,827
Tier II capital before regulatory adjustments	438,533	456,827
Tier II capital: regulatory adjustments		
Total regulatory adjustments	0	0
Tier II capital - T2	**438,533**	**456,827**
Own funds total - TC (T1 + T2)	**2,596,797**	**2,577,782**
Common equity tier I capital ratio	14.11 %	13.48 %
Tier I capital ratio	15.72 %	15.04 %
Equity ratio	18.91 %	18.28 %
each in relation to total risk exposure amount		

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

Euro thousand	31 Dec 2021	31 Dec 2020
Risk weighted exposure amount - credit risk	12,466,157	12,832,077
Total risk exposure amount for position, foreign exchange and commodities risks	27,414	37,895
Total risk exposure amount for operational risk	1,230,868	1,183,790
Total risk exposure amount for credit valuation adjustment (cva)	8,914	49,981
Total risk exposure amount	**13,733,353**	**14,103,742**

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

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

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

In 2021, no substantial, practical or legal obstacles existed which would have prevented the transfer of equity or the repayment of liabilities between the parent institution and institutions subordinated to the former.

37) Financial assets and liabilities

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

Euro thousand	Amortised cost	Fair value through OCI	Fair value through profit or loss	Carrying amount - total	Fair value
31 Dec 2021					
Liquid funds	6,921,391	0	0	6,921,391	6,921,391
Loans and receivables credit institutions (gross)	256,532	0	58	256,590	
Loans and receivables credit institutions less accumulated impairment	256,532	0	58	256,590	265,164
Loans and receivables customers (gross)	21,490,338	0	346,154	21,836,493	
Accumulated impairment	-167,483	0	0	-167,483	
Loans and receivables customers less accumulated impairment	21,322,855	0	346,154	21,669,009	22,452,290
Assets held for trading	0	0	39,750	39,750	39,750
Financial investments (gross)	2,297,529	80,989	5,294	2,383,811	
Financial investments less accumulated impairment	2,297,529	80,989	5,294	2,383,811	2,414,055
Participations	0	130,588	0	130,588	130,588
Derivative instruments	0	0	75,853	75,853	75,853
Financial assets held for sale	0	0	0	0	0
Financial assets total	**30,798,306**	**211,577**	**467,109**	**31,476,992**	**32,299,091**
Amounts owed to credit institutions	3,796,629	0	0	3,796,629	3,829,200
Amounts owed to customers	22,746,798	0	0	22,746,798	22,739,061
Debts evidenced by certificates	1,790,423	0	86,179	1,876,601	1,865,139
Lease liabilities	169,155	0	0	169,155	169,155
Liabilities held for trading	0	0	42,397	42,397	42,397
Derivative instruments	0	0	284,974	284,974	284,974
Subordinated liabilities	494,160	0	0	494,160	500,630
Financial liabilities total	**28,997,165**	**0**	**413,550**	**29,410,715**	**29,430,556**
31 Dec 2020					
Liquid funds	3,943,760	0	0	3,943,760	3,943,760
Loans and receivables credit institutions (gross)	437,725	0	419	438,144	
Loans and receivables credit institutions less accumulated impairment	437,725	0	419	438,144	435,287
Loans and receivables customers (gross)	21,254,202	0	397,077	21,651,279	
Accumulated impairment	-187,968	0	0	-187,968	
Loans and receivables customers less accumulated impairment	21,066,234	0	397,077	21,463,312	22,276,253
Assets held for trading	0	0	55,970	55,970	55,970
Financial investments (gross)	2,455,531	72,107	108,981	2,636,620	
Financial investments less accumulated impairment	2,455,531	72,107	108,981	2,636,620	2,677,834
Participations	0	128,139	0	128,139	128,139
Derivative instruments	0	0	115,803	115,803	115,803
Financial assets held for sale	21	0	0	0	21
Financial assets total	**27,903,272**	**200,246**	**678,252**	**28,781,749**	**29,633,068**
Amounts owed to credit institutions	1,883,873	0	0	1,883,873	1,874,393
Amounts owed to customers	22,153,454	0	0	22,153,454	22,178,127
Debts evidenced by certificates	1,380,049	0	89,875	1,469,924	1,479,796
Lease liabilities	169,889	0	0	169,889	169,889
Liabilities held for trading	0	0	61,518	61,518	61,518
Derivative instruments	0	0	442,770	442,770	442,770
Subordinated liabilities	576,811	0	0	576,811	578,367
Financial liabilities total	**26,164,077**	**0**	**594,163**	**26,758,239**	**26,784,860**

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

Euro thousand	Level 1	Level 2	Level 3	Total
31 Dec 2021				
Loans and receivables credit institutions	0	0	58	58
Loans and receivables customers	0	0	346,154	346,154
Assets held for trading	486	39,263	0	39,750
Financial investments	83,163	3,119	0	86,283
Fair value through profit or loss	3,236	2,057	0	5,294
Fair value through OCI	79,927	1,062	0	80,989
Participations	0	0	130,270	130,270
Fair value through OCI - designated	0	0	130,270	130,270
Derivative instruments	0	75,853	0	75,853
Financial assets total	**83,650**	**118,236**	**476,483**	**678,368**
Debts evidenced by certificates	0	0	86,179	86,179
Liabilities held for trading	0	42,397	0	42,397
Derivative instruments	0	284,974	0	284,974
Financial liabilities total	**0**	**327,371**	**86,179**	**413,550**
31 Dec 2020				
Loans and receivables credit institutions	0	0	419	419
Loans and receivables customers	0	0	397,077	397,077
Assets held for trading	1,697	54,273	0	55,970
Financial investments	76,102	26,842	78,145	181,089
Fair value through profit or loss	5,021	25,816	78,145	108,981
Fair value through OCI	71,081	1,026	0	72,107
Participations	0	0	127,757	127,757
Fair value through OCI - designated	0	0	127,757	127,757
Derivative instruments	0	115,803	0	115,803
Financial assets total	**77,799**	**196,918**	**603,398**	**878,116**
Debts evidenced by certificates	0	0	89,875	89,875
Liabilities held for trading	0	61,518	0	61,518
Derivative instruments	0	442,770	0	442,770
Financial liabilities total	**0**	**504,288**	**89,875**	**594,163**

Please refer to note 3) s) Participations and companies measured at equity for a description of the valuation procedures used for participations. Due to immateriality participations in the amount of euro 318 thousand (2020: euro 382 thousand) are measured at cost as their fair value cannot be reliably determined.

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

In 2021, as in the previous year, there were no reclassifications of financial instruments between Levels 1 and 2.

Development of Level 3 fair values of financial assets

Euro thousand	Loans and receivables credit institutions	Loans and receivables customers	Financial investments	Partici-pations	Financial assets total	Debts evidenced by certificates	Financial liabilities total
As at 01 Jan 2020	**770**	**476,748**	**75,826**	**129,566**	**682,911**	**110,308**	**110,308**
Additions	0	23,014	40	1,070	24,125	0	0
Disposals	-349	-103,366	-412	-248	-104,376	-21,447	-21,447
Valuation							
Through profit or loss	-2	681	2,690	0	3,370	872	872
Through OCI	0	0	0	-2,631	-2,631	142	142
As at 31 Dec 2020	**419**	**397,077**	**78,145**	**127,757**	**603,398**	**89,875**	**89,875**
Additions	0	45,002	0	323	45,325	774	774
Disposals	-363	-97,321	-79,380	-1,518	-178,582	0	0
Valuation							
Through profit or loss	3	1,396	1,235	0	2,634	-6,631	-6,631
Through OCI	0	0	0	3,708	3,708	2,161	2,161
As at 31 Dec 2021	**58**	**346,154**	**0**	**130,270**	**476,483**	**86,179**	**86,179**

The valuations shown in the table above are included in the item income from financial instruments and investment properties (income statement) or fair value reserve (other comprehensive income). The valuations recorded in the income statement include holdings of financial assets and liabilities in the amount of euro -5,934 thousand (2020: euro 3,834 thousand) at the reporting date.

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

In the financial year 2021, participation certificates were sold that are allocated to Level 3 of the fair value hierarchy within financial investments (2020: euro 78,145 thousand). For details on the disposal, see note 8) Result from financial instruments and investment properties.

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

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

31 Dec 2021 Euro thousand	Positive change in fair value	Negative change in fair value
Change in markup +/- 30 bp	2,186	-2,113

31 Dec 2020		
Change in markup +/- 30 bp	2,514	-2,422

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

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

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

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

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

Euro thousand	Level 1	Level 2	Level 3	Fair value total	Carrying amount
31 Dec 2021					
Liquid Funds	0	6,921,391	0	6,921,391	6,921,391
Loans and receivables credit institutions (gross)					256,532
Loans and receivables credit institutions less accumulated impairment	0	0	265,105	265,105	256,532
Loans and receivables customers (gross)					21,490,338
Accumulated impairment					-167,483
Loans and receivables customers less accumulated impairment	0	0	22,106,136	22,106,136	21,322,855
Financial investments (gross)					2,297,529
Financial investments less accumulated impairment	2,326,868	904	0	2,327,772	2,297,529
Financial assets held for sale	0	0	0	0	0
Financial assets total	**2,326,868**	**6,922,295**	**22,371,241**	**31,620,405**	**30,798,306**
Amounts owed to credit institutions	0	0	3,829,200	3,829,200	3,796,629
Amounts owed to customers	0	0	22,739,061	22,739,061	22,746,798
Debts evidenced by certificates	0	0	1,778,961	1,778,961	1,790,423
Lease liabilities	0	0	169,155	169,155	169,155
Subordinated liabilities	0	0	500,630	500,630	494,160
Financial liabilities total	**0**	**0**	**29,017,006**	**29,017,006**	**28,997,165**
31 Dec 2020					
Liquid Funds	0	3,943,760	0	3,943,760	3,943,760
Loans and receivables credit institutions (gross)					437,725
Loans and receivables credit institutions less accumulated impairment	0	0	434,868	434,868	437,725
Loans and receivables customers (gross)					21,254,202
Accumulated impairment					-187,968
Loans and receivables customers less accumulated impairment	0	0	21,879,176	21,879,176	21,066,234
Financial investments (gross)					2,455,531
Financial investments less accumulated impairment	2,466,083	30,662	0	2,496,746	2,455,531
Financial assets held for sale	0	0	21	21	21
Financial assets total	**2,466,083**	**3,974,422**	**22,314,065**	**28,754,570**	**27,903,272**
Amounts owed to credit institutions	0	0	1,874,393	1,874,393	1,883,873
Amounts owed to customers	0	0	22,178,127	22,178,127	22,153,454
Debts evidenced by certificates	0	0	1,389,921	1,389,921	1,380,049
Lease liabilities	0	0	169,889	169,889	169,889
Subordinated liabilities	0	0	578,367	578,367	576,811
Financial liabilities total	**0**	**0**	**26,190,697**	**26,190,697**	**26,164,077**

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

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

Fair value hierarchy

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

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

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

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

38) Derivatives

Derivative financial instruments

Euro thousand			Face value			Fair Value
2021	**Up to 3 months**	**Up to 1 year**	**Up to 5 years**	**More than 5 years**	**Total**	**31 Dec 2021**
Interest related transactions	201,264	116,958	2,106,880	2,971,238	5,396,340	-189,769
Caps & Floors	11,264	5,866	41,779	138,754	197,664	-253
Futures - interest related	0	0	0	0	0	0
Interest rate swaps	190,000	111,092	2,065,101	2,832,483	5,198,676	-189,516
Exchange rate related transactions	221,510	65,514	329,227	94,122	710,374	-16,644
Cross currency interest rate swaps	93,301	45,831	329,227	94,122	562,481	-9,690
FX swaps	125,733	18,868	0	0	144,601	-6,954
Forward exchange transactions	2,476	815	0	0	3,291	0
Other transactions	9,391	3,104	8,579	84,743	105,817	-5,842
Options	9,391	3,104	8,579	84,743	105,817	-5,842
Total	**432,165**	**185,577**	**2,444,686**	**3,150,102**	**6,212,530**	**-212,255**
2020						
Interest related transactions	241,045	239,344	1,038,951	3,765,510	5,284,850	-328,604
Caps & Floors	91,392	50,667	62,442	153,895	358,396	-360
Futures - interest related	4,100	0	0	0	4,100	0
Interest rate swaps	145,553	188,677	976,509	3,611,615	4,922,355	-328,243
Exchange rate related transactions	186,633	81,323	455,571	186,230	909,757	4,786
Cross currency interest rate swaps	0	0	455,571	186,230	641,801	5,469
FX swaps	184,108	73,775	0	0	257,883	-683
Forward exchange transactions	2,525	7,548	0	0	10,073	0
Other transactions	7,564	3,187	12,274	102,941	125,966	-10,394
Options	7,564	3,187	12,274	102,941	125,966	-10,394
Total	**435,242**	**323,854**	**1,506,796**	**4,054,682**	**6,320,574**	**-334,212**

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

The following table shows fair values divided into balance sheet items

31 Dec 2021 Euro thousand	Assets	Liabilities	Total
Interest related transactions	39,250	42,397	-3,146
Exchange rate related transactions	13	0	13
Trading portfolio	**39,263**	**42,397**	**-3,133**
Interest related transactions	74,301	260,924	-186,622
Exchange rate related transactions	671	17,328	-16,657
Other transactions	881	6,723	-5,842
Other assets / liabilities	**75,853**	**284,974**	**-209,122**
Total	**115,116**	**327,371**	**-212,255**
Sum interest related transactions	113,552	303,320	-189,769
Sum exchange rate related transactions	684	17,328	-16,644
Sum other transactions	881	6,723	-5,842

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

39) Hedging

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

In the financial year 2021, no single hedging relationship needed to be adjusted by rebalancing.

The profit and loss recorded in fair value hedge accounting amounts to euro -1,805 thousand (2020: euro -818 thousand) in Association of Volksbanks for the fiscal year 2021. The amount results from the ineffectiveness of the hedging relationships. Given the size of the hedged instruments in terms of principal in the amount of euro 4,055,718 thousand (2020: euro 3,531,207 thousand) as of 31 December 2021, the ineffectiveness is equal to only 0.04 % (2020: 0.02 %) of the hedged portfolio. The hedging strategy applied by the Association of Volksbanks is, thus, highly effective.

In the financial year 2021, cash flow hedges were used for the first time at the Association of Volksbanks, resulting in no ineffectiveness.

In the tables below, detailed information related to hedging instruments and hedged items in fair value and cash flow hedges are reported. The hedging instruments are presented in positive / negative fair values of derivative instruments in the balance sheet. Ineffectiveness from both fair value and cash flow hedges is presented under Result from fair value hedge in the income statement. The amounts reclassified from the cash flow hedge reserve are presented under Net interest income.

