VOLKSBANK WIEN

RESPONSIBILITY FOR SUSTAINABLE PROSPERITY IN THE REGION.

ANNUAL FINANCIAL REPORT 2021

KEY FIGURES OF VOLKSBANK WIEN AG

Euro million	31 Dec 2021	31 Dec 2020	31 Dec 2019
Statement of financial position			
Total assets	**16,925**	**14,281**	**12,704**
Loans and receivables customers	**5,396**	**5,372**	**5,471**
Amounts owed to customers	**6,922**	**6,637**	**6,439**
Debts evidenced by certificates	**1,908**	**1,464**	**1,453**
Subordinated liabilities	**403**	**407**	**418**
Own funds according to Basel III for the Volksbank Wien AG group			
Common equity tier 1 capital (CET1)	648	656	625
Additional tier 1 capital (AT1)	220	220	220
Tier 1 capital (T1)	**868**	**876**	**845**
Tier 2 capital (T2)	400	401	406
Own funds	**1,267**	**1,277**	**1,251**
Risk weighted exposure amount - credit risk	3,228	3,288	3,538
Total risk exposure amount market risk	27	38	85
Total risk exposure amount operational risk	571	533	530
Total risk for credit valuation adjustment	9	50	44
Total risk exposure amount	**3,835**	**3,909**	**4,196**
Common equity tier 1 capital ratio	**16.9 %**	**16.8 %**	**14.9 %**
Tier 1 capital ratio	**22.6 %**	**22.4 %**	**20.1 %**
Equity ratio	**33.0 %**	**32.7 %**	**29.8 %**
Income statement	**1-12/2021**	**1-12/2020**	**1-12/2019**
Net interest income	126.0	116.2	120.0
Risk provision	16.6	-26.6	-7.2
Net fee and commission income	58.6	57.3	55.8
Net trading income	2.0	-1.3	-2.3
Result from financial instruments and investment properties	8.7	3.6	17.9
Other operating result	111.3	107.5	97.5
General administrative expenses	-212.0	-206.4	-213.5
Result from companies measured at equity	0.4	-0.1	-0.5
Result before taxes	**111.7**	**50.3**	**67.8**
Income taxes	-6.4	-19.5	-10.8
Result after taxes	**105.3**	**30.8**	**57.0**
Result attributable to non-controlling interest	0.0	0.0	0.0
Result of the Group	**105.3**	**30.8**	**57.0**
Key ratios	**1-12/2021**	**1-12/2020**	**1-12/2019**
Operating cost-income-ratio	**70.5 %**	**73.2 %**	**78.2 %**
ROE before taxes	**12.2 %**	**5.6 %**	**8.4 %**
ROE after taxes	**11.5 %**	**3.4 %**	**7.1 %**
ROE consolidated net income	**11.5 %**	**3.4 %**	**7.1 %**
Net interest margin	**0.7 %**	**0.8 %**	**0.9 %**
NPL ratio	**1.7 %**	**2.0 %**	**2.2 %**
Leverage ratio	**5.7 %**	**5.7 %**	**5.9 %**
Net stable funding ratio	**189.8 %**	**146.2 %**	**130.5 %**
Liquidity Coverage Ratio	**249.8 %**	**206.0 %**	**153.2 %**
Loan deposit ratio	**66.6 %**	**67.8 %**	**71.5 %**
Coverage ratio I	**35.8 %**	**37.4 %**	**30.5 %**
Coverage ratio III	**106.1 %**	**105.6 %**	**100.1 %**
Resources	**1-12/2021**	**1-12/2020**	**1-12/2019**
Staff average	**1,293**	**1,272**	**1,279**
Thereof domestic	1,293	1,272	1,279
	31 Dec 2021	**31 Dec 2020**	**31 Dec 2019**
Staff at end of period	**1,270**	**1,302**	**1,268**
Thereof domestic	1,270	1,302	1,268
Number of branches	**56**	**58**	**63**
Thereof domestic	56	58	63
Number of customers	**324,921**	**333,382**	**344,202**

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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VOLKSBANK WIEN AG

GROUP MANAGEMENT REPORT

FOREWORD BY THE CHIEF EXECUTIVE OFFICER

Gerald Fleischmann

CEO and Chairman
of the Managing Board

VOLKSBANK WIEN AG has made a lot of progress in 2021, both as the largest regional bank among Austrian Volksbanks and in its function as the central organisation for the entire Association of Volksbanks in Austria.

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

The several waves of the coronavirus pandemic and the resulting organisational and economic consequences constituted the biggest challenge in 2021. VOLKSBANK WIEN AG managed to maintain stable current operations at all times, all retail branches remained open throughout the year. Apart from current operations, important strategic projects, in particular with respect to the organisation of the Association and to digitisation, were continued in spite of the restrictions.

Beyond the pandemic, VOLKSBANK WIEN AG, just like the financial sector as a whole, was facing big challenges in 2021, due to the low interest rate environment and high regulatory requirements. By simplifying the business model, we aim at achieving further efficiency increases in the medium term. The bank focuses on the core areas of deposits, loans and payment transactions. In the service business with consumer credits, insurances, securities, leasing, building society savings and other areas, VOLKSBANK WIEN AG sells products sourced from top-quality partners with excellent expertise in these areas, such as TeamBank, the ERGO insurance company, and Union Investment.

Special innovations in 2021 included the early contract extension with ERGO Versicherung to lay the foundation for a longer-term growth offensive. As a result of the sale of the IMMO-CONTRACT Maklergesellschaft mbH Group, the in-house real estate broker of the Association of Volksbanks, to IVV Immobilien Verkauf und Vermietungs GmbH, we have concluded far-reaching agreements with the SORAVIA real estate group for cooperation in the field of real estate services for our retail business.

Service business with the product partners developed very positively. VOLKSBANK WIEN AG achieved very good sales figures of approx. euro 70 million in the previous year again within the scope of our cooperation – of several years already – with TeamBank in the area of consumer financing. In the sphere of investment funds, too, the sixth year of cooperation with Union Investment was very encouraging: the excellent products of this international investment company were highly appreciated by the Austrian market, with net sales amounting to more than euro 170 million in VOLKSBANK WIEN AG alone. The low interest rate environment as well as the uncertainties caused by the pandemic and its economic consequences have led customers to increasingly seek the professional advice of our experts for investment in securities. In addition, Union Investment's long-standing and recognised expertise in sustainable investments proved to be an advantage, as this topic has substantially gained in importance over the previous year.

The lending business was marked by the effects of the coronavirus crisis in 2021. With the exception of investments in the real estate sector, securing ongoing liquidity was an important issue for many companies. As in the previous year, the pandemic has hardly impacted the number of defaults in 2021 due to multiple government measures. But VOLKSBANK WIEN AG has started to work on the management of potential future scenarios together with its customers early on. There was strong demand from private and commercial market participants for real estate financing, as investments in real estate were in high demand due to economic uncertainties and extremely low interest rates.

The retail branches still constitute the primary sales channel of VOLKSBANK WIEN AG. The combination of individual branches ensures that a high level of competence is available at all locations, both in retail and in corporate banking. All measures taken within the branch and sales organisation are aimed at putting an even greater focus on the customer and the quality of the consultancy we provide. Obviously, this also includes continuous investments in the professional training and further development of our employees. It is one of our clear goals to further enhance consultancy standards. The "relationship bank of the future" sales concept introduced in 2020 has taken root during the last year. This significantly supports the assignment of customers to the account manager best suited to the task.

The digital world constitutes another important sales channel for all banks. Already five years ago, VOLKSBANK WIEN AG had responded to this development by introducing a new digital web presence. Due to the restrictions of movement, digitisation in retail banking made huge progress in 2021. We have significantly expanded the range of services we offer under the tag of "hausbanking". With numerous new product and service orders, customers can implement many additional tasks in their financial transactions digitally; the use of these additional functions almost doubled in the previous year alone.

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

Having consolidated liquidity and equity by way of three public issues and ECB refinancing in previous years, we took another step to safeguard the liquidity situation in 2021, through a euro 3.5 billion ECB refinancing loan. This enables us to properly fulfil our main function in economic terms, namely the financing of private individuals and businesses. The focus at Volksbank is on small- and medium-sized enterprises, in particular, which constitute a mainstay of the Austrian economy. Private customers appreciate the personal quality of our consultancy at eye level and the services tailored to their individual needs.

Together with the Volksbanks, we have again completed several projects in the previous year in order to bundle regulatory duties, control functions as well as internal handling services throughout Austria. This is meant to provide the Volksbanks, as retail banks, with more freedom to focus on retail business even more. Our fundamental values in this context are trust, regional dimensions and a customer focus. Within the new Association, VOLKSBANK WIEN AG assumes three functions: as retail bank in our catchment area, as service provider and as the central control unit for the entire Association. This is also reflected by the growth of our subsidiaries VB Services für Banken Ges.m.b.H. and VB Infrastruktur und Immobilien GmbH.

A project encompassing the entire bank was set up in order to implement ESG factors even more fully within Volksbank's core business. In the "Sustainability Project", measures were defined and systematically worked through by a strategy team and sustainability ambassadors of VOLKSBANK WIEN AG, and legal requirements were implemented jointly within the project.

The year 2021 was marked by numerous changes that have created many opportunities for the years to come. I would like to thank all employees, officers and owners for their enormous commitment. And I want to thank our customers especially, for their great loyalty to VOLKSBANK WIEN AG in the past year.

Vienna, March 2022

Gerald Fleischmann
CEO and Chairman of the Managing Board

REPORT OF THE SUPERVISORY BOARD

pursuant to section 96 of the Austrian Stock Corporation Act (Aktiengesetz) for the 2021 business year

Heribert Donnerbauer

Chairman
of the Supervisory Board

In four ordinary and two extraordinary meetings in the 2021 business year, in further discussions and numerous committee meetings, the Supervisory Board obtained information on the legality, expediency and efficiency of the management as well as on the situation, development and business strategy of the company. The Supervisory Board also discussed the topics that VOLKSBANK WIEN AG as the central organisation of the Association of Volksbanks is responsible for under Section 30a of the Austrian Banking Act.