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

Euro thousand	Interest rate swaps				
31 Dec 2021	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Total
Loans and receivables customers	0	0	210,167	946,788	1,156,955
Financial investments	0	0	319,700	844,950	1,164,650
Debts evidenced by certificates	0	0	1,195,000	530,000	1,725,000
31 Dec 2020					
Loans and receivables customers	0	0	85,950	1,019,630	1,105,580
Financial investments	0	5,000	172,700	990,462	1,168,162
Debts evidenced by certificates	0	10,000	195,000	1,030,000	1,235,000

Euro thousand	Cross currency interest rate swaps				
31 Dec 2021	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Total
Loans and receivables customers	0	0	0	0	0
Financial investments	0	14,870	0	0	14,870
Debts evidenced by certificates	0	0	0	0	0
31 Dec 2020					
Loans and receivables customers	0	0	0	0	0
Financial investments	0	0	14,870	0	14,870
Debts evidenced by certificates	0	0	0	0	0

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

Euro thousand	Interest rate swaps				
31 Dec 2021	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Total
Loans and receivables customers	0	0	0	5,259	5,259
31 Dec 2020					
Loans and receivables customers	0	0	0	0	0

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

Euro thousand	Face value	Carrying amount assets	Carrying amount liabilities	Changes in fair value used for calculating hedge ineffectiveness for the current year	Ineffectiveness recognised in profit or loss
31 Dec 2021					
Loans and receivables customers measured at amortised cost	1,156,955	9,384	16,039	33,438	-381
Financial investments measured at amortised cost	1,164,650	6,050	234,491	78,741	-3,060
Financial investments measured at fair value through OCI	0	0	0	0	0
Debts evidenced by certificates - bonds measured at amortised cost	1,725,000	28,974	10,225	-48,348	1,625
Interest rate swaps total	**4,046,605**	**44,407**	**260,755**	**63,831**	**-1,816**
31 Dec 2020					
Loans and receivables customers measured at amortised cost	1,105,580	25	40,538	-18,802	-88
Financial investments measured at amortised cost	1,168,162	0	372,200	-44,311	3,816
Financial investments measured at fair value through OCI	0	0	0	849	-676
Debts evidenced by certificates - bonds measured at amortised cost	1,235,000	68,839	0	26,588	-3,722
Interest rate swaps total	**3,508,742**	**68,864**	**412,738**	**-35,677**	**-670**

The following table shows a breakdown of the corresponding hedged items

Euro thousand	Carrying amount assets	Carrying amount liabilities	Basis adjustment	Changes in value used for calculating hedge ineffectiveness for the current year	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
31 Dec 2021					
Loans and receivables customers measured at amortised cost	1,195,527	0	6,100	-33,819	0
Financial investments measured at amortised cost	1,163,330	0	218,228	-81,800	36
Financial investments measured at fair value through OCI	0	0	0	0	0
Debts evidenced by certificates - bonds measured at amortised cost	0	1,715,144	13,988	49,973	9,037
Hedged items of interest rate swaps total	**2,358,857**	**1,715,144**	**238,316**	**-65,646**	**9,073**
31 Dec 2020					
Loans and receivables customers measured at amortised cost	1,105,572	0	39,919	18,714	0
Financial investments measured at amortised cost	1,317,142	0	365,173	48,127	1,024
Financial investments measured at fair value through OCI	0	0	0	-1,525	0
Debts evidenced by certificates - bonds measured at amortised cost	0	1,228,962	63,961	-30,310	12,517
Hedged items of interest rate swaps total	**2,422,715**	**1,228,962**	**469,053**	**35,007**	**13,542**

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

Euro thousand 31 Dec 2021	Face value	Carrying amount assets	Carrying amount liabilities	Changes in fair value used for calculating hedge ineffectiveness for the current year	Ineffectiveness recognised in profit or loss
Loans and receivables customers measured at amortised cost	0	0	0	0	0
Financial investments measured at amortised cost	14,870	0	1,579	987	11
Financial investments measured at fair value through OCI	0	0	0	0	0
Debts evidenced by certificates - bonds measured at amortised	0	0	0	0	0
Cross currency interest rate swaps total	**14,870**	**0**	**1,579**	**987**	**11**
31 Dec 2020					
Loans and receivables customers measured at amortised cost	0	0	0	321	-688
Financial investments measured at amortised cost	14,870	0	1,732	455	541
Financial investments measured at fair value through OCI	0	0	0	0	0
Debts evidenced by certificates - bonds measured at amortised	0	0	0	0	0
Cross currency interest rate swaps total	**14,870**	**0**	**1,732**	**776**	**-147**

The following table shows a breakdown of the corresponding hedged items

Euro thousand	Carrying amount assets	Carrying amount liabilities	Basis adjustment	Changes in value used for calculating hedge ineffectiveness for the current year	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
31 Dec 2021					
Loans and receivables customers measured at amortised cost	0	0	0	0	0
Financial investments measured at amortised cost	16,091	0	166	-976	0
Financial investments measured at fair value through OCI	0	0	0	0	0
Debts evidenced by certificates - bonds measured at amortised cost	0	0	0	0	0
Hedged items of cross currency interest rate swaps total	**16,091**	**0**	**166**	**-976**	**0**
31 Dec 2020					
Loans and receivables customers measured at amortised cost	0	0	0	-1,009	0
Financial investments measured at amortised cost	15,243	0	1,142	86	0
Financial investments measured at fair value through OCI	0	0	0	0	0
Debts evidenced by certificates - bonds measured at amortised cost	0	0	0	0	0
Hedged items of cross currency interest rate swaps total	**15,243**	**0**	**1,142**	**-923**	**0**

The following table shows interest rate swaps designated as hedging instruments in cash flow hedges broken down by the type of the related hedge items

Euro thousand 31 Dec 2021	Face value	Carrying amount assets	Carrying amount liabilities	Changes in fair value used for calculating hedge ineffectiveness for the current year	Ineffectiveness recognised in profit or loss	Change in fair value (effective hedge)	Net amount transferred to profit or loss
Loans and receivables customers measured at amortised cost	5,259	0	37	-30	0	-11	-18
Interest rate swaps total	**5,259**	**0**	**37**	**-30**	**0**	**-11**	**-18**
31 Dec 2020							
Loans and receivables customers measured at amortised cost	0	0	0	0	0	0	0
Interest rate swaps total	**0**	**0**	**0**	**0**	**0**	**0**	**0**

The following table shows a breakdown of the corresponding hedged items

Euro thousand 31 Dec 2021	Carrying amount assets	Changes in value used for calculating hedge ineffectiveness for the current year
Loans and receivables customers measured at amortised cost	5,259	0
Hedged items of interest rate swaps total	**5,259**	**0**
31 Dec 2020		
Loans and receivables customers measured at amortised cost	0	0
Hedged items of interest rate swaps total	**0**	0

Corresponding hedged items total (fair value hedge and cash flow hedge)

Euro thousand 31 Dec 2021	Interest rate risk
Financial assets	2,380,207
Financial liabilities	1,715,144
31 Dec 2020	**Interest rate risk**
Financial assets	2,437,958
Financial liabilities	1,228,962

40) Assets and liabilities denominated in foreign currencies

At balance sheet date, assets denominated in foreign currencies totalled euro 668,992 thousand (2020: euro 891,454 thousand), whereas liabilities denominated in foreign currencies amounted euro 187,017 thousand (2020: euro 195,919 thousand).

41) Trust transactions

Euro thousand	31 Dec 2021	31 Dec 2020
Trust assets		
Loans and receivables customers	74,283	79,030
Trust liabilities		
Amounts owed to customers	74,283	79,030

42) Subordinated assets

Euro thousand	31 Dec 2021	31 Dec 2020
Loans and receivables customers	1,100	1,107

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

Euro thousand	31 Dec 2021	31 Dec 2020
Assets pledged as collateral		
Loans and receivables customers	417,343	399,200
Financial investments	13,535	14,027
Liabilities for which assets have been pledged as collateral		
Amounts owed to credit institutions	417,343	399,200
Amounts owed to customers	13,535	14,027

In the context of corporate funding via Oesterreichische Kontrollbank (OeKB), loans and receivables customers in the amount of euro 64 million (2020: euro 72 million) have been provided as collateral. These loans and receivables are guaranteed by means of Austrian government default guarantees, private insurance policies and draft guarantees. OeKB may not repledge or sell these loans and receivables customers if the Group performs in accordance with the contract.

Loans and receivables customers of euro 353 million were provided as collateral for OeNB refinancing in the 2021 business year (2020: euro 327 million).

Within the scope of gilt-edged savings deposits, financial investments in the amount of euro 14 million (2020: euro 14 million) are held as securities.

44) Contingent liabilities and credit risks

Euro thousand	31 Dec 2021	31 Dec 2020
Contingent liabilities		
Liabilities arising from guarantees	764,832	837,509
Others (amounts guaranteed)	21,236	62,068
Commitments		
Unutilised loan commitments	3,396,504	3,423,502

If the management estimates a cash outflow for financial guarantees, a stage 3 provision is built for off-balance risks to the amount of the probable cash outflow under consideration of possible available collaterals. Therefore, the provision amounts to euro 7,660 thousand (2020: euro 7,353 thousand).

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

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

45) Repurchase transactions and other transferred assets

As at 31 December 2021, the Association as pledgor had buy-back commitments under genuine repurchase agreements in the amount of euro 21,195 thousand (2020: euro 21,525 thousand).

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

46) Related party disclosures

Euro thousand	Unconsolidated affiliates	Companies in which the Group has a participating interest	Companies measured at equity	Companies which exercise a significant influence on the parent as shareholders
31 Dec 2021				
Loans and receivables customers	7,403	12,798	0	0
Bonds and other fixed-income securities	0	0	0	463,690
Amounts owed to customers	11,058	2,231	44,720	0
Provisions	4	0	0	0
Contingent liabilities arising from guarantees	1,537	0	3,594	0
Transactions	25,523	16,590	54,098	0
Administrative expenses	-1,137	-65,629	0	0
Other operating income	508	274	209	0
Other operating expenses	0	0	0	0
31 Dec 2020				
Loans and receivables customers	17,317	11,788	7,401	0
Bonds and other fixed-income securities	0	0	0	476,479
Amounts owed to customers	15,651	7,362	59,466	0
Provisions	5	8	20	0
Contingent liabilities arising from guarantees	1,586	0	17,125	0
Transactions	32,298	16,152	62,992	0
Administrative expenses	-1,442	-68,887	0	0
Other operating income	329	1,354	167	0
Other operating expenses	-154	0	0	0

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

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

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

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

Euro thousand	31 Dec 2021	31 Dec 2020
Outstanding loans and receivables	1,561	1,456
Redemptions	78	411
Interest payments	8	7

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

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

Euro thousand	Covering loans	Coverage requirements debts evidenced by certificates	Surplus cover
31 Dec 2021			
Covered bonds			
Amortised cost	3,200,676	1,317,840	1,882,836
Fair value through profit or loss	85,531	52,020	33,511
Total	**3,286,207**	**1,369,860**	**1,916,347**
31 Dec 2020			
Covered bonds			
Amortised cost	3,362,311	2,535,720	826,591
Fair value through profit or loss	89,001	62,220	26,781
Total	**3,451,312**	**2,597,940**	**853,372**

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

48) Branches

	31 Dec 2021	31 Dec 2020
Branches domestic	**243**	**249**

49) Events after the balance sheet date

The final SREP notice was sent by letter dated 2 February 2022, confirming the capital requirements and recommendations contained in the preliminary decision. The decision will take effect on the date of its announcement and shall be applicable as of 1 March 2022.

At the beginning of 2022, the legislator decided to gradually reduce the corporate income tax rate in Austria from 25 % to 23 %. This tax will be reduced by one percentage point as of 1 January 2023, and by one percentage point as of 1 January 2024. The impact on deferred taxes recognised as at 31 December 2021 is currently being analysed. Overall, no material effects on the deferred taxes existing as at the balance sheet date are expected.

Since the invasion of Ukraine by Russian troops, there has been a war between Ukraine and Russia. We are constantly evaluating the further effects of this war and the development of the geopolitical situation. From a macroeconomic perspective, the war between Russia and Ukraine is likely to have a negative impact on GDP due to additional supply chain problems, increased raw material and energy prices and a possible continuation of inflation at a high level.

Due to the numerous uncertainties regarding the further (economic) development and the time horizon, it is not possible to provide a conclusive impact assessment, both in qualitative and quantitative terms, for the VBW Group.

The risk of a direct impact in the short term is currently classed as low due to Volksbank's regional focus and types of customers, as the Association of Volksbanks as a whole does not maintain any direct economic and financial activities in Eastern Europe, and in Ukraine and Russia in particular. No bonds of issuers from these regions are held either.

As of today, the full extent to which the indirect effects of the war between Russia and Ukraine and the sanctions will have an impact on banks operating in Austria and their business partners and customers – beyond a time horizon that cannot be estimated at present – cannot be estimated either.

However, an impact on Volksbank that can be specifically identified today results from the expected default of Sberbank Europe AG, Vienna, which has been officially prohibited from continuing its business operations with immediate effect as of 1 March 2022. According to our current estimates, the deposit protection event resulting from this will have an impact on the Association of Volksbanks in the next few years totalling approximately euro 58 million in the form of higher contribution assessments by Einlagensicherung AUSTRIA Ges.m.b.H., of which approximately euro 17 million would have to be allocated to the VBW Group on a pro-rata basis.

50) Segment reporting

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

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

CO

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

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

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

Regional banks

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

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

ÖÄAB

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

Consolidation

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

1-12/2021

Euro thousand	CO	Vienna	Lower Austria	Styria	Carinthia
Net interest income	14,976	92,437	59,296	43,011	23,918
Risk provision	-1,602	18,166	11,144	13,623	2,893
Net fee and comission income	-5,095	63,655	34,460	25,880	15,383
Net trading income	1,781	164	458	214	116
Result from financial instruments and investment properties	9,528	5,901	324	1,170	-884
Other operating result	164,748	6,212	-924	-1,960	-343
General administrative expenses	-131,740	-138,456	-78,897	-58,699	-36,289
Result from companies measured at equity	0	-1,230	-54	0	0
Result before taxes	**52,596**	**46,849**	**25,806**	**23,240**	**4,793**
Income taxes	1,324	-5,093	-6,034	-2,868	-1,007
Result after taxes	**53,920**	**41,756**	**19,773**	**20,372**	**3,786**
31 Dec 2021					
Total assets	**11,329,046**	**6,605,152**	**3,623,460**	**2,739,749**	**1,514,847**
Loans and receivables customers	115,830	5,304,555	2,946,589	2,290,245	1,170,620
Companies measured at equity	15	41,576	8,372	4,577	5,742
Amounts owed to customers	1,152,479	5,822,450	3,123,671	1,857,281	1,368,967
Debts evidenced by certificates, including subordinated liabilities	2,213,000	99,074	1,701	4,273	8,833

1-12/2020

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

Upper Austria	Salzburg	Tyrol	Vorarlberg	ÖÄAB	Consolidation	Total
36,706	50,325	48,619	24,315	12,291	-32	405,863
9,968	6,975	12,933	11,008	4,342	0	89,449
27,215	29,557	36,207	18,587	8,462	-945	253,366
201	-4	-28	595	74	0	3,571
-190	747	1,451	722	100	-1,395	17,473
1,954	567	-152	141	-389	-172,063	-2,208.00
-59,221	-61,499	-63,772	-38,579	-21,073	172,945	-515,279
0	0	0	0	0	0	-1,284
16,632	**26,668**	**35,258**	**16,791**	**3,807**	**-1,490**	**250,950**
-1,818	-8,774	-4,662	-2,307	-607	36	-31,810
14,814	**17,894**	**30,596**	**14,484**	**3,200**	**-1,454**	**219,140**
2,468,524	**3,037,612**	**3,488,540**	**1,943,186**	**1,082,396**	**-5,737,063**	**32,095,448**
1,974,317	2,395,480	2,897,033	1,655,362	828,105	-15,008	21,563,128
15,963	10,340	26	20	5,063	0	91,696
2,175,222	2,493,025	2,656,800	1,152,779	997,295	-53,170	22,746,798
2,983	34,684	8,413	37,471	3,188	-42,859	2,370,761
37,574	49,970	45,773	25,413	12,939	-26	413,094
-9,173	-19,023	-21,428	-2,525	-4,905	0	-126,049
26,198	27,414	32,362	18,002	7,027	135	239,138
-48	-39	27	66	82	-18	-470
1,521	176	106	1,722	-42	-296	5,897
384	-669	1,666	-1,911	-161	-151,797	37,334
-54,586	-57,648	-59,759	-35,433	-19,921	152,243	-511,826
0	0	0	0	0	0	-327
1,870	**180**	**-1,253**	**5,333**	**-4,981**	**240**	**56,791**
-4,179	-1,057	-2,233	-3,090	790	-60	-36,777
-2,308	**-877**	**-3,485**	**2,243**	**-4,191**	**180**	**20,014**
2,462,179	**3,014,570**	**3,400,057**	**1,887,393**	**990,570**	**-5,994,491**	**29,370,265**
1,934,254	2,389,899	2,838,514	1,600,520	807,841	-14,218	21,287,322
15,682	10,297	26	20	4,854	0	90,870
2,169,871	2,406,958	2,586,791	1,177,794	916,594	-142,637	22,153,454
21,382	53,320	26,638	50,337	5,648	-25,821	2,046,735

51) Risk report

General

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

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

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

Current developments

Based on the SREP decision from December 2019, which remains valid for 2021, and taking into account the ECB decision (regarding the change in the composition of the additional own funds requirement (Pillar 2) from April 2020), the following capital ratios apply to the Association of Volksbanks as at 31 December 2021 and have not changed against 31 December 2020:

- CET1 demand: 10.41 %,
- Tier 1 capital requirement: 11.38 %,
- total capital requirement: 14.00 %

In 2021, the Association of Volksbanks was again subjected to the annual SREP (Supervisory Review and Evaluation Process) within the scope of the Single Supervisory Mechanism (SSM) of the ECB. This year's SREP also considered the EBA/ECB stress test performed in 2021.