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

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

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

The Working and Risk Committee held four meetings in 2021, as well as a number of conference calls, where the investments falling within its sphere of competence, as well as the risk topics, the risk strategy, and the current risk situation of the company and of the Association of Volksbanks were dealt with, especially also in the context of the coronavirus pandemic. Credit decisions were also taken by circular resolution by the Working and Risk Committee.

The Audit Committee held four meetings in 2021. Apart from the audit of the annual financial statements, the consolidated financial statements and the financial statements of the Association, especially the internal control system and the risk management system were discussed in these meetings, with regular reporting from Internal Audit and the Compliance Office.

In 2021, in three meetings, the Remuneration Committee dealt with the principles of remuneration policy and with the remuneration report of VOLKSBANK WIEN AG and of the Association of Volksbanks.

The Nomination Committee held one meeting in 2021, where the annual evaluation of the Managing Board and Supervisory Board members was effected, and an update of the Fit & Proper Policy of the company was approved.

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

In the 2021 business year, too, the Supervisory Board of VOLKSBANK WIEN AG and its committees held some of their meetings in virtual or hybrid form, making use of the legal facilitations due to the COVID-19 pandemic. VOLKSBANK WIEN AG's Annual General Meeting on 29 April 2021 was also held in virtual form.

Thus, the COVID-19 pandemic was a constant companion in the 2021 business year as well. This year, however, we again succeeded not only in maintaining orderly banking operations but also in exceeding earnings expectations by applying prudent and transparent rules.

Following the successful reorganisation of the Association of Volksbanks between 2015 and 2018, the Volksbanks are once again focusing on customer service and revenue growth. This enabled us to achieve a pleasing increase in net profit and the equity ratio in the past business year. The focus is now on the core business of a regional and sustainably oriented banking group. For this reason, the long-standing cooperations with the product partners of the Volksbanks have now been intensified. At the same time, investments are being made in continuously improving the service quality and optimising internal processes, and digital services are being further expanded. Similarly, continuously enhancing the consulting quality is a key concern.

The positive development of earnings and equity made it possible to repay a further tranche of the state aid amounting to euro 124 million on time. Repayment of the final tranche of euro 100 million is scheduled for 2023.

Another focus is now on the topic of sustainability, which is dealt with comprehensively – both in internal operations and when operating on the market – and which is addressed in a catalogue of goals.

The Supervisory Board and its committees received regular reports on all these topics and were able to obtain a clear view of the progress made in each case through exchanges with the Managing Board.

The annual financial statements as at 31 December 2021 including the management report were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (KPMG) and were given an unqualified audit certificate. The consolidated financial statements as at 31 December 2021 including the group management report were audited by KPMG and also provided with an unqualified audit certificate. The financial statements of the Association as at 31 December 2021 including the management report of the Association were also audited by KPMG and provided with an unqualified audit certificate.

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

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

VOLKSBANK WIEN AG prepares a consolidated non-financial report (sustainability report), in accordance with the legal requirements under Sections 243b and 267a of the Austrian Business Code, based on the "GRI Standards", the international framework for sustainability reporting. KPMG Alpen-Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft was charged with auditing the sustainability report; the relevant audit report has been submitted to the Supervisory Board. The sustainability report submitted to the Supervisory Board was also reviewed by the Supervisory Board with reference to the audit report prepared by KPMG Alpen-Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. The reviews or audits by the Supervisory Board and by KPMG Alpen-Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft did not result in any objections, and the Supervisory Board also concurs with the results of the audit by KPMG Alpen-Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft.

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

In conclusion, the Supervisory Board would like to thank the Managing Board and all employees whose exemplary commitment in the 2021 business year has made it possible to achieve a pleasing result again.

Vienna, March 2022

For the Supervisory Board of VOLKSBANK WIEN AG:

Heribert DONNERBAUER,
DOB 4 August 1965
Chairman of the Supervisory Board

THE MANAGING BOARD

Chairman:

Gerald Fleischmann

born 27 February 1969

CEO

Area of responsibility:

- Retail Branches
- Communication/Marketing
- Organisation & IT
- HR Management
- Private Banking/Treasury
- Corporate and Real Estate Financing
- Sales Management

Deputy Chairman:

Rainer Borns

born 7 August 1970

Deputy-CEO

Area of responsibility:

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

Deputy Chairman:

Thomas Uher

born 15 June 1965

Deputy-CEO

Area of responsibility:

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

Joint Managing Board

Area of responsibility:

- Compliance
- Audit

THE SUPERVISORY BOARD

Heribert Donnerbauer
Donnerbauer & Hübner Rechtsanwälte GmbH
Chairman

Franz Gartner
Muncipiality of Traiskirchen
First Deputy Chairman

Robert Oelinger
Certified Public Accountants/tax consultants
Second Deputy Chairman

Susanne Althaler
Member

Anton Fuchs
Member

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

Eva Schütz
Law firm of Hieblinger-Schütz
Member

Christian Lind
Member

Harald Nograsek
Member

Monika Wildner
Independent lawyer
Member

Works council delegates:

Chairman of the Works council Christian Rudorfer

Hermann Ehinger

Elisabeth Sölkner

Bettina Wicha

Manfred Worschischek

State Commissioners:

Christian Friessnegg
State Commissioner

Katharina Schwaha
Deputy State Commissioner

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT

Report on the business development and economic situation

Business development

The VOLKSBANK WIEN AG Group (VBW Group) 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 securities business, the VBW Group achieved an excellent net fee and commission income of euro 58.6 million (2020: euro 57.3 million).

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 "impossible" things have suddenly lent themselves to quick and flexible implementation.

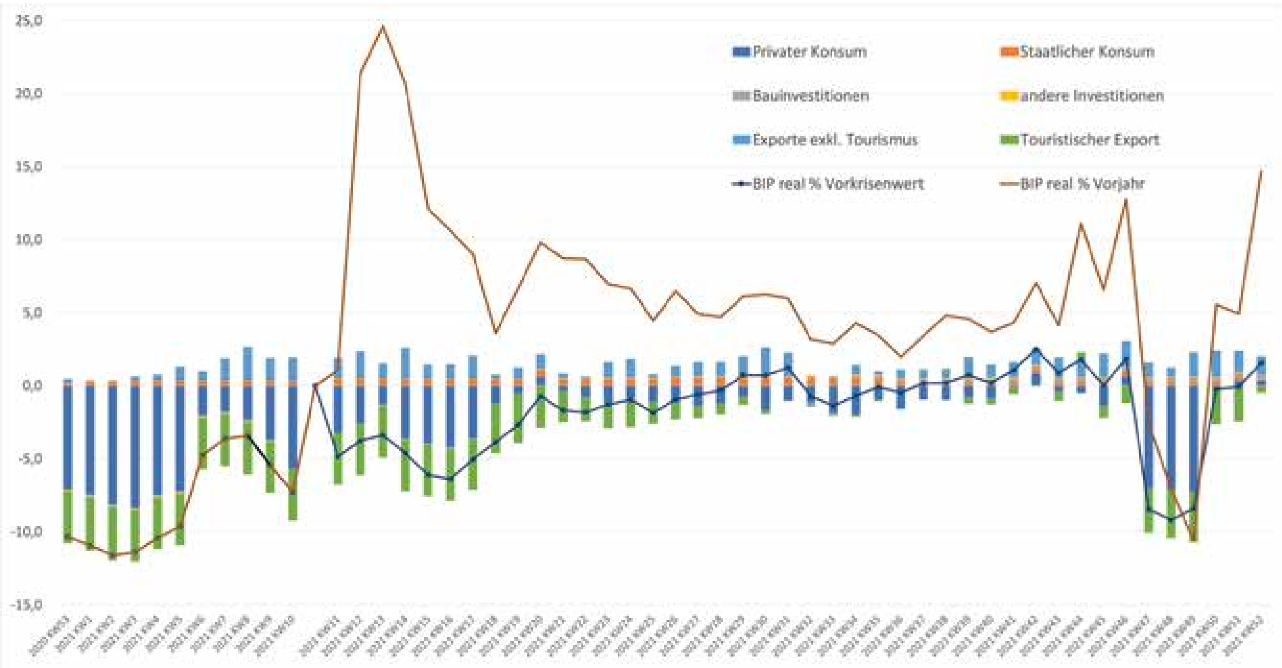
In addition, sustainability has become very important in all areas of the economy in recent months. Sustainability is a significant asset for the VBW Group due to its regional and cooperative origins. The Association of Volksbanks has committed itself to the Paris Agreement on climate protection and 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.

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

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

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.

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 %.

Group result 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 group before taxes amounts to euro 111.7 million (2020: euro 50.3 million), the result of the group after taxes and minority interest to euro 105.3 million (2020: euro 30.8 million).

Net interest income has increased from euro 116.2 million to euro 126.0 million in 2021, despite a continued low interest rate environment. The increase in interest income from bonds and other fixed-income securities by euro +7.5 million mainly relates to realised differences of Italian government bonds that were transferred from the predecessor central organisation to VBW in the course of restructuring in 2015 and realised in 2021. Moreover, the participation in the TLTRO III programme of the European Central Bank resulted in a higher net interest income of euro +16.5 million, 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. On the other hand, interest income from credit and money market transactions with customers was lower by euro -13.3 million due to lower average interest rates and an almost unchanged customer volume. 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 by euro -2.9 million from euro 16.0 million in 2020 to euro 18.9 million in 2021.

Risk provisions improved significantly in 2021 to euro +16.6 million compared to euro -26.6 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 +9.8 million (2020: euro -17.9 million) in the portfolio loan loss provision (incl. change in post-model adjustments euro +9.2 million) and net reversals of individual loan loss provisions in the amount of euro 3.3 million (2020: euro -8.9 million). The net reversals of provisions for off-balance sheet business in the amount of euro +1.1 million (2020: euro -1.4 million), in addition to income from the receipt of receivables written off in the amount of euro +2.2 million (2020: euro +3.7 million) contributed positively to the result.

The net fee and commission income in the reporting period amounts to euro 58.6 million, a slight increase compared to the previous period (2020: euro 57.3 million). This increase was mainly due to securities business (euro +1.0 million), custody business (euro +1.1 million) and other service business (euro +1.0 million). On the other hand, the net fee and commission income from lending business was lower by euro -1.7 million.

Net trading income amounts to euro 2.0 million for the reporting period and improved by euro +3.3 million compared to the previous year (2020: euro -1.3 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 8.7 million, thus exceeding the comparative period (2020: euro 3.6 million) by euro +5.1 million. The increase is mainly due to valuation gains on debts evidenced by certificates (euro +7.5 million) measured at fair value, receivables with detrimental interest clauses (euro +1.9 million), income from participations (euro +1.8 million), and valuation gains on investment properties (euro +2.7 million). On the other hand, there were losses from securities (euro -7.5 million), mainly from the realisation of the portfolio with Italian government bonds, and derivative valuations (euro -1.5 million).

The other operating result in the amount of euro 111.3 million shows a slight increase by comparison with the previous year (euro 107.5 million). On the one hand, income from charged-out costs (VB Wien and VB Services für Banken GesmbH) have increased compared to the previous year (euro +30.5 million), on the other hand, the proceeds from the sale of the former head office in 1090 Vienna, Kolingasse, in the amount of euro +22.8 million are no longer included in the 2021 reporting year. In addition, there were higher allocations to provisions in the amount of euro -1.2 million.

General administrative expenses of euro 212.0 million (2020: euro 206.4 million) have increased by euro -5.6 million in comparison with the previous year. The transfer of employees to VB Services für Banken GesmbH, Vienna, led to an increase of euro -5.1 million in staff expenses. Administrative expenses increased by euro -2.1 million to euro 76.7 million (2020: euro 74.5 million), mainly due to higher contributions to the deposit guarantee scheme and resolution fund (euro -4.2 million). By contrast, legal, advisory and consulting expenses (euro +1.2 million) and IT expenses (euro +2.8 million) declined by euro +4.0 million. Depreciation and reversal of impairment have declined by euro +1.7 million to euro 11.8 million (2020: euro 13.4 million).

In 2021, the result of the companies measured at equity amounted to euro +0.4 million (2020: euro -0.1 million).

The change in income taxes of euro +13.1 million to euro -6.4 million in 2021 (2020: euro -19.5 million) resulted mainly from the reduction in deferred tax liabilities. 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 8.9 million for part of the tax loss carryforwards. For tax loss carryforwards beyond that, in the amount of euro 548 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 3.3 million (2020: euro 3.0 million).

Financial position

As at 31 December 2021, total assets amounted to euro 16.9 billion and have slightly increased by comparison with the end of 2020 (euro 14.3 billion) by euro 2.6 billion.

The liquid funds in the amount of euro 6.8 billion (2020: euro 3.8 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.

As compared to the end of the previous period (euro 2.3 billion), loans and receivables to credit institutions have decreased slightly to euro 2.2 billion. The decrease essentially results from lower refinancing requirements of the banks of the Association.

Loans and receivables to customers net of risk provisions amount to euro 5.4 billion as at 31 December 2021, and have remained unchanged compared to the previous year (euro 5.4 billion).

The financial investments of euro 2.1 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 2.3 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 mainly includes the carrying amount of a real estate portfolio held for sale in Vienna.

Amounts owed to credit institutions increased by euro 2.0 billion to euro 6.2 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 6.6 billion in 2019 to euro 6.9 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 the capital of non-controlling interests has increased by euro 20.4 million to euro 928.4 million. This change is mainly due to the redemption of the government's participation capital (euro 124.0 million), the payment by shareholders (euro 53.4 million), the coupon payment for the AT1 issue (euro 17.1 million) and the group's total comprehensive income of euro 108.1 million. The total comprehensive income of euro 108.1 million consisted of the result after taxes of euro 105.3 million and other comprehensive income of euro 2.9 million.

Report on branch establishments

The VBW Group does not have any branch establishments.

Financial performance indicators

As at 31 December 2021, the regulatory own funds of the VBW group of credit institutions amount to euro 1.3 billion (31 December 2020: euro 1.3 billion). The total risk exposure amount was euro 3.8 billion as at 31 December 2021 (31 December 2020: euro 3.9 billion). The CET 1 capital ratio in relation to total risk amounts to 16.9 % (31 December 2020: 16.8 %), the own funds ratio in relation to total risk is 33.1 % (31 December 2020: 32.7 %).

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	12.2 %	5.6 %	8.4 %
Return on equity after taxes	11.5 %	3.4 %	7.1 %
Cost-income ratio	70.5 %	73.2 %	78.2 %

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 VBW, 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, Note 46.

Non-financial performance indicators

VBW reports on concepts, results and risks relating to environmental matters, social and employee topics, human rights, corruption and bribery as well as diversity according to the Nachhaltigkeits- und Diversitätsverbesserungsgesetz (NaDiVeG; Sustainability and Diversity Improvement Act) and Article 8 of the Taxonomy Regulation of the EU in a separate sustainability report.

Report on the company's future development and risks

Future development of the company

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

By forming risk provisions in 2020, VBW 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.

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 VBW is continuously refined to define the risk appetite or the degree of risk tolerance that VBW 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, VBW 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 VBW 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 (especially Risk Report, Note 51).

Report on research and development

The VBW Group is not active in research and development.

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

Control environment

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

The aim of the internal control system is to support the management in such a way that it is able to ensure effective internal controls with respect to accounting. The Managing Board is responsible for establishing and designing a suitable internal control and risk management system for the accounting process. At VBW, an internal control system (ICS) has been installed according to the internationally recognised COSO standard. Detailed descriptions of ICS processes and control measures are available. The responsibilities and roles relating to the ICS are clearly defined. Regular reporting takes place for the ICS. Control activities are documented and reviewed, ICS-relevant risks are regularly evaluated and adjusted. Accordingly, a continuous optimisation process is ensured.

In all companies included in the consolidated financial statements, the responsibility to define and introduce an appropriate ICS for the respective company and to ensure compliance with group-wide policies and regulations lies with the respective managing board or with the management. In order to ensure that the data provided by the Group subsidiaries are imported correctly, all data supplied is first checked for plausibility. The data is then processed using the Tagetik consolidation software. 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 consolidated financial statements: the recoverability of financial assets, banking risks, employee benefits, as well as the outcome of legal disputes. In some cases, publicly available sources will be used or external experts will be consulted in order to minimise the risk of inaccurate estimates.

Information and communication

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

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

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

Monitoring

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

CONSOLIDATED 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		194,909	186,967	7,942	4.25 %
thereof using the effective interest method		167,866	172,254	-4,388	-2.55 %
Interest and similar expenses		-68,877	-70,757	1,880	-2.66 %
Net interest income	4	126,032	116,210	9,822	8.45 %
Risk provision	5	16,564	-26,606	43,170	-162.25 %
Fee and commission income		80,734	78,569	2,165	2.76 %
Fee and commission expenses		-22,093	-21,251	-841	3.96 %
Net fee and commission income	6	58,641	57,318	1,323	2.31 %
Net trading income	7	2,014	-1,283	3,297	< -200.00 %
Result from financial instruments and investment properties	8	8,684	3,587	5,097	142.10 %
Other operating result	9	111,265	107,478	3,788	3.52 %
General administrative expenses	10	-211,957	-206,368	-5,590	2.71 %
Result from companies measured at equity		448	-81	529	< -200.00 %
Result before taxes		**111,691**	**50,255**	**61,436**	**122.25 %**
Income taxes	11	-6,412	-19,480	13,068	-67.09 %
Result after taxes		**105,280**	**30,775**	**74,504**	**> 200.00 %**
Result attributable to shareholders of the parent company (Consolidated net result)		**105,283**	**30,787**	**74,496**	**> 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	**105,280**	**30,775**	**74,504**	**> 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)	1,546	3,895	-2,348	-60.29 %
Fair value reserve - equity instruments (including deferred taxes)	3,412	-3,191	6,604	< -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	**3,338**	**597**	**2,741**	**> 200.00 %**
Items that may be reclassified to profit or loss				
Fair value reserve - debt instruments (including deferred taxes)				
Change in fair value	-202	35	-238	< -200.00 %
Net amount transferred to profit or loss	-8	0	-8	100.00 %
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 from companies measured at equity	-230	-423	193	-45.60 %
Total items that may be reclassified to profit or loss	**-470**	**-387**	**-83**	**21.32 %**
Other comprehensive income total	**2,868**	**210**	**2,659**	**> 200.00 %**
Comprehensive income	**108,148**	**30,985**	**77,163**	**> 200.00 %**
Comprehensive income attributable to shareholders of the parent company	**108,159**	**30,990**	**77,169**	**> 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	6,770,589	3,798,482	2,972,107	78.24 %
Loans and receivables credit institutions	13, 14	2,168,801	2,286,014	-117,213	-5.13 %
Loans and receivables customers	13, 14	5,395,566	5,372,333	23,233	0.43 %
Assets held for trading	15	41,592	59,775	-18,184	-30.42 %
Financial investments	14, 16	2,116,228	2,283,330	-167,101	-7.32 %
Investment property	17	27,202	30,186	-2,984	-9.88 %
Companies measured at equity	18	38,909	38,691	218	0.56 %
Participations	19	61,897	49,160	12,737	25.91 %
Intangible assets	20	18,749	20,671	-1,922	-9.30 %
Tangible assets	21	131,658	139,519	-7,861	-5.63 %
Tax assets	22	38,383	43,538	-5,155	-11.84 %
Current taxes		2,905	3,868	-963	-24.90 %
Deferred taxes		35,478	39,669	-4,192	-10.57 %
Other assets	23	109,179	158,436	-49,257	-31.09 %
Assets held for sale	24	5,911	942	4,969	> 200.00 %
TOTAL ASSETS		**16,924,664**	**14,281,075**	**2,643,589**	**18.51 %**
LIABILITIES					
Amounts owed to credit institutions	25	6,217,234	4,165,780	2,051,453	49.25 %
Amounts owed to customers	26	6,921,758	6,636,565	285,193	4.30 %
Debts evidenced by certificates	27	1,908,240	1,463,851	444,389	30.36 %
Lease liabillities	28	82,541	85,826	-3,285	-3.83 %
Liabilities held for trading	29	43,292	62,596	-19,305	-30.84 %
Provisions	30, 31	66,438	69,318	-2,880	-4.15 %
Tax liabilities	22	3,250	2,035	1,215	59.72 %
Current taxes		2,559	1,331	1,227	92.16 %
Deferred taxes		691	703	-12	-1.71 %
Other liabilities	32	350,389	480,235	-129,846	-27.04 %
Subordinated liabilities	33	403,105	406,879	-3,774	-0.93 %
Equity	35	928,417	907,990	20,427	2.25 %
Shareholders' equity		924,670	904,161	20,510	2.27 %
Non-controlling interest	35	3,747	3,830	-82	-2.15 %
TOTAL LIABILITIES		**16,924,664**	**14,281,075**	**2,643,589**	**18.51 %**