By preliminary resolution of the ECB adopted in November 2021, the result of the SREP was forwarded to VBW as the CO of the Association of Volksbanks and confirmed in the final SREP decision dated 2 February 2022. This results in the following capital ratios for the Association of Volksbanks as of 1 March 2022:

The CET1 demand, as determined for the Association of Volksbanks, amounts to 10.66 % and comprises the following: Pillar 1 CET1 requirement of 4.5 %, Pillar 2 requirement of 1.41 %, capital conservation buffer of 2.5 %, systemic risk buffer of 0.50 %, buffer for systemically important institutions of 0.50 %, and Pillar 2 Guidance of 1.25 %. Any AT1/Tier 2 shortfall will increase the CET1 requirement accordingly. This means that the CET1 demand has increased by 0.25 percentage points compared with the previous year (increase in Pillar 2 Guidance from 1.00 % to 1.25 %). The supervisory authority used a new methodology based on the EBA/ECB stress test results to derive the Pillar 2 Guidance (P2G).

The Tier 1 capital requirement amounts to 11.38 % (Pillar 1 requirement of 6.0 %, Pillar 2 requirement of 1.88 %, capital conservation buffer of 2.5 %, systemic risk buffer of 0.50 %, buffer for systemically important institutions of 0.50 %) and accordingly has remained unchanged.

The total capital requirement amounts to 14.00 % (Pillar 1 requirement of 8.0 %, Pillar 2 requirement of 2.50 %, capital conservation buffer of 2.5 %, systemic risk buffer of 0.50 %, buffer for systemically important institutions of 0.50 %) and accordingly has remained unchanged.

The entry into force in 2021 of the amendment to the Austrian Banking Act, which requires the systemic risk buffer and the buffer for systemically important institutions to be held in aggregate, led to a reduction of each of these ratios from 1.00 % to 0.50 % in 2021.

Risk policy principles

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

Organisation of risk management

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

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

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

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

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

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

Regulatory requirements

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

Pillar 1: Minimum own funds requirements

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

Pillar 2: Internal Capital & Liquidity Adequacy Assessment

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

Pillar 3: Disclosure

The requirements of Pillar 3 are met by publishing the qualitative and quantitative disclosure rules pursuant to Regulation (EU) no. 575 / 2013 (CRR) and Directive 2013/36/EU (CRD IV), as well as the applicable Regulation (EU) no. 2019/876 (CRR II) and Directive no. 2019/878 (CRD V) on the bank's own website under Volksbanken-Verbund / Verbund-Offenlegung (Association of Volksbanks/Disclosure).

Risk management across the Association

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

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

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

a) Internal Capital Adequacy Assessment Process

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

The individual elements of the cycle are performed at varying intervals (e.g. daily for market risk / trading book risk measurement, quarterly for the risk-bearing capacity calculation, annually for risk inventory and determination of the risk strategy). All the activities described within the cycle are reviewed for up-to-dateness and adequacy at least annually, and adjusted to the respective current environment if necessary; they are approved by the Managing Board of the CO. An expansion was started in 2021 based on the integration of ESG risks into the internal capital adequacy process by incorporating ESG risks into all elements of the internal capital adequacy process. ESG risks were not included as a separate risk type, but were mapped within the existing risk types. The methods, models and strategies used for ESG risks will be continuously developed over the next years and are meant to contribute to successively measuring inherent ESG risks more accurately.

Risk inventory

The risk inventory aims to define the materiality of existing and newly assumed banking risks. The findings from the risk inventory process are collected, analysed for the Association of Volksbanks and summarised in a risk inventory. The results of the risk inventory process are used to inform the risk strategy and form a starting point for the risk-bearing capacity calculation, as material risks are taken into account within the risk-bearing capacity calculation.

Since 2021, ESG risks have also been analysed and assessed as part of the risk inventory using ESG heat maps. The ESG heat map is a tool to identify, analyse and assess the materiality of ESG risks and/or their risk drivers. In the ESG heat map, various risk events are described and evaluated for all relevant risk types of the Association of Volksbanks. The findings are then mapped in the risk inventory within the framework of existing risk types.

Risk strategy

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

The Association of Volksbanks is committed to a sustainable corporate culture and strives to establish ESG aspects in all areas of the company. For this reason, the risk strategy was expanded to include a sub-risk strategy for ESG risks. It maps the ESG risks inherent in the existing risk types, which can be derived in particular from the ESG heat maps and the internal stress test.

The local or individual risk strategies of the affiliated banks of the Association of Volksbanks essentially build on the risk strategy of the Association, defining regional specifications and local specifics. The preparation of the local risk strategies of the affiliated banks is supported and checked for conformity with the risk strategy of the Association by the CO, who also provides quality assurance in this respect. The Association's risk strategy manual, which is valid throughout the Association of Volksbanks and includes the local risk strategy, is adopted by each affiliated bank.

Risk Appetite Statement (RAS) and limit system

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

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

- Capital ratios (e.g. CET1 ratio, T1 ratio, TC ratio, RTF, MREL)
- Credit risk ratios (e.g. NPL ratio, coverage ratio, exposures to foreign customers, net allocation ratio for risk provisions, forbearance raio, sector concentrations)
- Market/liquidity risk rations (e.g. LCR, NSFR, survival period, asset encumbrance ratio, EBA interest rate risk coefficient, balance sheet structure limit Fixed interest position)
- Ratios relating to operational risk (e.g. OpRisk losses in proportion to CET1, ICS implementation rate)
- Other risk-relevant ratios (e.g. CIR, leverage ratio, compliance risk, IT system availability)

Risk-bearing capacity calculation

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

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

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

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

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

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

Stress testing

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

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

Since December 2020, ESG-related scenarios (especially with regard to climate and environmental risks) have also been calculated as part of the internal stress test in order to identify and assess the ESG risks inherent in the existing portfolio as early as possible. The scenarios are based on the assumptions of the Network for Greening the Financial System (NGFS) and are continuously extended to include the latest findings.

At present, EU-wide stress tests across risk types are being carried out by the EBA/ECB every two years, with the Association of Volksbanks participating. An EBA/ECB stress test was carried out again in 2021. The results of the stress tests for the Association of Volksbanks were used by the ECB to assess the capital requirement (Pillar 2 Guidance) within the SREP.

Risk reporting

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

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

Recovery and resolution planning

As the Association of Volksbanks was classified as a significant institution in Austria, the Association must prepare a recovery & resolution plan and submit the same to the European Central Bank. The GRP is updated at least once a year and takes into account changes in business activities as well as changes in regulatory requirements.

b) Credit Risk

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

Credit risk management organisation

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

Operational credit risk management

Lending principles

- Loan transactions are necessarily based on decisions involving borrower-specific limits. The determination and monitoring of certain limits is subject to uniform regulations at the level of the Association.
- The rating obligation applies to all borrowers with exposures above the defined minimum amount. The rating process is based on the dual-control principle and is applicable across the Association.
- In selecting collaterals, attention is paid to the cost-benefit ratio, and therefore recoverable collaterals that cause little administrative effort and are not very cost-intensive will preferably be resorted to, as well as actually realisable collaterals. For this reason, physical collaterals, such as real estate collaterals, and financial collaterals, such as cash collaterals or collaterals in the form of securities, are given priority. The recoverability and enforceability of collaterals must basically be assessed prior to any credit decision. Principles for the management

of collaterals and uniform rules for the selection, provision, administration and valuation of collaterals apply at the level of the Association.

- Foreign currency and repayment vehicle loans are basically no longer offered or granted.
- The principal market for lending business is the Austrian market.
- Syndicated loans will basically be concluded together with the CO.

Decision-making process

In all units of the Association of Volksbanks that generate credit risk, there is a strict separation of sales and risk management units. All decisions in individual cases are made in strict compliance with the 4-eyes principle, whereby clear procedures have been defined for cooperation between the risk management units in the ZO and the members of the Association of Volksbanks. In the case of large-volume transactions processes have been established to ensure the involvement of the operative CO credit risk management and the CO Board of Directors in the risk analysis and credit decision-making process. Limit systems play an important role in this process, which the decision-making competencies of the individual units are set out in a framework.

Monitoring of exposures and collaterals

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

Limits

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

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

In connection with portfolio limits, within the Association of Volksbanks, mainly limits for external financing transactions and limits for the industry sectors of real estate as well as tourism and leisure are being defined at present. These limits are relevant for the lending process and are monitored at monthly intervals by Risk Control.

In addition, materiality limits are defined for industry sectors at the level of the Association and of the affiliated banks, and further control measures are applied if these limits are exceeded. Relatively speaking, higher risk concentrations in affiliated banks are not only permitted but also desired in the sense of leveraging industry expertise (e.g. in the case of Ärzte- und Apothekerbank in the health care sector) and regional focuses (e.g. tourism in VB Tirol).

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

Intensified credit risk management

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

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

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

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

Default identification: The process of default identification serves to recognise defaults in time. A customer is deemed defaulted if there is a default of performance of more than 90 days, pursuant to the CRR, and/or if complete settlement of the debt is considered unlikely without realising any collaterals. The Association of Volksbanks has defined 15 possible types of default event that are used for the consistent classification of default events across the Association. Among others, default identification also builds on the early warning and forbearance processes described above. Additionally, there are other (checking) processes, e.g. the analysis of expected cash flows within the regular or event-driven exposure checks, which may trigger classification to a default category.

Problem Loan Management

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

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

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

Management of the COVID-19-crisis

The economic impact of the COVID-19-crisis in 2020 and 2021 has been mitigated by an extensive government support programme. In Austria, in the course of the fourth wave of infections that started in November, strict containment measures were put in place again, temporarily reducing economic activity sharply, coupled with a loss of income and sales for employees, the self-employed and businesses, as well as a sharp rise in unemployment, which is partially cushioned by a short-time work programme as earlier in the crisis. The long-term effects on the economy and the labour market are currently difficult to assess, but due to the government's package of measures, no long-term negative effects are expected.

The strong relationship of the Association of Volksbanks with its customers and its close ties within the region have manifested themselves also in times of the COVID-19-crisis. A great number of customers were granted relief measures due to COVID-19 in order to counter liquidity bottlenecks and to cope with existence-threatening circumstances. These measures include various kinds and forms of deferments, term extensions, bridging loans, and increases of overdraft facilities for existing customers. Most of the facilities granted to borrowers in the Association of Volksbanks since March 2020 have already been terminated in the course of 2021; this mainly concerns deferrals to companies or payment deferrals to employees, self-employed persons and microentrepreneurs in the course of the statutory moratorium and the private moratorium of the Austrian banking sector. Currently still active bridge financing and increases of overdraft facilities have even longer maturities due to the terms of the federal guarantees. A potential rebound of the facilities granted in the course of the Austria-wide lockdown from November 2021 is not yet apparent, but is taken into account in the planning of the Association of Volksbanks in the form of a new post-model adjustment.

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

In the Association of Volksbanks, a significant increase in the EWS/PLM portfolio is evident as a result of the COVID-19-related forbearance flags and rating downgrades. However, the NPL (non-performing loan) ratio of the Association of Volksbanks developed positively; even during the COVID-19-crisis, the NPL portfolio was further reduced mainly due to the liquidation of collaterals and debt rescheduling.

The sectors most affected by the COVID-19-crisis are tourism/leisure and gastronomy.

Quantitative credit risk management and credit risk control

Measurement and control of credit risk

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

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

Rating systems

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

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

Credit Value at Risk

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

Concentrations

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

Counterparty default risk

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

Credit risk mitigation

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

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

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

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

Rating systems

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

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

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

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

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

Lifetime Probability of Default

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

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

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

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

Forward-looking information

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

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

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

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

Consideration of forward-looking information

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

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

Definition of stage transfer and default

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

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

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

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

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

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

The further qualitative indicators for allocation to Stage 2 are:

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

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

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

Measurement of Expected Credit Loss (ECL)

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

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

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

Performing portfolio

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

The most important model parameters for ECL measurement are:

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

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

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

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

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

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

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

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

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

Defaulted exposures

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

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

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

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

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

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

Risk provisions in relation to COVID-19

Impairment Stages 1 and 2 prior to post-model adjustments

The Association of Volksbanks uses internal rating systems to distinguish between borrowers whose credit rating was not significantly impaired by the current situation in the long term and those who are very seriously affected, making it unlikely that their credit rating will be restored to the level before the crisis. The rating and the associated allocation to risk provisions take into account, on the one hand, the actually observed impact of the lockdowns on customers and, on the other hand, the offsetting effects of the government’s COVID-19-support measures. In the case of Corporates in particular, where a negative business trend was observed and/or a deferral of repayments was required, the ratings were provided with a qualitative warning, and consequently higher risk provisions were recognised as well.

The macroeconomic environment developed very positively in 2021, and concerns about cliff or catch-up effects have failed to materialise so far. Default rates were consistently at a very low level, although government support measures have been partially reduced in the meantime. However, uncertainties in connection with the COVID-19-crisis persist. In order to represent the risk situation as accurately as possible, a model adjustment was made in 2021 by weighting the pessimistic scenario for the ECL measurement at 100 %. The decision on the model adjustment was made in the last quarter of 2021, and the resulting effect was estimated at approximately euro 2.6 million in additional risk provisions. Before this adjustment, the pessimistic scenario was weighted at 60 % and the base case scenario at 40 %. Compared with the base case scenario, the pessimistic scenario assumes a more difficult transition of the economy from subsidised to normal operation, as well as re-emerging restrictions on some sectors of the economy due to new waves of infection and macroeconomic pandemic consequences such as supply shortages and input price increases. In the medium term, growth is grinding down to potential growth. In the previous year, three ECB macroeconomic forecasts from June 2020 were used for the ECL valuation, with the pessimistic (ECB) scenario weighted at 20 %, the optimistic (ECB) scenario also at 20 % and the base case (ECB) scenario at 60 %. In addition, as part of the model adjustment in 2021, the very low default rates in 2020 and 2021 were removed from the historical default time series or replaced with modelled default rates.

Despite this model-related adjustment, reversals of impairments in Stage 1 and 2 before post-model adjustments amounting to euro 3.2 million were determined during the year (2020: allocation in the amount of euro 35.3 million).