Changes in the Group's equity

Euro thousand	Subscribed capital	Additional tier 1 capital	Capital reserves	Retained earnings and other reserves	Shareholders' equity	Non-controlling interest	Equity
As at 01 Jan 2020	**137,547**	**217,722**	**227,836**	**307,126**	**890,230**	**3,867**	**894,098**
Consolidated net income				30,787	30,787	-12	30,775
Other comprehensive income	0	0	0	203	203	7	210
Comprehensive income	0	0	0	30,990	30,990	-5	30,985
Dividends paid				-439	-439	-13	-452
Coupon for the AT1 emission				-17,050	-17,050		-17,050
Payment Shareholder			414	0	414		414
Reclassification capital reserve			-414	414	0		0
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation				15	15	-19	-4
As at 31 Dec 2020	**137,547**	**217,722**	**227,836**	**321,056**	**904,161**	**3,830**	**907,990**
Consolidated net income				105,283	105,283	-4	105,280
Other comprehensive income	0	0	0	2,876	2,876	-7	2,868
Comprehensive income	0	0	0	108,159	108,159	-11	108,148
Dividends paid				-124,016	-124,016	-17	-124,033
Coupon for the AT1 emission				-17,050	-17,050		-17,050
Payment Shareholder			53,409	0	53,409		53,409
Reclassification capital reserve			-8,949	8,949	0		0
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation				7	7	-54	-47
As at 31 Dec 2021	**137,547**	**217,722**	**272,296**	**297,105**	**924,670**	**3,747**	**928,417**

For further details see note 35) Equity.

Cash flow statement

Euro thousand	Note	1-12/2021	1-12/2020
Annual result (before non-controlling interest)		**105,280**	**30,775**
Non-cash positions in annual result			
Net interest income	4	-126,032	-116,210
Income from participations	8	-2,926	-1,123
Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets	8, 10	8,487	14,602
Allocation to and release of provisions, including risk provisions	5, 10	-11,138	28,069
Gains from the sale of financial investments and fixed assets	8, 9	7,524	-21,077
Income taxes	11	6,412	19,180
Changes in assets and liabilities from operating activities			
Loans and advances to credit institutions	13	115,292	179,985
Loans and advances to customers	13	-9,985	83,242
Trading assets	15	2,020	-730
Financial investments	16	50,088	98,428
Other assets from operating activities	23	901	7,201
Amounts owed to credit institutions	25	2,051,612	1,363,873
Amounts owed to customers	26	285,255	198,593
Debts evidenced by certificates	27	439,108	14,490
Derivatives	15, 23, 29, 32	-110,631	5,844
Other liabilities	32	23,293	-847
Interest received		163,550	151,649
Interest paid		-44,927	-63,720
Dividends received	8	2,926	1,123
Income taxes paid		-5,701	322
Cash flow from operating activities		**2,950,406**	**1,993,668**
Proceeds from the sale or redemption of			
Financial investments at amortised cost	16	125,877	431
Participations	19	1,047	54
Intangible and tangible assets	20, 21	1,396	84,039
Investment property	17	3,081	2,680
Payments for the acquisition of			
Financial investments at amortised cost	16	0	-160,086
Participations	19	-9,234	-503
Intangible and tangible assets	20, 21	-4,288	-3,617
Investment property	17	0	-35
Cash flow from investing activities		**117,878**	**-77,037**
Payment Shareholder		53,409	414
Dividends paid	35	-141,083	-17,502
Cash outflow of lease liabilities	28	-4,456	-3,422
Cash outflow of subordinated liabilities	33	-4,000	-11,147
Acquisition of non-controlling interest		-47	-4
Cash flow from financing activities		**-96,177**	**-31,663**
Cash and cash equivalents at the end of previous period	12	**3,793,581**	**1,908,612**
Cash flow from operating activities		2,950,406	1,993,668
Cash flow from investing activities		117,878	-77,037
Cash flow from financing activities		-96,177	-31,663
Cash and cash equivalents at the end of period	12	**6,765,688**	**3,793,581**

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

NOTES

1) General information

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

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

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

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

These consolidated financial statements were signed by the Managing Board on 10 March 2022 and subsequently approved to be forwarded to the Supervisory Board.

2) Presentation and changes in the scope of consolidation

There were no changes in the scope of consolidation of the VBW Group in the fiscal year 2021.

Participation right of the federal government

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

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

According to its contractual obligations towards the federal government, VBW must submit to the Volksbanks a proposal for the total amount to be distributed with respect to the federal government’s participation right by RZG in the subsequent calendar year and for the total amount of the primary banks’ contributions required for this purpose (indirect contributions of the Volksbanks and direct contribution of VBW to RZG) by 30 November of each year. VBW is charged according to the share of its retail segment in the Association of Volksbanks (total assets UGB/BWG). Of the total repayment amount of euro 300 million committed to the federal government, euro 200 million has already been met 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.

Number of consolidated companies

	31 Dec 2021			31 Dec 2020		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Fully consolidated companies						
Credit institutions	1	0	1	1	0	1
Financial institutions	1	0	1	1	0	1
Other companies	8	0	8	8	0	8
Total	**10**	**0**	**10**	**10**	**0**	**10**
Companies measured at equity						
Credit institutions	1	0	1	1	0	1
Other companies	1	0	1	1	0	1
Total	**2**	**0**	**2**	**2**	**0**	**2**

Number of unconsolidated companies

	31 Dec 2021			31 Dec 2020		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Affiliates	4	0	4	5	0	5
Associated companies	3	0	3	3	0	3
Companies total	**7**	**0**	**7**	**8**	**0**	**8**

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

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

3) Accounting principles

The following accounting principles have been applied consistently.

VBW Group's consolidated financial statements for 2021 as well as the comparative figures 2020 have been prepared in accordance with the IFRS/IAS and thus fully comply with the provisions set out in section 245a of the Austrian Commercial Code and section 59a of the Austrian Banking Act regulating exempting consolidated financial statements prepared in accordance with internationally recognised accounting principles.

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

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

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

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

For the accounting and valuation methods relating to COVID-19 (impairments and post-model adjustments), please refer to note 51) Risk report b) Credit risk.

Initially applied standards and interpretations

Standard	Mandatory application	Significant effects on the Association
Amendments to standards and interpretations		
Amendments to 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 IAS 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 of IFRS Standards 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 VBW, 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 conversion from EONIA to ESTR was already carried out in previous years. The remaining bilateral hedges were converted during the financial year. The change in discounting was made step by step by adjusting the interest rate of the underlying collateral agreement. The present value effect of the transition (mainly taking into account any settlement payments) did not result in any material impact on the Group's financial position or earnings situation.

Leases COVID-19-related rent concessions (Amendments to IFRS 16)

The amendments grant lessees relief from assessing whether lease concessions (e.g. rent-free periods or temporary rent reductions) granted due to the coronavirus pandemic constitute a lease modification. If the exemption is used, the lease concessions must be accounted for as if there were no modification to the lease. The amendments originally applied to lease concessions reducing lease payments due on or before 30 June 2021. This deadline has since been extended to 30 June 2022. These reliefs are not applied in 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 in case of all existing contracts the requirements of the amendments will be met before the date of first-time application.

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 VBW Group. ESG risks arise because climate, environmental, social and governance concerns may affect counterparties, customers and other contractual partners of the issuer and/or the VBW Group.

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, VBW 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 notes 11) and 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

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

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

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

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

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

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 fully consolidated companies prepared in currencies other than the euro are translated using the modified closing rate method set out in IAS 21. Under this method, all assets and liabilities are translated at the spot exchange mean rate effective on the balance sheet date, while the historical rate is applied for the translation of equity. Differences resulting from the translation of the financial statements of foreign subsidiaries are recognised in the currency translation reserve in equity. Any goodwill disclosed hidden reserves and liabilities arising from the initial consolidation of foreign subsidiaries prior to 1 January 2005 have been translated at historical rates. Any goodwill disclosed hidden reserves and liabilities arising from business combinations after 1 January 2005 are translated at the spot exchange mean rate on the Group's reporting date. As at 31 December 2021, the scope of consolidation of VBW does not include any foreign subsidiary in foreign currency.

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

g) Net interest income

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

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

Net interest income consists of:

- Interest and similar income from credit and money market transactions (including unwinding effect from risk provsion)
- Interest and similar income from fixed-income securities
- Interest and similar expenses for deposits
- Interest and similar expenses for debts evidenced by certificates and subordinated liabilities
- The interest component of derivatives reported in the banking book

- Interest expenses from leases
- Modifications of financial assets, if they are due to market-induced contract modifications

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

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

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 investments. In case of derecognition of debt instruments measured at fair value through OCI, a reclassification from fair value reserve – debt instruments to the income statement takes place.

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

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

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

Financial liabilities

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

Derecognition and modification

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

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

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

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

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

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

Offsetting

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

Measured at amortised cost

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

Measured at fair value through profit or loss

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

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

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

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

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

Interest, dividends as well as related fee and commission income and expense of financial assets and liabilities in the 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 calcu-

lated using the Monte Carlo simulation. As no observable credit risk spreads are available for these counterparties on the market, the probabilities of default for the counterparties are based on internal ratings of the Group.

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

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

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

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) Accounting principles n) Financial assets and liabilities and 51) Risk report b) Credit risk.

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

Scope

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

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

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

General approach

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

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

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

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

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

Options

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

Information regarding the calculation logic

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

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

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

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

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. The items trading assets and liabilities also include all positive or negative fair values of derivative financial instruments that meet the regulatory requirements of the trading book. Derivative financial instruments used as hedging instruments to manage interest rate risks in the regulatory banking book are reported under other assets or other liabilities.

These items do not include any financial assets and liabilities that fall into the category at fair value through profit or loss.

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

Classification of securitised debt instruments

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

Measured at amortised cost

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

Measured at fair value through profit or loss

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

Measured at fair value through OCI

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

Classification of equity instruments

Equity instruments are measured at fair value through profit or loss. Upon initial recognition, however, an irrevocable option (OCI option) may be exercised, individually for each instrument. This option only applies to financial instruments that are not held for trading and do not constitute a conditional consideration, which are recognised by an acquirer within the scope of a business combination under IFRS 3. If the option is exercised, all changes to the fair value are reported in OCI (except for dividends, which are reported through profit or loss). Gains or losses reported in OCI can never be reclassified from equity to the income statement.

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

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

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

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

t) Participations and investments in companies measured at equity

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

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

To the extent that the discounted cash flow method is applied, the discount rates used are based on the respective current recommendations of the Fachsenat der österreichischen Kammer der Wirtschaftstreuhänder as well as of international financial data service providers and, in the 2021 financial year, range between 7.0 and 10.1 % (2020: 7.0 and 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 date of provision of the lease object, a right of use is recognised by the lessee in the balance sheet at acquisition cost. The cost of acquisition is made up as follows:

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

All subsequent valuations take place at amortised cost. Amortisation of the rights of use is effected on a straight-line basis over the contractual term. For low-value lease objects and for short-term leases (< 12 months), use is made of simplified application, with payments being recognised in expenses on a straight-line basis. For contracts that also include non-lease components in addition to lease components, in the area of branches, use is made of the option to waive any separation of these components.

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

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

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

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

v) Tax assets and liabilities

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

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

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

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 impairment. This item also includes all positive fair values of derivative financial instruments 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 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 (disposal group) must be available for immediate sale in its present condition on terms that are usual and customary for sales of such assets (or disposal groups), and such sale must be highly probable.

These criteria are met if the necessary board resolutions have been adopted, the assets can be sold without significant modification or restructuring, marketing of the assets has begun and, at the balance sheet date, either a binding offer has been made or a contract has already been signed and closing is expected within 12 months. Loans repaid early, directly by the debtor, do not meet the definition of a sale transaction, even if the early repayment was initiated by a group company through a discount on 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. The disposal group therefore does not include any liabilities that are repaid using the proceeds from the sale of the disposal group but are not transferred.

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

At VBW, a discontinued operation represents a reportable segment. A major line of business or geographical area of operations that reports to the Managing Board and has a significant effect on VBW's financial position is also presented as a discontinued operation if all conditions are met.

After classification as held for sale, non-current assets or groups of assets are measured at the lower of carrying amount and fair value less costs to sell. Impairment losses are recognised in profit or loss under other operating expenses.

Non-current assets or disposal groups and associated liabilities classified as held for sale are presented separately from other assets and liabilities in the balance sheet.

For a discontinued operation, the statement of comprehensive income shall include the profit or loss after tax of the discontinued operation and the profit or loss after tax that would have been recognised had the assets or disposal groups constituting the discontinued operation been measured at fair value less costs to sell or disposed of.

The income statement for the previous year must 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 VBW, 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 liabilities

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

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

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

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

In the course of subsequent valuations, the lease liability will be increased by the interest expenditure and reduced by lease payments.

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

z) Employee benefits

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

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

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

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

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

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

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

Parameters for calculating employee benefit obligations

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

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

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

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

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

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 fair values of derivative financial instruments 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 result from financial instruments and investment properties.

cc) Subordinated liabilities

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

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

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

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.

ee) Capital reserves

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

ff) 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.

gg) Own funds

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

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

Regulatory own funds can be broken down into three elements:

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

The first two components comprise the tier I capital.

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

Just like CET1 capital, AT1 capital is available for covering any losses on a current basis. In this context, the central requirement is the subordinate and permanent appropriation of funds, as well as the unrestricted discretion of the issuer as to whether distributions will be made or not. Additionally, it must be possible to convert the instruments into CET1 capital, or to write them off, as soon as the CET1 capital ratio falls below the threshold of 5.125 % in proportion to the risk positions (at the latest).

T2 also includes non-current subordinated liabilities.

The minimum equity ratio (total of tier I and tier II) is 8 %. Minimum core capital requirements are 4.5 % for CET1 and 6.0 % for tier I. The VBW Group complied with these relevant supervisory requirements throughout the entire reporting period and its own funds exceeded the minimum requirements.

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

hh) Trust transaction

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

ii) Repurchase transactions

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

jj) Contingent liabilities

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

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

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

kk) Cash flow statement

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

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

4) Net interest income

Euro thousand	2021	2020
Interest and similar income from	194,909	186,967
Deposits from credit institutions (incl. central banks)	20,486	3,958
Credit and money market transactions with credit institutions	11,489	10,649
Credit and money market transactions with customers	114,603	127,884
Bonds and other fixed-income securities	43,565	36,037
Derivative instruments	4,766	8,438
Interest and similar expenses for	-68,877	-70,757
Liquid funds	-10,403	-5,239
Deposits from credit institutions	-2,815	-3,954
Deposits from customers	-3,239	-3,365
Debts evidenced by certificates	-18,916	-16,028
Subordinated liabilities	-11,247	-11,250
Derivative instruments	-18,320	-25,815
Lease liabilities	-1,206	-1,741
Valuation result - modification	-2,735	-3,370
Valuation result - derecognition	3	5
Net interest income	**126,032**	**116,210**

Net interest income according to IFRS 9 categories

Euro thousand	2021	2020
Interest and similar income from	194,909	186,967
Financial assets measured at amortised cost	188,348	174,839
Financial assets measured at fair value through OCI	4	1,373
Financial assets measured at fair value through profit or loss - obligatory	1,791	2,317
Derivative instruments	4,766	8,438
Interest and similar expenses for	-68,877	-70,757
Financial liabilities measured at amortised cost	-44,816	-38,906
Financial liabilities measured at fair value through profit or loss - designated	-3,010	-2,671
Derivative instruments	-18,320	-25,815
Valuation result - modification	-2,735	-3,370
Valuation result - derecognition	3	5
Net interest income	**126,032**	**116,210**

Due to the trend of money market interest rates towards negative reference rates, interest income of euro 40,753 thousand (2020: euro 10,261 thousand) and interest expenses of euro 22,553 thousand (2020: euro 7,782 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	13,624	-27,185
Changes in provision for risks	1,120	-1,365
Direct write-offs of loans and receivables	-422	-798
Income from loans and receivables previously written off	2,167	3,663
Valuation result modification/derecognition	75	-922
Risk provision	**16,564**	**-26,606**

6) Net fee and commission income

Euro thousand	2021	2020
Fee and commission income	80,734	78,569
Lending business	3,576	4,962
Securities and custody business	32,229	29,418
Payment transactions	32,717	32,849
Foreign exchange, foreign notes and coins and precious metals transactions	126	109
Financial guarantees	1,057	1,146
Other services	11,028	10,085
Fee and commission expenses	-22,093	-21,251
Lending business	-10,738	-10,386
Securities and custody business	-6,880	-6,111
Payment transactions	-4,418	-4,494
Financial guarantees	-29	-235
Other services	-28	-26
Net fee and commission income	**58,641**	**57,318**

Net fee and commission income includes management fees for trust agreements in the amount of euro 96 thousand (2020: euro 93 thousand).

7) Net trading income

Euro thousand	2021	2020
Equity related transactions	0	-12
Exchange rate related transactions	1,787	2,001
Interest rate related transactions	228	-3,272
Net trading income	**2,014**	**-1,283**

8) Result from financial instruments and investment properties

Euro thousand	2021	2020
Other result from financial instruments	**4,588**	**532**
Result from financial investments and other financial assets and liabilities measured at fair value through profit or loss	10,121	-1,405
Valuation measured at fair value through profit or loss - obligatory	3,208	-545
Loans and receivables credit institutions and customers	901	-1,044
Securities	2,306	499
Result from other derivative instruments	838	1,711
Result from fair value hedge	-1,627	-980
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	322	12
Result from financial investments and other financial assets and liabilities measured at amortised cost	-7,678	83
Realised gains from disposal	62	243
Realised losses from disposal	-7,741	-159
Result from financial investments and other financial assets and liabilities measured at fair value through OCI	2,934	1,123
Realised gains from disposal	9	0
Realised losses from disposal	-1	0
Income from participations	2,926	1,123
Result from investment properties	**4,096**	**3,055**
Rental income from investment properties and operating lease	1,243	2,939
Valuation investment properties	2,853	116
Result from financial instruments and investment properties	**8,684**	**3,587**

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 826 thousand (including a dividend in the amount of euro 316 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 7,699 thousand.