The reasons for and scope of the additional impairments in the form of post-model adjustments are explained below.

Post-Model Adjustments Stage 1 and 2

Under IFRS 9, expected credit losses are determined using future-oriented information, models and data. If the solely model-based determination does not yield any proper result, for instance because certain developments are not (yet) reflected in the model or in the available data, the result of the model-based determination will be adjusted to account for these developments (post-model adjustments).

Default rates and macroeconomic indicators decoupled in 2020 and 2021. Despite a marked decline in economic output, significantly reduced default rates were observed during this period. Therefore, at the end of 2021, the serious consequences of the COVID-19-pandemic for the general economic environment and the persistently high degree of uncertainty in connection with further lockdowns in 2021 resulted in a continuing need for post-model adjustments when determining expected credit losses, which are explained in detail below.

In the present consolidated financial statements, post-model adjustments for customers designated as “Performing” (Stages 1 and 2) were accounted for in the total amount of euro 24.0 million. In doing so, individual sources of risk and/or uncertainty were identified, the exposures concerned were determined on individual transaction level, and the required allocation to risk provisions was quantified using statistical, business management or simulation-based models.

By comparison, a need for post-model adjustments totaling euro 93.3 million was identified in the previous year. The much lower need for post-model adjustments in 2021 results from two reasons in particular. First, experience from the economic measures to counter the pandemic in Austria has shown that the extensive government support measures generally work well, supporting the liquidity situation of our credit customers. Second, when calculating the post-model adjustments for the present financial statements of the Association, the focus was placed on subportfolios which, based on past experience, are most affected by lockdowns. These include, in particular, corporate customers in the tourism, gastronomy, retail, automotive trade and repair sectors, and businesses in the close contact services sector. In the previous year, however, post-model adjustments were recognised for all sectors and customer segments.

Post-model adjustments for imminent but not yet identified defaults

As the winter season 2021/22 may be affected by severe restrictions (2G rule, travel warning for Austria in important countries such as Germany; however, with significant government support measures for businesses), uncertainties arise about the timely identification of customers who have already defaulted in economic terms. As mentioned above, this mainly concerns industry sectors that are strongly affected by the lockdowns (tourism, gastronomy, retail, automotive trade and repair, as well as close contact services). Post-model adjustments formed as at 31 December 2020, for imminent but not yet identified defaults have been retained for customers in these affected industries who are in Stage 1 and Stage 2 as at 31 December 2021 (a total of euro 14.2 million).

For this purpose, as at the balance sheet date 31 December 2020:

- an automated business analysis was carried out on the basis of debt and income ratios for customers under intensive supervision, then compared to and supplemented by qualitative single case analyses,
- regional as well as rating and portfolio quality differences were taken into account for the remaining customers; the difference between the projected and actual default rates was recorded for each subportfolio.

Post-model adjustment for unrecognised stage transfers

Accompanied by the government support measures, the liquidity and account conduct ratios of many credit customers are currently showing a positive trend. This development makes it difficult to detect any significant increase in credit risk in a timely manner, especially in the case of companies of the sectors affected that currently show no or only a slight decline in turnover due to the government measures. In view of these uncertainties, an allocation in the amount of the lifetime ECL less the Stage 1 risk provisions already formed in the system was made as a post-model adjustment for these customers (euro 9.8 million).

Impairments Stage 3

In spite of the COVID-19-crisis, the positive developments in the sphere of defaulted customers have continued in 2021. The NPL portfolio was further diminished, and the NPL ratio further reduced. For many NPL exposures, resolution was carried out successfully and/or the previously formed risk provisions were released in profit or loss. A reversal of impairments for NPL customers (Stage 3) was recognised in the financial statements of the Association in the net amount of euro 11.7 million (2020: net reversal of euro 7.6 million). In addition, extraordinary income was recognised from receivables previously written off in the amount of euro 8.2 million (2020: extraordinary income of euro 8.9 million).

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

Sensitivity analyses are performed to quantify the estimation uncertainties of the models for ECL measurement in the current novel situation.

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

	in euro million	in % of risk provisions Portfolio (Performing)
Risk provisions (Stage 1 & 2 portfolio, without PMA)	94.1	100.0 %
PMA for unrecognised Stage 2 transfers	9.8	10.4 %
All receivables transferred to Stage 2	90.8	96.4 %
All receivables transferred to Stage 1	-46.7	-49.6 %

In determining the lifetime PD parameters, the pessimistic scenario was weighted at 100 %. Current macroeconomic scenarios were published by the ECB in December 2021. The following table shows sensitivity analyses with regard to these current scenarios.

If the ECB’s latest available macroeconomic forecast (baseline scenario) were applied, a reversal of risk provisions would follow in the amount of euro 8.3 million. Even though this current ECB forecast shows a more positive outlook than the scenario used in the model, we consider the method chosen to measure the ECL to be appropriate. The reasons for this are the aforementioned uncertainties regarding COVID-19, the structure of the loan portfolio (characterised by small-scale SME business) and, in general, the high proportion of industry sectors in the Association of Volksbanks that are affected by lockdowns or restrictions.

	in euro million	in % of risk provisions Portfolio (Performing)
Risk provisions (Stage 1 & 2 portfolio, without PMA)	94.1	100.0 %
ECB scenario set 12/2021, weighting 100 % Severe	-5.6	-5.9 %
ECB scenario set 12/2021, weighting 100 % Baseline	-8.3	-8.9 %
ECB scenario set 12/2021, weighting 100 % Mild	-9.7	-10.3 %

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

	in euro million	in basis points Coverage Ratio I
Risk provisions NPL (Stage 3 portfolio)	174.1	35.1 %
Depreciation by 15 %	21.8	4.4 %
Depreciation by 25 %	31.9	6.4 %
All receivables in workout	44.1	8.9 %

Regulatory risk provision – NPL backstop

In April 2021, the requirements for the minimum coverage of non-performing risk positions pursuant to the CRR came into force. As a result of these provisions, additional capital may be required for the risk positions concerned. These provisions supplement the ECB requirements previously applicable to the Association of Volksbanks (Supervisory Coverage Expectations for NPE) and the requirements submitted by means of the SREP notice. Hence, all non-performing exposures are subject to one of the aforementioned requirements and may be subject to regulatory provisioning in the form of deductions from equity in Pillar 1 or Pillar 2. The determination of this provision is fully automated within the Association of Volksbanks.

In order to limit the equity effects as far as possible, a restriction on the retention period in the NPL portfolio was introduced.

Credit risk reporting

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

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

The following analyses are part of the monthly report:

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

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

Development of the credit risk-related portfolio in 2021

Definition of credit risk-related portfolio

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

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

The following table shows the credit risk-related portfolio as at 31 December 2021 compared to the previous year. The relevant figure is the gross value before deduction of any impairments, collaterals or other credit risk mitigating effects

Credit-risk-relevant portfolio

Euro thousand	31 Dec 2021	31 Dec 2020
Liquid funds	6,722,765	3,750,394
Loans and receivables credit institutions	256,590	438,144
At amortised cost	256,532	437,725
At fair value	58	419
Loans and receivables customers	21,836,493	21,651,279
At amortised cost	21,490,338	21,254,202
At fair value	346,154	397,077
Assets held for trading - fixed-income securities	486	1,697
At fair value	486	1,697
Financial investments - fixed-income securities	2,381,743	2,532,659
At amortised cost	2,297,529	2,455,531
At fair value	84,214	77,128
Contingent liabilities	764,832	837,509
Credit risks	3,396,504	3,423,502
Total	**35,359,413**	**32,635,186**

As at 31 December 2021, the total credit risk-related portfolio amounted to euro 35,359,413 thousand (2020: euro 32,635,186 thousand). Loans and receivables customers constitute the biggest group of receivables, which corresponds to the business model of classic lending business with a focus on Private and SME customers. As at 31 December 2021, the loans and receivables customers include receivables from finance leases in the amount of euro 181,217 thousand (2020: euro 198,991 thousand). Due to the low share of 0.8 % (2020: 0.9 %) of total loans and receivables customers, the lease portfolio is not presented separately.

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

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

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

Development by customer segments[1]

The following tables show the distribution of the credit risk-related portfolio by balance sheet items and customer segments. As at 31 December 2021, the largest customer segment of the credit risk-relevant items is the SME segment in the amount of euro 13,410,125 thousand (2020 euro 13,538,551 thousand) that is internally broken down into SME Retail, SME and SME Corporate followed by the private customer segment.

Portoflio diveded by customer segments

31 Dec 2021 Euro thousand	Banks	Retail private	SME	Corporates	Public sector	Others	Total
Liquid funds	0	0	0	0	6,722,765	0	6,722,765
Loans and receivables credit institutions	256,590	0	0	0	0	0	256,590
At amortised cost	256,532	0	0	0	0	0	256,532
At fair value	58	0	0	0	0	0	58
Loans and receivables customers	0	8,685,529	10,940,016	623,918	293,229	1,293,801	21,836,493
At amortised cost	0	8,481,745	10,854,908	622,956	288,067	1,242,663	21,490,338
At fair value	0	203,785	85,108	962	5,162	51,138	346,154
Assets held for trading - fixed-income securities	7	0	0	480	0	0	486
At fair value	7	0	0	480	0	0	486
Financial investments - fixed-income securities	1,171,651	0	0	46,059	1,164,033	0	2,381,743
At amortised cost	1,126,170	0	0	44,997	1,126,362	0	2,297,529
At fair value	45,481	0	0	1,062	37,671	0	84,214
Contingent liabilities	9,110	71,015	635,147	44,730	164	4,667	764,832
Credit risks	300	1,002,158	1,834,962	139,441	200,135	219,508	3,396,504
Total	**1,437,657**	**9,758,702**	**13,410,125**	**854,627**	**8,380,326**	**1,517,975**	**35,359,413**
31 Dec 2020							
Liquid funds	0	0	0	0	3,750,394	0	3,750,394
Loans and receivables credit institutions	438,144	0	0	0	0	0	438,144
At amortised cost	437,725	0	0	0	0	0	437,725
At fair value	419	0	0	0	0	0	419
Loans and receivables customers	0	8,684,704	10,940,551	528,396	282,156	1,215,472	21,651,279
At amortised cost	0	8,423,430	10,855,031	527,044	274,375	1,174,321	21,254,202
At fair value	0	261,274	85,521	1,352	7,781	41,151	397,077
Assets held for trading - fixed-income securities	16	0	0	1,682	0	0	1,697
At fair value	16	0	0	1,682	0	0	1,697
Financial investments - fixed-income securities	1,038,816	0	0	76,251	1,417,592	0	2,532,659
At amortised cost	989,937	0	0	75,237	1,390,357	0	2,455,531
At fair value	48,879	0	0	1,014	27,235	0	77,128
Contingent liabilities	14,480	61,973	721,369	33,536	194	5,958	837,509
Credit risks	1,197	968,466	1,876,630	182,593	215,458	179,158	3,423,502
Total	**1,492,653**	**9,715,143**	**13,538,551**	**822,458**	**5,665,794**	**1,400,587**	**32,635,186**

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

Development by currencies

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

Portoflio distribution by currencies

31 Dec 2021

Euro thousand	EUR	CHF	Others	Total
Liquid funds	6,722,765	0	0	6,722,765
Loans and receivables credit institutions	249,610	3,847	3,133	256,590
At amortised cost	249,552	3,847	3,133	256,532
At fair value	58	0	0	58
Loans and receivables customers	21,202,500	610,204	23,789	21,836,493
At amortised cost	20,856,816	609,734	23,789	21,490,338
Thereof Retail private	8,016,092	455,242	10,411	8,481,745
Thereof SME	10,690,190	154,088	10,630	10,854,908
Thereof Corporates	620,087	122	2,747	622,956
Thereof Others	1,530,447	283	0	1,530,730
At fair value	345,684	471	0	346,154
Thereof Retail private	203,314	471	0	203,785
Thereof SME	85,108	0	0	85,108
Thereof Corporates	962	0	0	962
Thereof Others	56,300	0	0	56,300
Assets held for trading - fixed-income securities	486	0	0	486
At fair value	486	0	0	486
Financial investments - fixed-income securities	2,365,485	0	16,258	2,381,743
At amortised cost	2,281,271	0	16,258	2,297,529
Thereof Banks	1,126,170	0	0	1,126,170
Thereof Corporates	44,997	0	0	44,997
Thereof Public sector	1,110,104	0	16,258	1,126,362
Thereof Others	0	0	0	0
At fair value	84,214	0	0	84,214
Thereof Banks	45,481	0	0	45,481
Thereof Corporates	1,062	0	0	1,062
Thereof Public sector	37,671	0	0	37,671
Thereof Others	0	0	0	0
Contingent liabilities	762,800	1,999	33	764,832
Thereof Banks	9,110	0	0	9,110
Thereof Retail private	69,418	1,597	0	71,015
Thereof SME	634,766	359	21	635,147
Thereof Corporates	44,675	44	12	44,730
Thereof Others	4,831	0	0	4,831
Credit risks	3,392,695	1,585	2,224	3,396,504
Thereof Banks	300	0	0	300
Thereof Retail private	1,001,854	287	17	1,002,158
Thereof SME	1,831,668	1,299	1,995	1,834,962
Thereof Corporates	139,229	0	212	139,441
Thereof Others	419,643	0	0	419,643
Total	**34,696,341**	**617,636**	**45,436**	**35,359,413**

31 Dec 2020 Euro thousand	EUR	CHF	Others	Total
Liquid funds	3,750,394	0	0	3,750,394
Loans and receivables credit institutions	426,786	4,948	6,411	438,144
At amortised cost	426,366	4,948	6,411	437,725
At fair value	419	0	0	419
Loans and receivables customers	20,867,281	750,697	33,301	21,651,279
At amortised cost	20,470,651	750,250	33,301	21,254,202
Thereof Retail private	7,871,319	536,738	15,373	8,423,430
Thereof SME	10,629,895	207,834	17,302	10,855,031
Thereof Corporates	521,188	5,229	627	527,044
Thereof Others	1,448,248	448	0	1,448,696
At fair value	396,630	447	0	397,077
Thereof Retail private	260,827	447	0	261,274
Thereof SME	85,521	0	0	85,521
Thereof Corporates	1,352	0	0	1,352
Thereof Others	48,931	0	0	48,931
Assets held for trading - fixed-income securities	1,697	0	0	1,697
At fair value	1,697	0	0	1,697
Financial investments - fixed-income securities	2,132,444	0	400,215	2,532,659
At amortised cost	2,055,317	0	400,215	2,455,531
Thereof Banks	989,937	0	0	989,937
Thereof Corporates	75,237	0	0	75,237
Thereof Public sector	990,142	0	400,215	1,390,357
Thereof Others	0	0	0	0
At fair value	77,128	0	0	77,128
Thereof Banks	48,879	0	0	48,879
Thereof Corporates	1,014	0	0	1,014
Thereof Public sector	27,235	0	0	27,235
Thereof Others	0	0	0	0
Contingent liabilities	835,381	1,996	133	837,509
Thereof Banks	14,480	0	0	14,480
Thereof Retail private	60,424	1,549	0	61,973
Thereof SME	720,789	447	133	721,369
Thereof Corporates	33,536	0	0	33,536
Thereof Others	6,152	0	0	6,152
Credit risks	3,419,232	1,968	2,303	3,423,502
Thereof Banks	1,195	0	2	1,197
Thereof Retail private	968,177	268	21	968,466
Thereof SME	1,872,727	1,700	2,203	1,876,630
Thereof Corporates	182,517	0	76	182,593
Thereof Others	394,616	0	0	394,616
Total	**31,433,215**	**759,609**	**442,362**	**32,635,186**

Development of repayment vehicle and foreign currency loans

As at 31 December 2021, the total borrowings under repayment vehicle and foreign currency loans amounted to euro 855,380 thousand (2020: euro 1,034,746 thousand).