9) Other operating result

Euro thousand	2021	2020
Other operating income	133,411	130,809
Other operating expenses	-19,635	-20,979
Taxes and levies on banking business	-2,510	-2,352
Other operating result	**111,265**	**107,478**

Taxes and levies on banking business include the stability tax in the amount of euro -2,278 thousand (2020: euro -1,996 thousand).

Detailed presentation of other operating income and expenses

Euro thousand	2021	2020
Income from allocation of costs	128,513	101,321
Realised gains from disposal of fixed assets and security properties	590	22,821
Others	4,308	6,667
Other operating income	**133,411**	**130,809**
Allocation of costs	-16,823	-19,455
Realised losses from disposal of fixed assets and security properties	-47	-1,534
Allocation/release of provision for negative interest	1,238	2,769
Others	-4,002	-2,759
Other operating expenses	**-19,635**	**-20,979**

10) General administrative expenses

Euro thousand	2021	2020
Staff expenses	-123,484	-118,393
Wages and salaries	-93,321	-90,421
Expenses for statutory social security	-23,953	-23,194
Fringe benefits	-1,380	-1,444
Expenses for retirement benefits	-2,657	-2,549
Allocation to provision for severance payments and pension funds	-2,173	-785
Administrative expenses	-76,686	-74,537
Office space expenses	-4,912	-4,301
Office supplies and communication expenses	-1,365	-1,666
Advertising, PR and promotional expenses	-3,338	-2,928
Legal, advisory and consulting expenses	-11,731	-12,950
IT expenses	-37,152	-39,988
Contribution to the deposit guarantee	-10,620	-6,661
Single Resolution Fund	-1,946	-1,716
Other administrative expenses (including training expenses)	-5,622	-4,327
Depreciation and reversal of impairment	-11,788	-13,438
Depreciation	-6,758	-8,314
Impairment/reversal of impairment	-644	-526
Right of use - lease depreciation	-4,386	-4,597
General administrative expenses	**-211,957**	**-206,368**

Staff expenses include payments for defined contribution plans totalling euro 2,814 thousand (2020: euro 2,700 thousand).

General administrative expenses include expenses for managing contracts for investment properties to the amount of euro 21 thousand (2020: euro 45 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 760 thousand (2020: euro 716 thousand) are included in the administrative expenses.

For the business year, expenses for the auditor KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft amounted to euro 1,575 thousand. Thereof euro 1,084 thousand fall upon the audit of the annual financial statements, consolidated financial statements and annual financial statements of the Association of Volksbanks, as well as of financial statements of individual affiliates and joint ventures included in the consolidated financial statements, euro 416 thousand to other certifications and euro 75 thousand to other services. The auditor does not provide any tax advice.

Information on compensation to board members

Euro thousand	2021	2020
Total compensation	**2,463**	**2,355**
Supervisory Board	288	288
Managing Board	1,792	1,686
Former board members and thei surviving dependents	383	381
Expenses for severance paymanets and pensions		
Mananging Board	460	263
Thereof defined contribution plans	160	150

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

Principles and prerequisites of the pension scheme

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

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

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

Number of staff employed

	Average number of staff		Number of staff at end of period	
	1-12/2021	1-12/2020	31 Dec 2021	31 Dec 2020
Employees	1,288	1,267	1,265	1,297
Workers	5	6	5	5
Total number of staff	**1,293**	**1,272**	**1,270**	**1,302**

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

11) Income taxes

Euro thousand	2021	2020
Current income taxes	-2,341	-3,191
Deferred income taxes	-3,147	-16,515
Income taxes for the current fiscal year	**-5,488**	**-19,706**
Income taxes from previous periods	-924	227
Income taxes	**-6,412**	**-19,480**

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

Euro thousand	2021	2020
Annual result before taxes - continued operation	111,691	50,255
Annual result before taxes - total	**111,691**	**50,255**
Imputed income tax 25 %	27,923	12,564
Tax relief resulting from		
Tax-exempt investment income	-811	-336
Investment allowances	-4	0
Other tax-exempt earnings	-205	-25
Dividend distribution on AT1 capital	-4,263	-4,326
Measurement of participation	-4,231	-218
Non-inclusion of deferred tax assets	0	15,112
Re-inclusion of deferred tax assets	-13,860	0
Other differences	938	-3,065
Income taxes for the current fiscal year	**5,488**	**19,706**
Income taxes from previous periods	924	-227
Reported income taxes	**6,412**	**19,480**
Effective tax rate - continued operations	**5.74 %**	**38,76 %**

The effective tax rates differ from the statutory tax rate applicable in Austria, in particular due to deferred tax assets 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	2,062	-515	1,546	5,193	-1,298	3,895
Fair value reserve - equity instruments	4,550	-1,137	3,412	-4,255	1,064	-3,191
Valuation of own credit risk	-2,161	540	-1,621	-142	35	-106
Fair value reserve - debt instruments	-280	70	-210	47	-12	35
Cash flow hedge reserve	-39	10	-30	0	0	0
Change from companies measured at equity	-118	-112	-230	-563	141	-423
Other comprehensive income total	**4,013**	**-1,144**	**2,868**	**280**	**-70**	**210**

Notes to the consolidated statement of financial positions

12) Liquid funds

Euro thousand	31 Dec 2021	31 Dec 2020
Cash in hand	47,824	48,088
Balances with central banks	6,722,765	3,750,394
Liquid funds	**6,770,589**	**3,798,482**

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 VBW 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.

VBW 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.

VBW 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	6,770,589	3,798,482
Restricted cash and cash equivalents	-4,901	-4,901
Cash and cash equivalents	**6,765,688**	**3,793,581**

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

13) Loans and receivables credit institutions and customers

Euro thousand	31 Dec 2021	31 Dec 2020
Loans and receivables credit institutions		
Amortised cost	2,168,764	2,285,932
Fair value through profit or loss	58	118
Gross carrying amount	2,168,823	2,286,050
Risk provisions	-22	-36
Net carrying amount	**2,168,801**	**2,286,014**
Loans and receivables customers		
Amortised cost	5,350,884	5,319,517
Fair value through profit or loss	107,693	132,137
Gross carrying amount	5,458,578	5,451,654
Risk provisions	-63,012	-79,321
Net carrying amount	**5,395,566**	**5,372,333**
Loans and receivables credit institutions and customers	**7,564,367**	**7,658,347**

Breakdown by residual term

Euro thousand	31 Dec 2021	31 Dec 2020
On demand	793,920	532,390
Up to 3 months	521,765	655,786
Up to 1 year	193,192	260,613
Up to 5 years	633,550	807,668
More than 5 years	26,397	29,593
Loans and receivables credit institutions (gross)	**2,168,823**	**2,286,050**
On demand	369,357	162,664
Up to 3 months	73,084	98,823
Up to 1 year	116,990	165,163
Up to 5 years	523,251	612,687
More than 5 years	4,375,895	4,412,317
Loans and receivables customers (gross)	**5,458,578**	**5,451,654**

Sensitivity analysis

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

As there are only loans and receivables to credit institutions measured at fair value through profit or loss in the amount of euro 58 thousand as at 31 December 2021 (2020: euro 118 thousand), the sensitivities have not been presented in tabular form.

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

Euro thousand

31 Dec 2021	Positive change in fair value	Negative change in fair value
Change in risk markup +/- 10 bp	373	-371
Change in risk markup +/- 100 bp	3,870	-3,581
Change in rating 1 stage down / up	36	-54
Change in rating 2 stages down / up	60	-131
31 Dec 2020		
Change in risk markup +/- 10 bp	614	-609
Change in risk markup +/- 100 bp	6,401	-5,850
Change in rating 1 stage down / up	50	-60
Change in rating 2 stages down / up	82	-166

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	46	1	0	47
Increases due to origination and acquisition	0	0	0	0
Decreases due to derecognition	-3	-1	0	-4
Changes due to change in credit risk	-6	0	0	-6
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	-1	0	0	-1
As at 31 Dec 2020	36	0	0	36
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	-54	0	0	-54
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	**22**	**0**	**0**	**22**

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	3,752	11,156	40,712	55,619
Increases due to origination and acquisition	62	34	831	927
Decreases due to derecognition	-38	-140	-49	-227
Changes due to change in credit risk	288	6,029	8,822	15,140
Thereof transfer to stage 1	1,206	-1,206	0	0
Thereof transfer to stage 2	-1,490	1,689	-198	0
Thereof transfer to stage 3	-24	-710	734	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	6,128	5,042	0	11,170
Decrease in allowance account due to write-offs	0	0	-3,327	-3,327
Other adjustments	664	-2,873	2,229	20
As at 31 Dec 2020	10,857	19,248	49,217	79,321
Increases due to origination and acquisition	796	384	1,170	2,350
Decreases due to derecognition	-293	-1,312	-1,732	-3,336
Changes due to change in credit risk	-1,553	944	-1,951	-2,560
Thereof transfer to stage 1	1,496	-1,496	0	0
Thereof transfer to stage 2	-1,722	1,972	-251	0
Thereof transfer to stage 3	-2	-652	654	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	-4,791	-4,411	0	-9,201
Decrease in allowance account due to write-offs	0	0	-3,661	-3,661
Other adjustments	1	-457	555	100
As at 31 Dec 2021	**5,018**	**14,396**	**43,598**	**63,012**

Risk provision – financial investments measured at amortised cost

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 01 Jan 2020	442	0	0	442
Increases due to origination and acquisition	23	0	0	23
Decreases due to derecognition	-5	0	0	-5
Changes due to change in credit risk	315	0	0	315
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	0	0	0
As at 31 Dec 2020	775	0	0	775
Increases due to origination and acquisition	42	0	0	42
Decreases due to derecognition	-347	0	0	-347
Changes due to change in credit risk	-147	0	0	-147
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	**323**	**0**	**0**	**323**

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	4	0	0	4
Increases due to origination and acquisition	0	0	0	0
Decreases due to derecognition	-3	0	0	-3
Changes due to change in credit risk	1	0	0	1
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	0	0	0
As at 31 Dec 2020	2	0	0	2
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	**2**	**0**	**0**	**2**

15) Assets held for trading

Euro thousand	31 Dec 2021	31 Dec 2020
Bonds and other fixed-income securities	623	2,603
Equities and other variable-yield securities	0	40
Positive fair values of derivative instruments	40,969	57,133
Exchange rate related transactions	13	28
Interest rate related transactions	40,956	57,105
Assets held for trading	**41,592**	**59,775**

Breakdown by residual term

Euro thousand	31 Dec 2021	31 Dec 2020
Up to 3 months	120	664
Up to 1 year	16	0
Up to 5 years	477	1,114
More than 5 years	9	824
Bonds and other fixed-income securities	**623**	**2,603**

Since the acquisition of the CO function the company 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	2,093,984	2,227,387
Fair value through OCI	14,891	17,193
Fair value through profit or loss	7,677	39,525
Risk provision	-323	-775
Carrying amount	**2,116,228**	**2,283,330**

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 2,720 thousand (2020: euro 34,576 thousand).