Development by countries

The main business activity of the Association of Volksbanks focuses on the Austrian market. This is also evident from the following tables. As at 31 December 2021, Austrian exposures accounted for 92.2 % of the credit risk-related portfolio (2020: 90.0 %).

Portfolio distribution by countries

31 Dec 2021 Euro thousand	Austria	Germany	Others	Total
Liquid funds	6,722,765	0	0	6,722,765
Loans and receivables credit institutions	45,581	98,628	112,381	256,590
At amortised cost	45,522	98,628	112,381	256,532
At fair value	58	0	0	58
Loans and receivables customers	20,810,735	745,236	280,521	21,836,493
At amortised cost	20,477,091	739,084	274,163	21,490,338
Thereof Retail private	8,149,941	212,409	119,395	8,481,745
Thereof SME	10,410,865	350,198	93,845	10,854,908
Thereof Corporates	497,929	69,677	55,350	622,956
Thereof Others	1,418,356	106,801	5,572	1,530,730
At fair value	333,644	6,152	6,359	346,154
Thereof Retail private	195,113	2,444	6,228	203,785
Thereof SME	81,269	3,708	131	85,108
Thereof Corporates	962	0	0	962
Thereof Others	56,300	0	0	56,300
Assets held for trading - fixed-income securities	486	0	0	486
At fair value	486	0	0	486
Financial investments - fixed-income securities	968,570	252,805	1,160,367	2,381,743
At amortised cost	926,764	227,984	1,142,781	2,297,529
Thereof Banks	333,857	181,565	610,748	1,126,170
Thereof Corporates	4,274	0	40,723	44,997
Thereof Public sector	588,633	46,419	491,310	1,126,362
Thereof Others	0	0	0	0
At fair value	41,807	24,822	17,586	84,214
Thereof Banks	13,219	24,822	7,440	45,481
Thereof Corporates	1,062	0	0	1,062
Thereof Public sector	27,525	0	10,146	37,671
Thereof Others	0	0	0	0
Contingent liabilities	751,916	8,400	4,516	764,832
Thereof Banks	9,002	108	0	9,110
Thereof Retail private	67,304	1,637	2,074	71,015
Thereof SME	628,115	6,537	494	635,147
Thereof Corporates	42,664	119	1,948	44,730
Thereof Others	4,831	0	0	4,831
Credit risks	3,321,553	65,178	9,772	3,396,504
Thereof Banks	300	0	0	300
Thereof Retail private	980,906	14,431	6,821	1,002,158
Thereof SME	1,791,386	40,624	2,951	1,834,962
Thereof Corporates	135,291	4,149	0	139,441
Thereof Others	413,670	5,973	0	419,643
Total	**32,621,607**	**1,170,248**	**1,567,558**	**35,359,413**

31 Dec 2020

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

Development by sectors[2]

The most important sector within loans and receivables customers of the Association of Volksbanks are private households with 39.8 % as at 31 December 2021 (2020: 40.1 %). As at 31 December 2021, the largest commercial sector in loans and receivables customers within the Association of Volksbanks is the real estate sector. It accounts for a share of 27.8 % (2020: 26.8 %). As at 31 December 2021, the largest commercial sector within loans and receivables customers in the SME segment is the real estate sector, accounting for 43.1 % (2020: 41.6 %), followed by the tourism sector with a share of 14.2 % (2020: 14.8 %). As at 31 December 2021, the largest commercial sector within loans and receivables customers in the Corporate segment is again the real estate sector, accounting for 29.7 % (2020: 32.9 %).

Portfolio distribution by sectors

31 Dec 2021 Euro thousand	Private households	Financial services incl. Banks	Public authorities	Real estate	Construction industry
Liquid funds	0	0	6,722,765	0	0
Loans and receivables credit institutions	0	256,590	0	0	0
At amortised cost	0	256,532	0	0	0
At fair value	0	58	0	0	0
Loans and receivables customers	8,685,527	207,265	293,229	6,071,953	634,771
At amortised cost	8,481,743	206,830	288,067	5,986,701	631,647
At fair value	203,785	435	5,162	85,253	3,124
Assets held for trading - fixed-income securities	0	7	0	90	9
At fair value	0	7	0	90	9
Financial investments - fixed-income securities	0	1,171,028	1,164,033	0	0
At amortised cost	0	1,125,547	1,126,362	0	0
At fair value	0	45,481	37,671	0	0
Contingent liabilities	71,434	109,289	164	50,087	111,070
Credit risks	998,145	50,272	200,135	648,943	255,180
Total	**9,755,106**	**1,794,450**	**8,380,326**	**6,771,073**	**1,001,029**

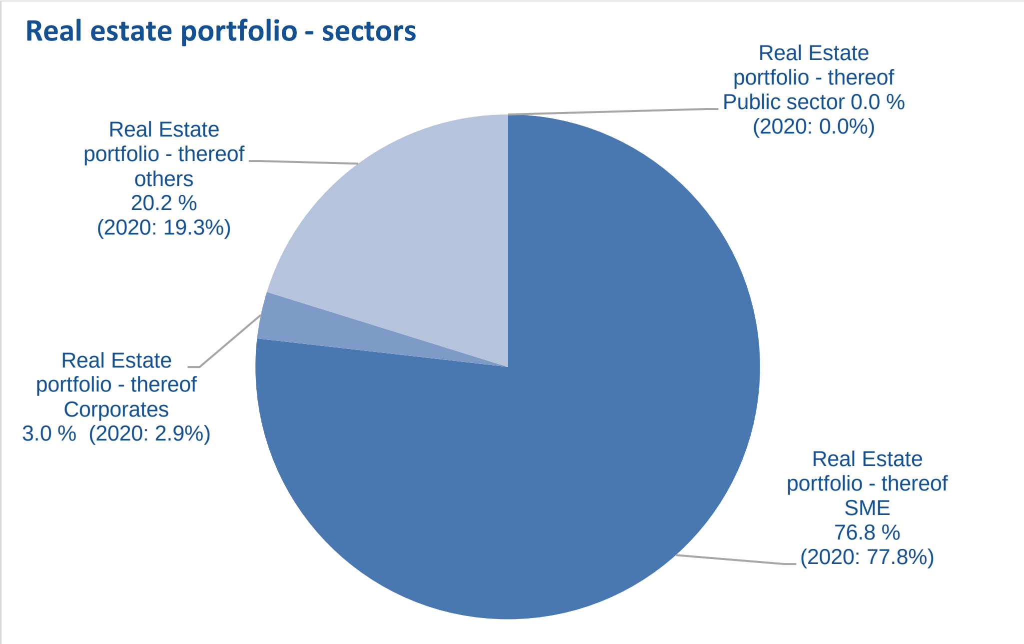
	Tourism	Trade and repairs	Physicians/ healthcare	Food/ agriculture an forestry	Others	Total
Liquid funds	0	0	0	0	0	6,722,765
Loans and receivables credit institutions	0	0	0	0	0	256,590
At amortised cost	0	0	0	0	0	256,532
At fair value	0	0	0	0	0	58
Loans and receivables customers	1,614,105	918,869	713,509	695,698	2,001,567	21,836,493
At amortised cost	1,600,814	911,589	712,620	685,381	1,984,948	21,490,338
At fair value	13,291	7,280	889	10,317	16,619	346,154
Assets held for trading - fixed-income securities	0	0	0	0	381	486
At fair value	0	0	0	0	381	486
Financial investments - fixed-income securities	0	0	0	0	46,681	2,381,743
At amortised cost	0	0	0	0	45,619	2,297,529
At fair value	0	0	0	0	1,062	84,214
Contingent liabilities	131,603	74,601	0	14,523	202,061	764,832
Credit risks	117,541	322,089	0	108,459	695,740	3,396,504
Total	**1,863,249**	**1,315,559**	**713,509**	**818,681**	**2,946,431**	**35,359,413**

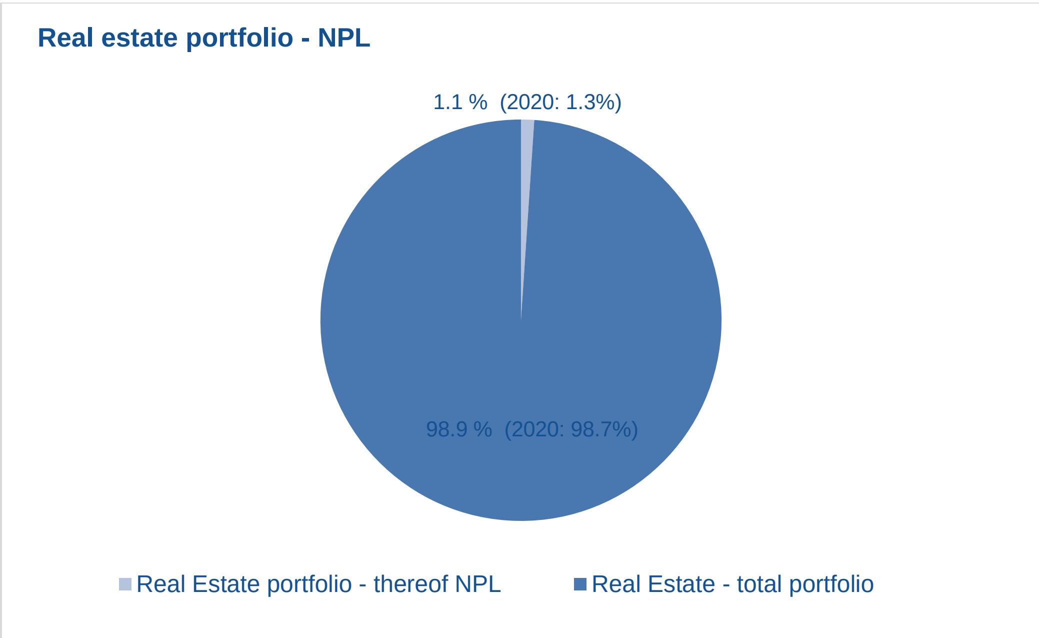
[2]The definition of the sector is largely aligned with the ÖNACE codes and cannot be compared directly with customer segments, where a different classification logic is applied.

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

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

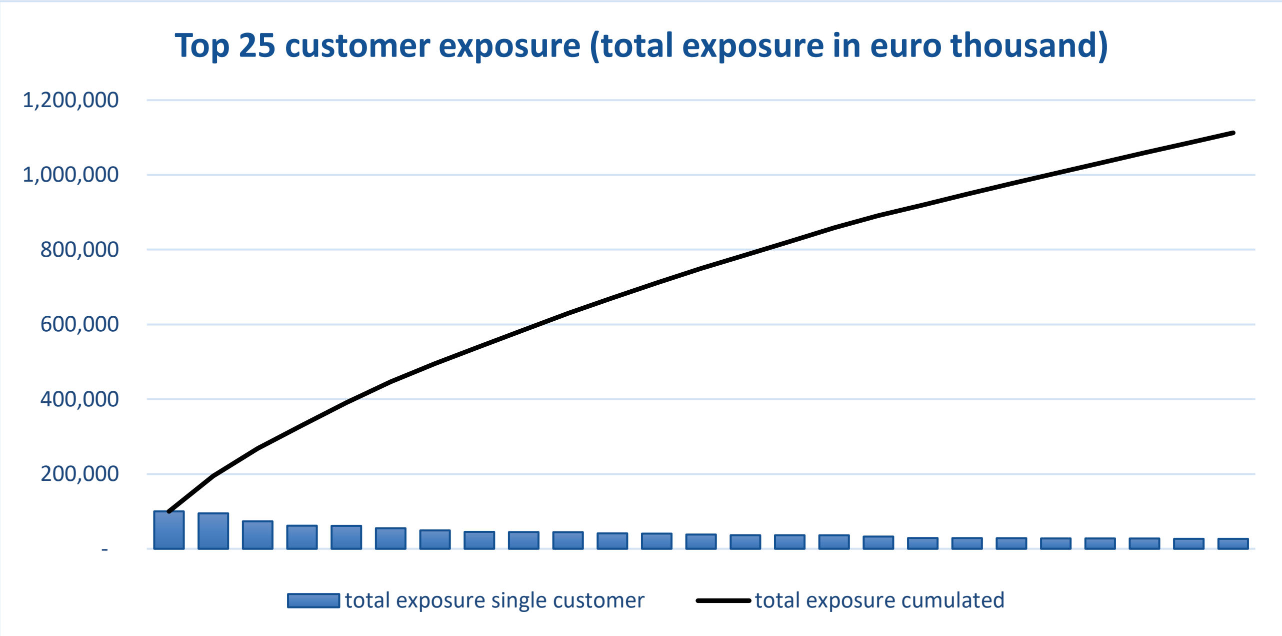
The following charts show the distribution of the real estate portfolio by segments, and the proportion of non-performing loans within the real estate portfolio. The major part of the real estate portfolio is found in the SME segment, with 76.8 % (2020: 77.8 %); at 1.1 % (2020: 1.3 %), the NPL ratio as at 31 December 2021 in the real estate portfolio is below the NPL ratio of internal risk control for the Association of Volksbanks, with 1.89 % (2020: 1.89 %).





Presentation of the Top 25 exposures

The following chart shows the Top 25 loans and receivables customers within the Association of Volksbanks as at 31 December 2021 with the total exposure per individual customer as well as the cumulative total exposure of euro 1,142,627 thousand (2020: euro 1,112,577 thousand) and reflects the business model of the Association with a focus on small-volume private and SME customers. The Top 25 loans and receivables customers correspond to some 4.4 % (2020: 4.3 %) of total loans and receivables customers within the Association (Top no. 1 customer: 0.4 % of total loans and receivables customers). The values are shown in line with the internal risk perspective, i.e. loans and receivables customers as well as credit risks and contingent liabilities to customers excluding internal transactions within the Association.



Development by ratings

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

Portfolio distribution by ratings and stages

31 Dec 2021	Risk category						
Euro thousand	1 (1A - 1E)	2 (2A - 2E)	3 (3A - 3E)	4 (4A - 4E)	5 (5A - 5E)	6 (NR)	Total
Liquid funds	6,722,765	0	0	0	0	0	6,722,765
Loans and receivables credit institutions	140,376	116,161	53	0	0	0	256,590
At amortised cost	140,376	116,102	53	0	0	0	256,532
Thereof Stage 1	140,376	115,806	7	0	0	0	256,189
Thereof Stage 2	0	296	46	0	0	0	342
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	0	58	0	0	0	0	58
Loans and receivables customers	797,515	9,779,145	9,854,960	926,145	473,935	4,793	21,836,493
At amortised cost	773,597	9,607,782	9,727,769	913,650	462,755	4,785	21,490,338
Thereof Stage 1	769,208	9,289,883	8,190,581	97,573	0	2,228	18,349,474
Thereof Stage 2	4,390	317,899	1,537,188	816,077	0	2,557	2,678,110
Thereof Stage 3	0	0	0	0	462,755	0	462,755
At fair value	23,918	171,363	127,190	12,495	11,181	8	346,154
Assets held for trading - fixed-income securities	0	87	399	0	0	0	486
At fair value	0	87	399	0	0	0	486
Financial investments - fixed-income securities	1,452,889	928,853	0	0	0	0	2,381,743
At amortised cost	1,397,024	900,504	0	0	0	0	2,297,529
Thereof Stage 1	1,397,024	900,504	0	0	0	0	2,297,529
Thereof Stage 2	0	0	0	0	0	0	0
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	55,865	28,349	0	0	0	0	84,214
Contingent liabilities	11,923	346,474	364,827	20,420	8,876	12,311	764,832
Thereof Stage 1	11,447	297,666	298,197	6,086	0	12,160	625,557
Thereof Stage 2	476	48,808	66,630	14,334	0	151	130,399
Thereof Stage 3	0	0	0	0	8,876	0	8,876
Credit risks	531,255	1,347,819	1,444,567	56,936	9,310	6,617	3,396,504
Thereof Stage 1	521,272	1,284,916	1,283,849	14,394	0	2,772	3,107,203
Thereof Stage 2	9,982	62,903	160,718	42,542	0	3,845	279,990
Thereof Stage 3	0	0	0	0	9,310	0	9,310
Total	**9,656,723**	**12,518,540**	**11,664,807**	**1,003,500**	**492,122**	**23,721**	**35,359,413**

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

Effects from contract amendments

For the year 2021, the effect on the income statement from changes in contracts for financial instruments is euro -6,109 thousand (2020: euro -13,184 thousand), of which euro -34,4 thousand (2020: euro -2,138 thousand) are attributable to COVID-19-concessions. Within the Association of Volksbanks, this concerns loans and receivables customers exclusively.

Development of NPL portfolio

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

As at 31 December 2021, the NPL ratio within internal risk control amounted to 1.89 % for the Association (2020: 1.89 %).

The NPL coverage ratio through risk provisions or Coverage Ratio I for internal reporting amounts to 35.59 % for the Association as at 31 December 2021 (2020: 40.08 %).

The NPL coverage ratio through risk provisions or Coverage Ratio III for internal reporting amounts to 105.41 % for the Association as at 31 December 2021 (2020: 107.42 %). These ratios under the internal risk perspective exclusively refer to loans and receivables customers as well as credit risks and contingent liabilities to customers. The values shown in the following table reflect the balance sheet perspective and differ slightly from the key figures according to the internal risk view.

Portfolio distribution NPL portfolio

31 Dec 2021 Euro thousand	Loan volume - total	NPL	NPL Ratio	Risk provisions for NPL	NPL coverage ratio (Loan loss allowance)	Collateral for NPL	NPL coverage ratio (Loan loss allowance + collateral)
Liquid funds	6,722,765	0	0.00 %	0	0.00 %	0	0.00 %
Loans and receivables credit institutions	256,590	0	0.00 %	0	0.00 %	0	0.00 %
At amortised cost	256,532	0	0.00 %	0	0.00 %	0	0.00 %
At fair value	58	0	0.00 %	0	0.00 %	0	0.00 %
Loans and receivables customers	21,836,493	473,935	2.17 %	167,483	35.34 %	337,438	106.54 %
At amortised cost	21,490,338	462,755	2.15 %	167,483	36.19 %	326,693	106.79 %
Thereof Retail private	8,481,745	110,523	1.30 %	47,232	42.74 %	76,353	111.82 %
Thereof SME	10,854,908	317,360	2.92 %	110,901	34.94 %	223,781	105.46 %
Thereof Corporates	622,956	8,965	1.44 %	2,014	22.47 %	5,592	84.84 %
Thereof Others	1,530,730	25,907	1.69 %	7,336	28.32 %	20,968	109.25 %
At fair value	346,154	11,181	3.23 %	0	0.00 %	10,745	96.10 %
Thereof Retail private	203,785	6,204	3.04 %	0	0.00 %	6,098	98.29 %
Thereof SME	85,108	3,910	4.59 %	0	0.00 %	3,581	91.57 %
Thereof Corporates	962	0	0.00 %	0	0.00 %	0	0.00 %
Thereof Others	56,300	1,066	1.89 %	0	0.00 %	1,066	100.00 %
Assets held for trading - fixed-income securities	486	0	0.00 %	0	0.00 %	0	0.00 %
At fair value	486	0	0.00 %	0	0.00 %	0	0.00 %
Financial investments - fixed-income securities	2,381,743	0	0.00 %	0	0.00 %	0	0.00 %
At amortised cost	2,297,529	0	0.00 %	0	0.00 %	0	0.00 %
At fair value	84,214	0	0.00 %	0	0.00 %	0	0.00 %
Contingent liabilities	764,832	8,876	1.16 %	4,321	48.68 %	6,161	118.10 %
Credit risks	3,396,504	9,310	0.27 %	3,341	35.59 %	0	35.89 %
Total	**35,359,413**	**492,122**	**1.39 %**	**175,146**	**0.00 %**	**343,600**	**105.41 %**
Loans and receivables customers, contingent liabilities, credit risks	25,997,829	492,122	1.89 %	175,146	35.59 %	343,600	105.41 %
Liquid funds, loans and receivables credit institutions and customers	28,815,848	473,935	1.64 %	167,483	35.34 %	337,438	106.54 %

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

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

Development NPL portfolio

Euro thousand	Total
NPL 01.01.2020	580,401
Classified as impaired during the year	128,400
Transferred to not-impaired during the year	-23,864
Account coverage an write-offs NPL	-158,543
Net repayments and other movements	-37,686
NPL 31.12.2020	488,708
NPL 01.01.2021	488,708
Classified as impaired during the year	199,017
Transferred to not-impaired during the year	-18,873
Account coverage an write-offs NPL	-135,140
Net repayments and other movements	-41,590
NPL 31.12.2021	**492,122**

Development forbearance portfolio

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

With respect to customer loans, forbearance was agreed for a total carrying amount of euro 1,048,838 thousand (2020: euro 828,118 thousand) for financial reasons. This amount relates to performing forborne credit exposures in the amount of euro 830,972 thousand (2020: euro 649,824 thousand) and non-performing forborne credit exposures in the amount of euro 217,865 thousand (2020: euro 178,294 thousand).

In the course of the COVID-19-crisis, an increase in the forbearance portfolio by euro 220,720 thousand was observed in 2021 (2020: euro 581,081 thousand) due to crisis-related concessions in accordance with economic risk reporting, which was offset to a small extent by the discontinuation of older forbearance measures. The conditions of the EBA Guidelines on legislative and non-legislative loan repayments moratoria regarding the “forborne” classification were applied.

COVID-19-induced portfolio

To address the liquidity shortfalls that arose during the COVID-19-crisis and to cope with circumstances that threatened the existence of businesses, customers were granted COVID-19-related measures in the form of deferrals and bridge financing, and the corresponding loan accounts were flagged. Most of the facilities granted to borrowers in the Association of Volksbanks since March 2020 have already been terminated in the course of 2021. Currently still active bridge financing and increases of overdraft facilities have even longer maturities due to the terms of the federal guarantees. A potential rebound of the facilities granted in the course of the Austria-wide lockdown from November 2021 is not yet apparent, but is taken into account in the planning of the Association of Volksbanks in the form of a new post-model adjustment.

In terms of customer loans, loan exposures with a total loan volume of approximately euro 478,246 thousand (2020: euro 1,138,090 thousand) in accordance with economic risk reporting still have active COVID-19-related measures [1] as at 31 December 2021. This amount concerns

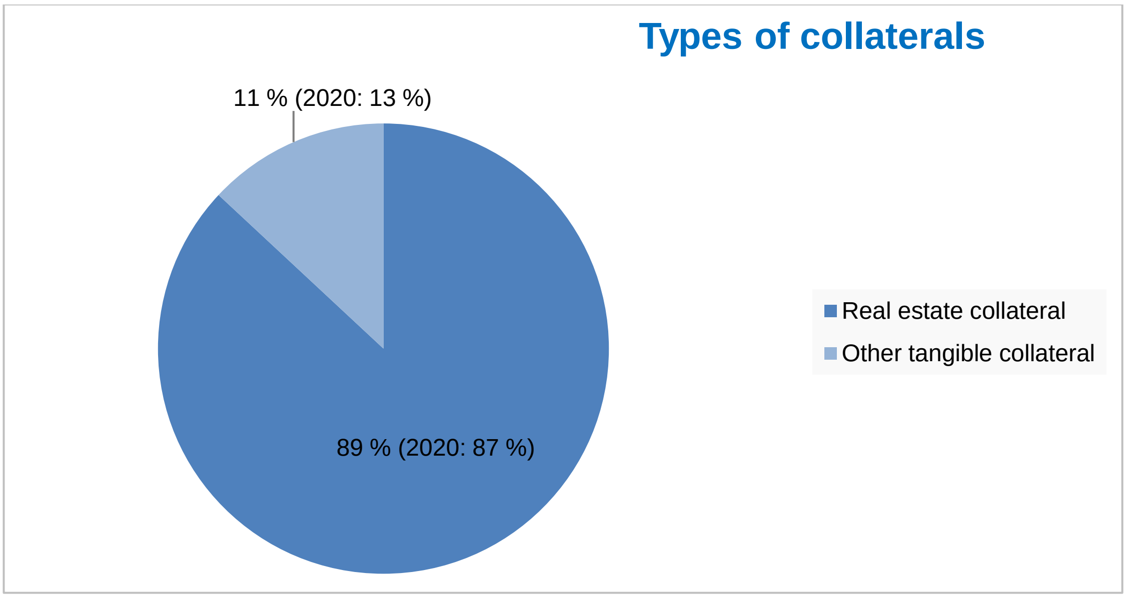
- loan exposures with bridge financing or overdraft facility increases – 69.0 % (2020: 34.1 %),
- loan exposures with deferment agreements outside the statutory or private moratorium period – 30.0 % (2020: 30.6 %),
- loan exposures with other measures – 1.0 % (2020: 1.5 %),
- loan exposures with statutory or private moratoria – 0 % (2020: 33.9 %).

Development of the collaterals portfolio

The following diagram and table show the development of the portfolio of collaterals, with real estate collaterals accounting for the major part within the Association. The values reported represent the credited value of the collaterals (after measurement and cap based on the amount of the receivable secured). Other collaterals include an imputed collateral value of euro 281,577 thousand (2020: euro 313,915 thousand) from guarantees from the government package of measures in the wake of the COVID-19-crisis.

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

In the 2021 business year, no significant changes to the principles – applicable across the Association – for the management of loan collaterals occurred.



31 Dec 2021 Euro thousand	Loan volume - total	Allowable collateral amount - total	Real estate collateral	Other tangible collateral	Loan loss allowances	Provisions	Loan volumen - total, deducted by collateral and risk provisions
Liquid funds	6,722,765	0	0	0	0	0	6,722,765
Loans and receivables credit institutions	256,590	185,030	0	185,030	23	0	71,537
At amortised costs	256,532	184,982	0	184,982	23	0	71,526
At fair value	58	48	0	48	0	0	11
Loans and receivables customers	21,836,493	19,130,729	17,176,799	1,953,930	273,365	0	2,432,398
At amortised cost	21,490,338	18,827,350	16,891,984	1,935,366	273,365	0	2,389,623
Thereof Retail private	8,481,745	7,810,744	7,357,414	453,330	64,571	0	606,430
Thereof SME	10,854,908	9,402,295	8,106,351	1,295,944	195,037	0	1,257,576
Thereof Corporates	622,956	397,668	268,236	129,432	2,605	0	222,684
Thereof Others	1,530,730	1,216,643	1,159,984	56,660	11,153	0	302,934
At fair value	346,154	303,379	284,815	18,564	0	0	42,775
Thereof Retail private	203,785	179,745	167,430	12,314	0	0	24,040
Thereof SME	85,108	74,680	70,188	4,492	0	0	10,429
Thereof Corporates	962	961	961	0	0	0	0
Thereof Others	56,300	47,993	46,235	1,758	0	0	8,307
Assets held for trading - fixed-income securities	486	0	0	0	0	0	486
At fair value	486	0	0	0	0	0	486
Financial investments	2,381,743	0	0	0	336	0	2,381,407
At amortised costs	2,297,529	0	0	0	336	0	2,297,193
At fair value	84,214	0	0	0	0	0	84,214
Contingent liabilities	764,832	324,102	236,614	87,488	0	10,926	429,805
Credit risks	3,396,504	0	0	0	0	8,989	3,387,515
Total	**35,359,413**	**19,639,861**	**17,413,413**	**2,226,448**	**273,724**	**19,915**	**15,425,913**

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

Acquisition of real estate collaterals

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

Development of the netting positions

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

31 Dec 2021 Euro thousand Derivatives	Assets	Liabilities	Net values
Banking book	75,564	-232,581	-157,017
Trading book	38,206	-87,322	-49,115
Cash collaterals	**Pledged**	**Received**	**Net values**
Banking book	246,937	-26,956	219,982
Total			**13,849**

31 Dec 2020	Assets	Liabilities	Net values
Banking book	115,361	-364,074	-248,712
Trading book	52,657	-128,356	-75,699
Cash collaterals	**Pledged**	**Received**	**Net values**
Banking book	387,903	-45,040	342,864
Total			**18,452**

c) Market risk

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

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

Interest rate risk in the banking book

Interest rate risks emerge primarily through term transformation, which arises from different fixed interest rates between assets and liabilities. The Association of Volksbanks pursues a strategy of positive term transformation, which represents a source of income in the form of the structural contribution within net interest income, as the fixed interest period of the assets is longer on average and hence the interest rate is higher than that of the liabilities. The interest rate position basically results from retail banking, in which assets with longer interest rate periods were built up through fixed-interest loans. The strategy is aimed at gradually developing a rolling fixed-interest position over several years.

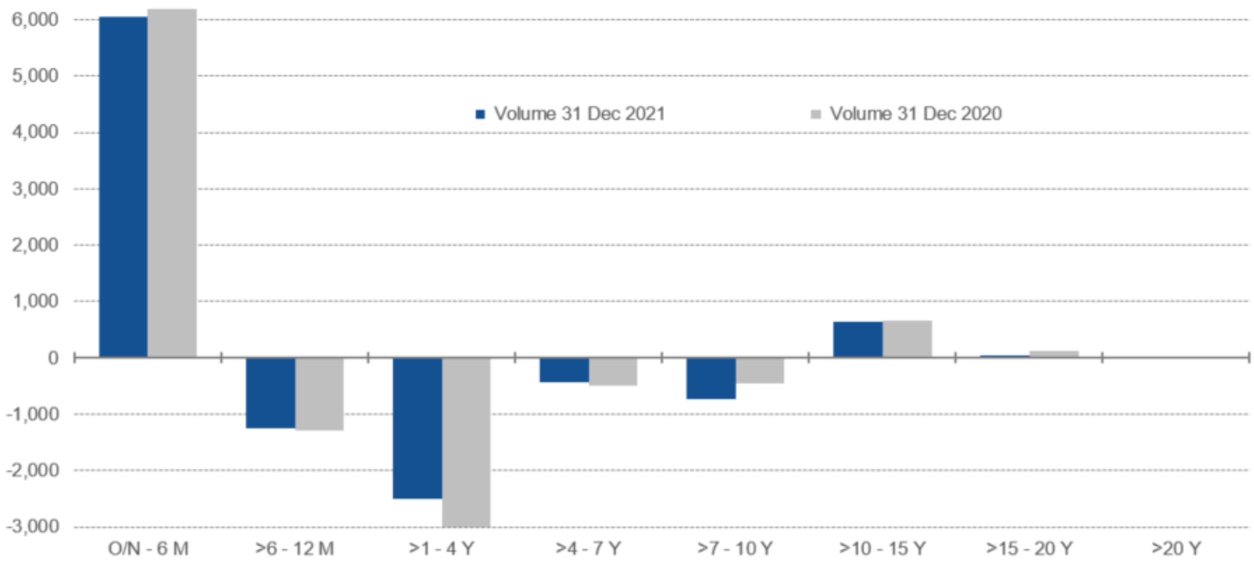
The interest rate risk in the banking book comprises all interest-bearing transactions reported and not reported in the balance sheet, except for transactions in the trading book. The interest rate risk position associated with the retail business of the Association of Volksbanks mainly arises from index-linked loans and loans with fixed interest rates, and from non-maturing deposits in the form of sight and savings deposits, as well as from implicit floors, in both the assets side and the liabilities side retail business. Other decisive factors are bond positions of the bank's own portfolio, own issues and the interest-rate swaps used to control the interest rate position. Retail business without fixed interest rates is included in interest rate risk modelling by way of replication assumptions, in order to show price sensitivity to interest rate changes (e.g. for sight/savings deposits, current account overdrafts, loans "until further notice" etc.). In hedge accounting, both layer hedges for fixed-interest loan portfolios and cash flow hedges for index-linked loan portfolios can be used. Micro hedges for securities positions, issues and individual loans can also be used.