Breakdown by residual term

Euro thousand	31 Dec 2021	31 Dec 2020
Up to 3 months	32,762	16,745
Up to 1 year	40,885	56,372
Up to 5 years	649,910	814,073
More than 5 years	1,390,275	1,362,340
Bonds and other fixed-income securities	**2,113,832**	**2,249,529**

Breakdown of debt securities in accordance with the Austrian Banking Act

Euro thousand	31 Dec 2021	31 Dec 2020
Listed securities	1,889,149	1,857,935
Bonds and other fixed-income securities	1,888,497	1,857,336
Equity and other variable-yield securities	652	599
Securities allocated to fixed assets	1,893,665	1,911,831
Securities eligible for rediscounting	1,840,325	1,804,015

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

17) Investment property

Euro thousand	Investment properties
Costs as at 01 Jan 2020	28,824
Additions	35
Disposals	-1,915
Assets held for sale	-344
Costs as at 31 Dec 2020	26,600
Additions	0
Disposals	-2,427
Assets held for sale	-2,803
Costs as at 31 Dec 2021	**21,370**

Euro thousand	Investment properties
Cumulative valuation 01 Jan 2020	4,235
Disposals	-765
Assets held for sale	0
Valuation losses	-365
Valuation gains	481
Cumulative valuation 31 Dec 2020	3,586
Disposals	-309
Assets held for sale	-297
Valuation losses	0
Valuation gains	2,853
Cumulative valuation 31 Dec 2021	**5,832**

Euro thousand	Investment properties
Carrying amount 01 Jan 2020	33,059
Carrying amount 31 Dec 2020	30,186
Carrying amount 31 Dec 2021	27,202

The valuations shown in the table above are included within result from financial instruments and investment properties. These valuations include holdings of investment property assets in the amount of euro 2,642 thousand (2020: euro -254 thousand) at the reporting date.

In 2021, investment properties with a carrying amount of euro 2,737 thousand (2020: euro 2,680 thousand) was disposed of.

Investment properties contain 9 completed properties (2020: 11) with a carrying amount of euro 15,740 thousand (2020: euro 18,154 thousand), as well as undeveloped land with a carrying amount of euro 11,462 thousand (2020: euro 12,032 thousand). These properties are located in Austria. At reporting date, the investement properties are measured at fair value.

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

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

The sensitivity analysis was calculated for all investment properties, regardless of whether they are reported as investment properties or assets held for sale.

Completed properties

	2021			2020		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	70	4,540	1,806	64	4,460	1,650
Rentable space in sqm	38	2,741	1,414	38	2,762	1,372
Occupancy rate	65 %	100 %	96 %	68 %	100 %	92 %
Discount rate	3.75 %	7.00 %	4.23 %	3.00 %	7.00 %	4.92 %

Sensitivity analysis

Euro thousand	Changes in the	
31 Dec 2021	**if assumption is increased**	**if assumption is decreased**
Discount rate (0.25 % change)	-1,008	1,134
Discount rate (0.50 % change)	-1,909	2,420
31 Dec 2020		
Discount rate (0.25 % change)	-1,023	1,153
Discount rate (0.50 % change)	-1,936	2,462

Undeveloped land

	2021			2020		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	32	2,990	1,020	26	2,850	952
Plot size in sqm	540	48,263	14,721	540	48,263	14,866
value per sqm	5	1,197	256	5	718	173

Sensitivity analysis

Euro thousand 31 Dec 2021	Changes in the if assumption is increased	if assumption is decreased
Land value (10 % change)	1,224	-1,224
Land value (5 % change)	612	-612
31 Dec 2020		
Land value (10 % change)	1,238	-1,238
Land value (5 % change)	619	-619

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

18) Companies measured at equity

Euro thousand	Associates
Carrying amount as at 01 Jan 2020	39,194
Comprehensive income proportional	-956
Impairment	0
Reversal of impairment	453
Carrying amount as at 31 Dec 2020	38,691
Comprehensive income proportional	1,433
Impairment	-1,214
Reversal of impairment	0
Carrying amount as at 31 Dec 2021	**38,909**

Associates

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

VBW holds a 26.12 % (2020: 25.66 %) share in VB Kärnten with registered office in Klagenfurt. The company's main business purpose consists of banking operations and bank-related brokering and services.

VBW holds a 29.11 % (2020: 29.09 %) share in VB Bet with registered office in Vienna. The main business of the company is holding of participations within the Association of Volksbanks.

None of the companies are listed on the stock exchange.

Additional information regarding associates

Euro thousand	VB Kärnten 2021	2020	VB Bet 2021	2020
Assets				
Liquid funds	13,896	9,839	0	0
Loans and receivables credit institutions (net)	248,379	248,110	28,543	37,986
Loans and receivables customers (net)	1,181,859	1,177,688	0	0
Financial investments	13,004	19,730	3,000	0
Other assets	54,380	51,499	73,110	66,878
Total assets	**1,511,518**	**1,506,866**	**104,653**	**104,864**
of which current assets	529,384	527,450	104,653	84,864
Liabilities and Equity				
Amounts owed to credit institutions	3,869	15,309	0	0
Amounts owed to customers	1,372,239	1,347,880	0	0
Debts evidenced by certificates	0	7	0	0
Lease liabilities	3,043	3,040	0	0
Subordinated liabilities	8,833	20,314	0	0
Other liabilities	14,565	14,198	1,407	2,236
Equity	108,968	106,119	103,246	102,629
Total liabilities and equity	**1,511,518**	**1,506,866**	**104,653**	**104,864**
of which current liabilities	22,435	77,875	1,407	2,236
Statement of comprehensive income				
Interest and similar income	25,089	22,459	251	337
Interest and similar expense	-2,046	-2,132	-147	-125
Net interest income	23,044	20,327	105	212
Risk provisions	2,959	-6,791	0	0
Result before taxes	3,688	-4,495	1,311	-589
Income taxes	-815	1,124	56	-13
Result after taxes	2,874	-3,371	1,367	-601
Other comprehensive income	947	392	-1,624	-1,212
Comprehensive income	**3,820**	**-2,980**	**-257**	**-1,813**

Reconciliation

Euro thousand	2021	2020	2021	2020
Equity	108,968	106,119	103,246	102,629
Equity interest	26.12 %	25.66 %	29.11 %	29.09 %
Equity proportional	28,462	27,230	30,056	29,855
Cumulative impairment and reversals	-10,393	-9,179	0	0
Valuation previous years	-9,313	-9,313	97	97
Carrying amount as at 31 Dec 2021	8,756	8,738	30,153	29,953

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

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

19) Participations

Euro thousand	31 Dec 2021	31 Dec 2020
Investments in unconsolidated affiliates	2,377	2,859
Investments in companies with participating interest	3,177	4,020
Investments in other companies	56,343	42,281
Participations	**61,897**	**49,160**

A list of unconsolidated affiliates is shown in note 54) Unconsolidated affiliated companies with a carrying amount of euro 1,047 thousand (2020: euro 54 thousand) were disposed of during the business year. The most significant participations in the item other companies are Volksbanken Holding eGen with a carrying amount of euro 18,892 thousand (2020: euro 18,892 thousand), Volksbank Oberösterreich AG with a carrying amount of euro 9,984 thousand (2020: euro 2,685 thousand), and Volksbank Steiermark AG with a carrying amount of euro 6,306 thousand (2020: euro 5,263 thousand). Income from participations are included in the income statement in the item Result from financial instruments and investment properties. Income from participations includes dividends of euro 2,926 thousand from participations measured at fair value through OCI (2020: euro 1,123 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 VBW Group are measured at fair value through OCI.