The Association of Volksbanks consistently shows a positive interest term transformation in 2021 in line with the strategy. In 2021, the present-value interest rate risk, measured using the OeNB interest rate risk coefficient (according to VERA reporting), ranged between 2 % and 6 % of own funds in 2021, and hence was clearly below the regulatory outlier definition of 20 %. Accordingly, the EBA interest rate risk coefficient (according to the EBA GL on interest rate risk) was between 6 % and 8 %, hence equally well below the reportable threshold of 15 %, in 2021. The EBA coefficient represents the bottleneck factor in the control system and is therefore the strategic RAS indicator.

The EBA coefficient showed a sideways movement in 2021. Volatility arose mainly from the usual payment and fixing effects and from fluctuations in interest rates. The additional present value exposure from continued fixed-rate loan growth was offset primarily by an increase in deposits, a shortened fixed interest rate period, an increase in interest rates, and higher Tier 1 capital. Ever since the model extension of the interest rate replicates to include interest rate floors in 2020, the coefficient has been less volatile, as it is now much less dependent on the interest rate level.

The interest income risk still consists in falling interest rates, especially short-term interest rates. It is relatively low due to the already very low interest rate level, as the EBA scenarios used are limited in the event of further interest rate cuts. It amounted to euro 21 million as at 31 December 2021 (as at 31 December 2020: euro 23 million).

Interest rate gap of the Association of Volksbanks as at 31 Dec 2021



A distinguishing feature of the interest rate gap is the large asset overhang (net) in the first maturity band, which mainly arises through the index-linked loan portfolio. In the long-term range of more than 10 years, asset overhangs result from fixed-interest loans. In the maturity bands up to 10 years, the interest rate replicates of customer deposits largely result in a liability. The Asset Liability Committee (ALCO) of the CO is responsible for controlling the interest rate position of the Association of Volksbanks within the scope of risk limits defined by Risk Control and approved by the Managing Board via the risk strategy. The ALCO is convened monthly at the CO or ad hoc as required. The Asset Liability Management (ALM) function of the CO, which belongs to the Treasury function in organisational terms, is responsible for the management of the ALCO. Proposed measures to control the interest rate position are worked out by ALM in co-operation with Risk Control and the local ALCOs of the affiliated banks. Interest rate risk reporting within the ALCO is taken care of by the Market and Liquidity Risk department of the CO. Interest rate risk is controlled both under a present-value perspective and under a periodic/income statement perspective. In doing so, implicit floors in retail banking are also taken into account in both perspectives, as said floors constitute material risk drivers and contribute to net interest income, considering the currently low interest rate level.

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

Due to the high proportion of positions with indefinite interest rate periods within the balance sheet, replication modelling has a significant impact on the measurement of interest rate risk, in particular present value interest rate risk measurement. In both perspectives (present value and periodic), positions with indefinite interest rate periods (e.g. in the form of sight deposits and current account facilities) are included consistently in the risk measurement process by assuming replication and/or rolling. The assumptions are determined on the basis of statistical analyses and modelling assumptions. Modelling aims to describe the development of customer interest rates depending on market interest rates. This is done on the basis of historically observed correlations between customer interest rates and market interest rates. Embedded interest rate floors in retail business are also included in this modelling, e.g. also for savings deposits and current account facilities, provided that their interest rates cannot fall below 0 % due to Austrian Supreme Court rulings.

Concentration risk

No concentration risks exist within interest rate risk.

Credit spread risk

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

The transactions relevant to credit spread risk are own investments on the capital market. These include bonds and bonded loans. This portfolio is primarily held as a liquidity buffer, centrally at VBW, and is therefore mainly invested in public sector bonds of European countries with good credit ratings and in covered bonds. It is eligible for the regulatory liquidity coverage ratio (LCR) for the major part. CDS and fund positions would also have to be included, but currently do not exist within the Association. Loans and receivables customers are not considered in credit spread risk.

Risk measurement is mainly effected via credit spread VaR and sensitivity to any increase in credit spreads by 100 bps. The calculation of the credit spread VaR is based on a historical simulation for a 99.9 % confidence level. In the process, the portfolio is divided into 25 risk clusters, depending on credit rating, branch of industry, type of product and seniority. The VaR is included in the ICAAP as part of the risk-bearing capacity calculation. Reporting takes place monthly within the ALCO and is part of the aggregate bank risk report.

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

The following risk indicators are derived for the Association

31 Dec 2021 Euro thousand	Amortised cost	100 basis points-shift Fair value through OCI	Fair value through profit or loss	Total
Section 30a of the Austrian Banking Act	-138,583	-2,986	-182	-141,750
31 Dec 2020				
Section 30a of the Austrian Banking Act	-169,999	-2,635	-1,546	-174,180

Concentration risk

Concentration risks within credit spread risk can arise at the level of issuers or risk clusters in case of similar issuers. These risk clusters are reported in the ALCO. As at 31 December 2021, the biggest concentrations currently exist in the covered bonds risk cluster and in the Republic of Austria risk cluster. Concentrations with individual issuers are limited by the issuer lines within credit risk.

Portfolio distribution by credit rating

Euro thousand	31 Dec 2021	31 Dec 2020
Risk category 1 (1A - 1E)	2,056,542	2,045,291
Risk category 2 (2A - 2E)	303,241	485,389
Risk category 3 (3A - 3E)	1	808
Risk category 4 (4A - 4E)	0	0
Risk category 5 (5A - 5E)	0	0
Risk category 6 (NR)	0	0
Total	**2,359,784**	**2,531,488**

10 A-Depot Risk Cluster

31 Dec 2021 Euro thousand	Amortised cost Carrying amount	Fair value through OCI Carrying amount	Fair value through profit or loss Carrying amount	Total Carrying amount
Covered EUR AAA	1,064,867	32,516	0	1,097,383
Sovereigns Austria	573,023	27,525	0	600,548
Sovereigns Poland	67,793	0	0	67,793
Other Sovereigns EUR AA	66,870	0	0	66,870
Sovereigns France	66,608	0	0	66,608
Sovereigns Belgium	63,072	0	0	63,072
Sovereigns Portugal	56,994	0	0	56,994
Sovereigns Spain	53,483	0	0	53,483
Sovereigns Germany	48,440	0	0	48,440
Sovereigns Slovakia	45,598	0	0	45,598
Carrying amount < EUR 40,000 thousand	168,921	20,879	3,197	192,997
Total	**2,275,668**	**80,920**	**3,197**	**2,359,784**
31 Dec 2020				
Covered EUR AAA	961,527	35,553	0	997,080
Sovereigns Austria	627,777	15,130	24,345	667,252
Sovereigns Italy	172,551	0	0	172,551
Sovereigns Poland	74,771	0	0	74,771
Other Sovereigns EUR AA	72,102	0	0	72,102
Sovereigns Belgium	67,541	0	0	67,541
Sovereigns France	62,757	0	0	62,757
Sovereigns Portugal	61,976	0	0	61,976
Sovereigns Spain	59,199	0	0	59,199
Sovereigns Slovakia	46,083	0	0	46,083
Carrying amount < EUR 40,000 thousand	224,069	21,344	4,763	250,177
Total	**2,430,352**	**72,027**	**29,109**	**2,531,488**

Portfolio structure according to IFRS 9 categories

31 Dec 2021 Euro thousand	Bond	Syndicated loan & SSD	Fund & Equity	Total
Amortised cost	2,275,668	0	0	2,275,668
Fair value through OCI	80,920	0	0	80,920
Fair value through profit or loss	3,197	0	0	3,197
Total	**2,359,784**	**0**	**0**	**2,359,784**
31 Dec 2020				
Amortised cost	2,430,352	0	0	2,430,352
Fair value through OCI	72,027	0	0	72,027
Fair value through profit or loss	4,962	0	24,147	29,109
Total	**2,507,341**	**0**	**24,147**	**2,531,488**

Market risk in the trading book

The market risk in the trading book of the Association of Volksbanks is of subordinate importance. The trading book of the Association of Volksbanks is kept centrally at the CO. The main function of the trading book is that of a transformer, where smaller batches from retail banking are collected and dynamically hedged in the market. Additionally, Treasury takes market risks within the scope of the limits approved, in order to produce corresponding income. The trading book volume is permanently below the regulatory threshold of euro 500 million (Art. 325 CRR).

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

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

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

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

Euro thousand	Interest +1 basis point	Interest volatility +1 %	Credit spread +1 basis
31 Dec 2021			
Trading book	5	-9	0
31 Dec 2020			
Trading book	1	-6	-1

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

Foreign exchange risk (open FX positions)

The foreign exchange risk from open FX positions is immaterial within the Association of Volksbanks. It arises due to changes of the value of outstanding receivables and liabilities in foreign currencies through exchange rate fluctuations. It is minimised by Treasury as part of liquidity management.

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

Currency Euro thousand	31 Dec 2021	31 Dec 2020
CHF	-655	889
USD	-110	216
CZK	81	-201
JPY	25	-35
GBP	19	15
Others	1,749	527
Total	**1,110**	**1,411**

Other valuation risks (IFRS fair value change)

Measurement risks arise through receivables that do not meet the SPPI criteria and must accordingly be classified as fair value through P&L and are subject to measurement. Due to fair value fluctuations of these receivables, this causes an IFRS effect on the income statement. Standard risk costs and liquidity costs are taken into account in the measurement of these receivables. The remaining components are summarised in one factor (epsilon factor) upon conclusion of the deal, and frozen for subsequent measurement. This measurement risk is considerd in the risk-bearing capacity calculation and the internal stress test within the scope of ICAAP. Reporting takes place monthly within the ALCO.

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

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

31 Dec 2021 EUR Tsd.	Markt liquidity costs +10 basis points	Interest rate +10 basis points
Fair value through profit or loss - loans and receivables	-1,490	-414

d) Liquidity risk

As the CO of the Association of Volksbanks, VBW is responsible for liquidity management across the entire Association. The affiliated banks cover their refinancing requirements and invest their excess liquidity via VBW.

The most important source of refinancing of the Association of Volksbanks consists of customer deposits, which have proven to be a stable source of funding in the past. Naturally, this creates the major part of the liquidity risk. The capital market offers VBW additional opportunities for refinancing through securities issues, mainly covered bonds. The stability of customer deposits has become apparent again during the coronavirus crisis, in the course of which the portfolio has actually grown. The coronavirus crisis had no negative impact on the liquidity position of the Association. The dependence of the Association of Volksbanks on capital market funding remains relatively low at less than 20 % of total assets. VBW is the only bank within the Association that has access to the ECB/OeNB and can therefore refinance itself via central bank funds.

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

The risk measurement and limitation of illiquidity risk is effected through the regulatory indicators LCR and NSFR, the survival period from internal liquidity stress testing, and through additional operational indicators. The LCR aims to ensure the short-term financial solvency of banks under stressed conditions over a short-term horizon of 30 calendar days. The NSFR limits the liquidity term transformation by determining a minimum of stable refinancing, depending on the liquidity characteristics of the assets and other (off-balance sheet) operations of a bank. The survival period is the period during which, under a given stress scenario, the liquidity buffer held is sufficient to cover cumulated net liquidity outflows. Currently, stress scenarios of varying degrees of severity are calculated. The scenario assumptions include a crisis of the Volksbank sector, a national banking crisis and pan-European stressed market conditions. The least favourable of the scenarios calculated is applied to the survival period. The ratios are calculated on a monthly basis and, additionally, the LCR and the operating indicators on a weekly basis. The funding risk is measured by way of a scenario analysis that takes into account the effect on funding costs, considering general planning uncertainties and adverse idiosyncratic conditions. These calculations provide input to the ICAAP as well as to the stress testing activities across the Association.

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

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

Regulatory liquidity ratios LCR, NSFR and survival period in 2021:

The good liquidity position manifests itself in an LCR of 224 % as at 31 December 2021 (2020: 194 %). The NSFR of 138 % as at 31 December 2021 (2020: 141 %) also shows a solid liquidity structure in the long term. In 2021, both indicators were always clearly above the internal limits. The increase in LCR was mainly due to the inflow of deposits in the wake of the coronavirus crisis, the issuance of a senior non-preferred bond and the further utilization of TLTRO III. The decrease in NSFR was mainly due to method adjustments in the wake of the implementation of CRR II and the approaching assumed redemption of TLTRO III. In 2021, the survival period consistently exceeded 150 days, and was thus also clearly above internal limits.

Concentration risk

Due to diversified funding through customer deposits, concentration risk is not material. Risk clusters might occur at customer level. Accordingly, the largest deposits at customer level are monitored both in Risk Control and also within operational liquidity management. Generally, they amount to less than 1 % of total assets. There are only a few temporary exceptions with a few large customers for payment transactions or balancing out liquidity peaks. These deposits are regularly monitored and reported on within the scope of liquidity risk management.

Operational liquidity management

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

- Cash management (settlement of all transactions of the Association as well as disposition of the banking connections maintained by VBW)
- Collateral management: ECB-eligible collaterals of the Association (bonds and credit claims)
- Planning of issuance activities
- Daily liquidity forecast for the following 31 days, and weekly for the following 12 months
- Monitoring of refinancing positions of the Association of Volksbanks, and the control system put into effect by VBW as CO with the approval under section 30a Austrian Banking Act, for the affiliated banks – a.o. liquidity reports, refinancing management, utilisation of collaterals, early warning system
- Compliance with minimum reserve regulations for the Association of Volksbanks
- Reporting to the CO Managing Board and to the ALCO
- Daily liquidity reporting of affiliated banks and ALCO reports
- Monitoring of Asset Encumbrance Ratio

e) Operational risk

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

Organisation

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

Methods for the management of operational risks

Within the scope of operational risk management, both quantitative and qualitative methods are used. Quantitative elements are – for instance – the execution of risk analyses, the performance of stress tests, the determination and monitoring of risk appetite and of the risk indicators, the preparation of the operational risk event database, as well as risk reporting. Qualitative control measures comprise the implementation of training events, awareness building measures, risk analyses, root cause analysis as part of the operational risk event database, the implementation of uniform ICS checks, as well as risk reporting.

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

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

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

Internal control system

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

f) Other risks

In terms of other risks, the Association of Volksbanks is confronted with strategic, equity, direct real estate, model, as well as earnings and cost risk, and ESG risks.

Strategic risk is the risk of negative effects on capital and earnings due to business policy decisions or insufficient adjustment to changes of the economic environment.

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

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

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

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

Non-standard risks and/or non-financial risks (conduct risks, compliance risks, legal risks, model risks, as well as IT and system risks, outsourcing risks) are taken into account, among others, in the compliance framework and the framework for operational risks, and in the outsourcing framework.

ESG risks refer to events or conditions affecting the climate, the environment, social affairs or corporate governance, the occurrence of which could have an actual or potential negative impact on the value of assets or on the net assets, financial position and earnings situation, as well as the reputation of the Association of Volksbanks. Organisational and process-based measures, in particular, have been implemented to manage other risks. ESG risks are mapped within existing risk categories.

52) Fully consolidated companies[1)]

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
3V-Immobilien Errichtungs-GmbH; Wien	HD	100.00 %	100.00 %	35
BBG Beratungs- und Beteiligungsgesellschaft m.b.H.; Salzburg	HD	100.00 %	100.00 %	40
Domus IC Leasinggesellschaft m.b.H.; Salzburg	HD	100.00 %	100.00 %	18
Gärtnerbank Immobilien GmbH; Wien	HD	100.00 %	100.00 %	35
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Wien	HD	100.00 %	100.00 %	35
VB Aktivmanagement GmbH; Klagenfurt	HO	100.00 %	100.00 %	35
VB Buchführung GmbH; Klagenfurt am Wörthersee	HD	100.00 %	100.00 %	36
VB Infrastruktur und Immobilien GmbH; Wien	HD	100.00 %	100.00 %	35
VB Kärnten Leasing GmbH; Klagenfurt	FI	100.00 %	100.00 %	634
VB Rückzahlungsgesellschaft mbH; Wien	HO	100.00 %	100.00 %	35
VB Services für Banken Ges.m.b.H.; Wien	HD	100.00 %	100.00 %	327
VB Verbund-Beteiligung Region Wien eG in Liqu.; Wien	HO	90.64 %	90.64 %	3,838
VB-Immobilienverwaltungs- und -vermittlungs GmbH; Klagenfurt	HD	100.00 %	100.00 %	73
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	HD	99.00 %	99.00 %	36
Volksbank Salzburg Leasing Gesellschaft m.b.H.; Salzburg	FI	100.00 %	100.00 %	73
Volksbank Vorarlberg Leasing GmbH; Rankweil	FI	100.00 %	100.00 %	37
Volksbank Vorarlberg Marketing- und Beteiligungs GmbH; Rankweil	HD	100.00 %	100.00 %	36
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Wien	FI	100.00 %	100.00 %	872

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

53) Companies measured at equity

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
VB Verbund-Beteiligung eG; Wien	HO	77.73 %	77.73 %	51,804
VBW eins Beteiligung eG; Wien	HO	77.64 %	77.64 %	14,310

54) Companies included

Company names and headquarters	Type*	Nominal capital in euro thousand
Österreichische Ärzte- und Apothekerbank AG; Wien	KI	20,723
Volksbank Kärnten eG; Klagenfurt	KI	33,535
Volksbank Niederösterreich AG; St. Pölten	KI	27,203
Volksbank Oberösterreich AG; Wels	KI	21,596
Volksbank Salzburg eG; Salzburg	KI	13,424
Volksbank Steiermark AG; Graz	KI	69,504
Volksbank Tirol AG; Innsbruck	KI	20,430
VOLKSBANK VORARLBERG e. Gen.; Rankweil	KI	1,651
VOLKSBANK WIEN AG; Wien	KI	137,547

55) Unconsolidated affiliated companies

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
"VB-Real" Projektentwicklungs Gesellschaft m.b.H.; Wels	HD	100.00 %	100.00 %	500
ARZ-Volksbanken Holding GmbH; Wien	HO	99.64 %	99.64 %	256
Atlas Beteiligungsgesellschaft mbH. in Liqu.; Feldkirchen (Ktn.)	SO	65.00 %	65.00 %	87
Immobilien Besitz- und Verwertungsgesellschaft mbH; Judenburg	HD	100.00 %	100.00 %	35
Meinhardgarage Gesellschaft m.b.H.; Innsbruck	SO	100.00 %	100.00 %	50
Meinhardgarage Gesellschaft m.b.H. & Co. KG; Innsbruck	SO	100.00 %	100.00 %	210
Nordfinanz Vermögensberatung GmbH; Heidenreichstein	SO	99.99 %	99.99 %	150
REALCONSTANT Liegenschaftsverwertungs-Ges.m.b.H.; St. Pölten	SO	99.90 %	99.90 %	73
Resort Errichtungs- und Betriebsges.m.b.H.; Heidenreichstein	SO	99.76 %	99.76 %	42
UVB-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
V.I.P. Volksbank Immobilienprojekte VOBA Treuhand- und VerwaltungsgesellschaftmbH & Co KG; Salzburg	SO	100.00 %	100.00 %	7
VB - REAL Volksbank NÖ GmbH; Krems an der Donau	SO	100.00 %	100.00 %	727
VB ManagementBeratung GmbH; Wien	SO	100.00 %	100.00 %	36
VB Realitäten Gesellschaft m.b.H.; Klagenfurt am Wörthersee	SO	100.00 %	100.00 %	36
VBKA-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
VBKS Leasing d.o.o.; Kranj	HD	100.00 %	100.00 %	542
VOBA Treuhand- und Verwaltungsgesellschaft mbH; Salzburg	SO	100.00 %	100.00 %	37
Volksbank Salzburg Immobilien GmbH; Salzburg	SO	100.00 %	100.00 %	35
Volksbank Tirol Versicherungsservice GmbH; Innsbruck	SO	100.00 %	100.00 %	50
Volksbank Vorarlberg Immobilien GmbH & Co OG; Dornbirn	SO	100.00 %	100.00 %	109
VVB Liegenschaftsvermietungsgesellschaft mbH & Co KG; Rankweil	HD	100.00 %	100.00 %	10
Wohn + Wert Realitäten GmbH; Graz	HD	100.00 %	100.00 %	100

*Abbreviations type

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

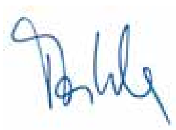
Vienna, 10 March 2022

Gerald Fleischmann
Chairman of the Managing Board

Retail Branches, Communication/Marketing, Organisation & IT, HR Management,
Private Banking/Treasury, Corporate and Real Estate Financing, Sales Management

Rainer Borns
Deputy Chairman of the Managing Board

Control, Financial Data Steering, Finance, Legal, VB Infrastruktur und Immobilien GmbH



Thomas Uher
Deputy Chairman of the Managing Board

Digital Transformation, Credit Risk Management, Restructuring & Recovery, Risk Controlling,
VB Services für Banken Ges.m.b.H.

Area of responsibility Joint Managing Board
Compliance, Audit

AUDITOR’S REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE BANKING ASSOCIATION

Audit Opinion

We have audited the Consolidated Financial Statements of the Banking Association according to section 30a of the Austrian Banking Act ("Consolidated Financial Statements of the Banking Association") of

VOLKSBANK WIEN AG,
Vienna,

as the central organization and the assigned member credit institutions ("Banking Association"), which comprise the Banking Association´s consolidated Statement of Financial Position as at 31 December 2021, the consolidated Statement of Comprehensive Income, the consolidated Statement of Changes in Equity and consolidated Statement of Cash Flows for the year then ended, and the Notes to the consolidated Financial Statements.

In our opinion, the consolidated financial statements of the Banking Association present fairly, in all material respects, the consolidated financial position of the Banking Association as at 31 December 2021, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the accounting and valuation principles described in the Framework of Rules for the preparation of consolidated financial statements of the Banking Association 2021.

Basis for our Opinion

We conducted our audit in accordance with the Austrian Standards on Auditing which require the audit to be conducted in accordance with International Standards on Auditing (ISAs) and voluntarily in accordance with ISA 701. Our responsibilities under those standards are further described in the „Banking Association's Auditor´s Responsibilities" section of our report. The Regulation (EU) No 537/2014 on specific requirements for the audit for public interest entities is not applicable to the audit of the consolidated financial statements of the Banking Association. We are independent of the audited Banking Association in accordance with Austrian company law, banking law and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained up to the date of the auditor's report is sufficient and appropriate to provide a basis for our audit opinion on this date.

Emphasis of matter

We would emphasize in particular,
- that the consolidated financial statements of the Banking Association were prepared in accordance with the Framework of Rules for the preparation of consolidated financial statements of the Banking Association 2021 and
- their only purpose is to assist VOLKSBANK WIEN AG to meet the regulatory requirements and they shall not be used for any other purpose.

Our opinion is not modified in respect of these matters.

Key Audit Matters

According to ISA 701 key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the Banking Association. These matters were addressed in the context of our audit of the consolidated financial statements of the Banking Association as a whole, however, we do not provide a separate opinion thereon.

AUDITOR'S REPORT

Valuation of receivables from customers at amortised cost

Risk for the consolidated financial statements

Receivables from customers at amortised cost („receivables from customers") amount to EUR 21,309.1 million in the consolidated statement of financial position of the Banking Association. The Managing Board of VOLKSBANK WIEN AG describes the approach to determine loan loss provisions in Notes 3o, 3p and 51b of the Notes to the consolidated financial statements of the Banking Association.

As part of monitoring receivables from customers, it is evaluated whether a loan loss provision needs to be recognized. This includes evaluating whether customers are able to meet the contractual repayment obligation in full.

The calculation of loan loss provisions for individually significant defaulted receivables from customers is based on an analysis of the expected and scenario weighted future repayments. This analysis is subject to the assessment of the economic condition and performance of the respective customer, the evaluation of collateral and an estimate of the amount and timing of the repayments derived therefrom.

For defaulted receivables from customers not individually significant, the calculation of the loan loss provisions is based on statistically determined common risk attributes. These loan loss provisions are calculated based on the default stage and the exisiting collateral using statistical loss given default. Loss given default is derived from internally calculated and externally obtained default information.

For non-defaulted receivables from customers, a loan loss provision is recognized for the expected credit loss („ECL"). Generally, the 12-month ECL (stage 1) is used for this loan loss provision. In case the credit risk has increased significantly (stage 2), ECL is calculated based on lifetime expected credit loss. The determination of ECL requires extensive estimation and assumptions. These comprise rating-based probabilities of default and loss given default, which take information about current conditions and forecasts of future economic conditions into account. In order to adequately take the COVID-19 crisis into account, a post model adjustment amounting to the additionally estimated effects was made to the initial result for the first time in 2020 which was adjusted in 2021.

This results in the risk for the consolidated financial statements of the Banking Association that after considering above named factors, such as the transfer between stages, the calculation of loan loss provisions taking the post model adjustment into account, is subject to significant estimation and assumptions, resulting in room for discretion as well as estimation uncertainty in respect of the amount of the loan loss provisions.

Our response

In testing the recoverability of receivables from customers we performed the following significant procedures:

- We analysed the process documentation and internal guidelines regarding the monitoring and recognition of loan loss provisions and evaluated whether they are suitable to identify events of default and to adequately determine the recoverability of these receivables from customers. We compiled the relevant key controls, assessed their design and implementation, and tested their effectiveness on a sample basis. Additionally, we tested the operating effectiveness of individual automated controls over IT systems on which the calculation model is based in cooperation with internal IT auditors.
- On a sample basis selected from different portfolios, we evaluated whether evidence of credit default exists. Sampling was performed risk-oriented, subject to special consideration of rating levels and industries with increased default risk.
- In case of default of individually significant receivables from customers, the underlying assumptions were tested for conclusiveness, consistency as well as timing and amount of the expected repayments.
- For receivables from customers individually not significant and non-defaulted for which the loan loss provisions are calculated statistically, we analysed the documentation of the applied method for consistency with the requirements of IFRS 9. Additionally, we evaluated, based on the internal validation, the models and parameters used therein as to whether they are suitable to determine loan loss provisions in adequate amounts. In particular, we assessed the effects of the COVID-19 pandemic on the method used to determine the default probabilities. Furthermore, we analysed the selection and measurement of estimates and scenarios concerning the future and verified their use in the estimation of parameters. We evaluated the derivation and rationale of the post model adjustment, as well as the underlying assumptions regarding their appropriateness. We tested the mathematical accuracy and completeness of the loan loss provisions by recalculating the statistically calculated loan loss provisions for all receivables from

AUDITOR'S REPORT

customers subject to credit risk on a simplified basis. We performed these procedures in cooperation with our financial mathematicians as specialists.

Recognition of deferred tax assets on tax loss carryforwards

Risk for the consolidated financial statements

The deferred tax assets on tax loss carryforwards based on future expected taxable income amounting to EUR 8.8 million in the consolidated statement of financial position of the Banking Association. The Managing Board of VOLKSBANK WIEN AG describes the approach to recognize deferred tax assets in Notes 3v and 22 of the Notes to the consolidated financial statements of the Banking Association.

Recognition of deferred tax assets on tax loss carryforwards highly depends on estimates made by the Managing Board in respect of the future availability of sufficient taxable profit and the reversal of deferred tax liabilities. The assessment of the realisation of tax loss carryforwards, mainly in VOLKSBANK WIEN AG, is based on forecasts and is subject to uncertainties and therefore represents a risk to the consolidated financial statements of the Banking Association.

Our response

- We evaluated the assumptions underlying the forecast of future taxable profit on which deferred tax assets are expected to be realised, for traceability and plausibility. For this purpose, we compared the key input parameters for the forecast of future taxable profit with internal budgeting and with an externally prepared valuation report of VOLKSBANK WIEN AG as of 31 December 2021.
- We assessed the appropriateness of the assumptions made by using externally available data, such as macroeconomic forecasts, and the past results in respect of their planning accuracy. For these procedures, we consulted our valuation specialists.

Other Information

Management is responsible for other information. Other information is all information provided in the annual report (Banking Association's report), other than the consolidated financial statements of the Banking Association, the Banking Association´s management report and the auditor's report. We expect the annual report (Banking Association´s report) to be provided to us after the date of the auditor's report.

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements of the Banking Association in accordance with the Framework of Rules for the preparation of the consolidated financial statements of the Banking Association 2021 and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements of the Banking Association that are free from material misstatement, whether due to fraud or error.

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

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

AUDITOR'S REPORT

Banking Association´s Auditor's Responsibilities

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

As part of an audit in accordance with the Austrian Standards on Auditing, which require the audit to be conducted in accordance with ISAs, and voluntarily in accordance with ISA 701, we exercise professional judgment and maintain professional skepticism throughout the audit.

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

AUDITOR'S REPORT

Report on Other Legal Requirements

Banking Association´s Management Report

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

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

We have conducted our audit in accordance with generally accepted standards on the audit of Banking Association´s management reports.

Opinion

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

Statement

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

Engagement Partner

The engagement partner of the audit of the consolidated financial statements of the Banking Association is Mr Walter Reiffenstuhl.

Restriction of use

Our report may not be used for any other purpose than to comply with regulatory requirements. Therefore we shall not be liable for any third party claims.

This report or parts of it may not be made available to any third party without our explicit consent.

Vienna, 10 March 2022

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Walter Reiffenstuhl
Wirtschaftsprüfer
(Austrian Chartered Accountant)

This report is a translation of the original report in German, which is solely valid.

TERMINOLOGY AND IMPRINT

TERMINOLOGY

Association of Volksbanks
The Association of Volksbanks includes the primary banks as well as VBVM (Volksbank Vertriebs- und Marketing eG).

Banking association in accordance with section 30a of the Austrian Banking Act (BWG)
The banking association comprises the primary banks as associated banking institutions and VOLKSBANK WIEN AG as the central organisation.

Primary banks
8 regional Volksbanks, 1 specialist bank (Österreichische Ärzte- und Apothekerbank AG)

VOLKSBANK WIEN AG
is one of the regional Volksbanks and also the central organisation of the banking association.

Austrian Cooperative Association
Within the Association of Volksbanks, auditing and the representation of interests are effected by Österreichischer Genossenschaftsverband (Schulze-Delitzsch) [Austrian Cooperative Association] – ÖGV in brief. Moreover, since the beginning of 2019, pursuant to the BWG, the ÖGV has been responsible for the early warning of risks regarding its members, together with Einlagensicherung Austria.

IMPRINT

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Any role discriptions in this consolidated annual report that are used only in the
masculine form apply analogously to the feminine form.