Sensitivity analysis

Participations, measured by using the DCF method

Proportional market value Euro thousand		Interest rate		
31 Dec 2021		**-0.50 %**	**Actual**	**0.50 %**
	-10.00%	11,578	10,944	10,376
Income component	**Actual**	12,864	**12,160**	11,529
	10.00%	14,150	13,376	12,682
31 Dec 2020				
	-10.00%	10,823	10,297	9,825
Income component	**Actual**	11,914	**11,135**	10,805
	10.00%	13,005	12,362	11,785

Participations, measured by net assets

Euro thousand	Proportional market value		
31 Dec 2021	**If assumption is decreased**	**Actual**	**If assumptions is increased**
Net assets (10 % change)	4,911	**5,457**	6,002
31 Dec 2020			
Net assets (10 % change)	4,223	**4,649**	5,162

Participations, measured based on external appraisals

Euro thousand 31 Dec 2021	Lower band	Actual	Upper band
Proportional market value	35,856	**39,839**	43,824
31 Dec 2020			
Proportional market value	26,081	**29,087**	32,094

20) Intangible assets

Euro thousand	Software	Goodwill	Others	Total
Costs as at 01 Jan 2020	33,607	13,772	24,824	72,203
Reclassification	0	0	0	0
Additions	6	0	0	6
Disposals	-22,273	0	0	-22,273
Costs as at 31 Dec 2020	11,339	13,772	24,824	49,935
Reclassification	22,273	0	0	22,273
Additions	4	0	0	4
Disposals	-5,725	0	0	-5,725
Costs as at 31 Dec 2021	**27,891**	**13,772**	**24,824**	**66,487**
Cumulative valuation 01 Jan 2020	-31,268	-13,772	-4,566	-49,606
Reclassification	0	0	0	0
Disposals	22,273	0	0	22,273
Depreciation	-640	0	-1,291	-1,932
Cumulative valuation 31 Dec 2020	-9,635	-13,772	-5,857	-29,264
Reclassification	-22,273	0	0	-22,273
Disposals	5,725	0	0	5,725
Depreciation	-635	0	-1,291	-1,927
Cumulative valuation 31 Dec 2021	**-26,818**	**-13,772**	**-7,149**	**-47,739**
Carrying amount 01 Jan 2020	2,339	0	20,258	22,597
Carrying amount 31 Dec 2020	1,704	0	18,967	20,671
Thereof with limited useful life	1,704		18,967	20,671
Carrying amount 31 Dec 2021	1,073	0	17,675	18,749
Thereof with limited useful life	1,073		17,675	18,749

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

21) Tangible assets

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Costs as at 01 Jan 2020	114,967	2,286	54,238	0	171,491
Reclassification	94	-32	-62	0	0
Additions	659	91	2,861	1	3,612
Disposals	-16,181	-329	-6,843	-1	-23,355
Assets held for sale	-2,539	0	0	0	-2,539
Costs as at 31 Dec 2020	96,999	2,017	50,194	0	149,210
Reclassification	101	0	-2,162	2,061	0
Additions	2,254	11	1,548	470	4,284
Disposals	-2,124	-7	-772	-529	-3,433
Assets held for sale	-6,576	0	0	0	-6,576
Costs as at 31 Dec 2021	**90,654**	**2,021**	**48,808**	**2,002**	**143,485**
Cumulative valuation 01 Jan 2020	-58,252	-1,425	-43,273	0	-102,950
Reclassification	0	32	-32	0	0
Disposals	9,444	329	6,112	1	15,885
Assets held for sale	1,941	0	0	0	1,941
Depreciation	-3,078	-249	-3,055	-1	-6,383
Impairment	-526	0	0	0	-526
Cumulative valuation 31 Dec 2020	-50,471	-1,313	-40,248	0	-92,033
Reclassification	0	0	1,765	-1,765	0
Disposals	1,914	7	733	524	3,177
Assets held for sale	3,765	0	0	0	3,765
Depreciation	-2,480	-178	-1,969	-203	-4,831
Impairment	-140	0	-505	0	-644
Cumulative valuation 31 Dec 2021	**-47,413**	**-1,485**	**-40,224**	**-1,444**	**-90,566**
Carrying amount 01 Jan 2020	56,714	862	10,966	0	68,541
Carrying amount 31 Dec 2020	46,528	703	9,946	0	57,177
Carrying amount 31 Dec 2021	43,241	536	8,584	558	52,919

Right of use

Euro thousand	Branches	Administration buildings	Total
31 Dec 2020			
Amortised cost	58,993	31,207	90,200
Additions	6,596	0	6,596
Depreciation	-2,731	-1,866	-4,597
Carrying amount	53,314	29,028	82,342
31 Dec 2021			
Amortised cost	59,776	31,207	90,982
Additions	783	0	783
Depreciation	-2,661	-1,724	-4,386
Carrying amount	**51,436**	**27,303**	**78,739**

At VBW two buildings were sold, and the branches located therein were subsequently leased back again. This transaction had only an insignificant impact on earnings. This resulted in a cash inflow of euro 706 thousand (2020: euro 4,039 thousand).

22) Tax assets and liabilities

Euro thousand	31 Dec 2021 Tax assets	31 Dec 2021 Tax liabilities	31 Dec 2020 Tax assets	31 Dec 2020 Tax liabilities
Current tax	2,905	2,559	3,868	1,331
Deferred tax	35,478	691	39,669	703
Tax total	**38,383**	**3,250**	**43,538**	**2,035**

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

Euro thousand	31 Dec 2021 Tax assets	31 Dec 2021 Tax liabilities	31 Dec 2020 Tax assets	31 Dec 2020 Tax liabilities	Net deviation 2021 Total	Net deviation 2021 In income statement	Net deviation 2021 In other comprehensive income
Loans and receivables credit institutions (net)	353	572	407	0	-625	-625	0
Loans and receivables customers (net)	12,581	0	11,349	287	1,518	1,518	0
Assets held for trading	9,125	0	20	0	9,105	9,105	0
Financial investments (net)	4,491	54,851	7,449	91,389	33,580	33,510	70
Investment property	0	3,416	0	2,841	-575	-575	0
Participations	7,566	-2	6,857	-2	709	1,846	-1,137
Intangible and tangible assets	75	25,393	0	26,493	1,175	1,175	0
Amounts owed to customers	927	0	0	0	927	927	0
Debts evidenced by certificates and subordinated liabilities	9,994	995	26,595	253	-17,343	-17,883	540
Lease liabilities	20,635	0	21,456	0	-821	-821	0
Liabilities held for trading	0	9,164	0	18	-9,146	-9,146	0
Provisions for pensions, severance payments and other provisions	7,400	856	8,306	730	-1,033	-518	-515
Other assets and liabilities	63,159	15,124	106,136	29,409	-28,692	-28,702	10
Tax loss carryforwards	8,849	0	1,807	0	7,042	7,042	0
Deferred taxes before netting	**145,156**	**110,369**	**190,383**	**151,416**	**-4,180**	**-3,147**	**-1,033**
Offset between deferred tax assets and deferred tax liabilities	-109,678	-109,678	-150,713	-150,713	0	0	0
Reported deferred taxes	**35,478**	**691**	**39,669**	**703**	**-4,180**	**-3,147**	**-1,033**

Deferred tax assets and deferred tax liabilities are only offset within the same company.

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

No deferred taxes were recognised for tax loss carry-forwards in the amount of euro 547,603 thousand (2020: euro 255,592 thousand). Of these non-recognised tax loss carry-forwards, euro 547,603 thousand (2020: euro 255,592 thousand) can be carried forward without restriction and primarily concern VBW itself. 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, no deferred tax liabilities for temporary differences relating to investments in subsidiaries with an amount of euro 2,992 thousand (2020: euro 3,111 thousand) and no deferred tax assets with an amount of euro 16,246 thousand (2020: euro 15,018 thousand) were recognised, as they are not expected to reverse in the foreseeable future.

23) Other assets

Euro thousand	31 Dec 2021	31 Dec 2020
Deferred items	2,851	2,453
Other receivables and assets	22,757	24,056
Positive fair values of derivative instruments	83,571	131,926
Other assets	**109,179**	**158,436**

Other receivables and assets essentially consist of open outgoing invoices and accruals in the amount of euro 12,796 thousand (2020: euro 4,302 thousand), auxiliary accounts of the banking business in the amount of euro 4,122 thousand (2020: euro 13,843 thousand), receivables to employees in the amount of euro 3,471 thousand (2020: euro 3,254 thousand) and property sales in the amount of euro 1,327 thousand (2020: euro 1,314 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 46,724 thousand (2020: eur 63,087 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 under IFRS 9

	31 Dec 2021		31 Dec 2020	
Euro thousand	Fair value hedge	Cash flow hedge	Fair value hedge	Cash flow hedge
Interest rate related transactions	36,847	0	68,839	0
Positive fair values of derivative instruments	**36,847**	**0**	**68,839**	**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
Investment property	3,100	344
Tangible assets	2,811	598
Assets held for sale	**5,911**	**942**

The increase is mainly attributable to a real estate portfolio in Vienna held for sale. Due to the potential of the properties, 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.

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	2,637,277	2,576,860
Amounts owed to credit institutions	**6,217,234**	**4,165,780**

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	2,543,593	2,448,258
Up to 3 months	59,844	86,802
Up to 1 year	3,501,517	1,506,948
Up to 5 years	11,505	11,329
More than 5 years	100,775	112,443
Amounts owed to credit institutions	**6,217,234**	**4,165,780**

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

26) Amounts owed to customers

Euro thousand	31 Dec 2021	31 Dec 2020
Savings deposits	1,677,306	1,814,626
Other deposits	5,244,452	4,821,939
Amounts owed to customers	**6,921,758**	**6,636,565**

Amounts owed to customers are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2021	31 Dec 2020
On demand	6,619,952	6,024,252
Up to 3 months	109,014	293,788
Up to 1 year	170,019	269,189
Up to 5 years	22,732	49,279
More than 5 years	42	56
Amounts owed to customers	**6,921,758**	**6,636,565**

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

27) Debts evidenced by certificates

Euro thousand	31 Dec 2021	31 Dec 2020
Bonds	1,908,240	1,463,851
Amortised cost	1,822,061	1,373,976
Fair value through profit or loss - designated	86,179	89,875
Debts evidenced by certificates	**1,908,240**	**1,463,851**

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 issued an 8-year covered bond with variable interest rate (interest rate period equal to 3-month Euribor) and a Moody’s rating of Aaa in March 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 1 year	0	19,767
Up to 5 years	1,254,304	302,308
More than 5 years	653,936	1,141,776
Debts evidenced by certificates	**1,908,240**	**1,463,851**

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

28) Lease liabilities

Euro thousand	31 Dec 2021	31 Dec 2020
Up to 3 months	1,008	1,108
Up to 1 year	3,024	3,308
Up to 5 years	17,362	18,072
More than 5 years	61,146	63,337
Lease liabilities	**82,541**	**85,826**

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

Presentation of the inflow and outflow of lease liabilities

Euro thousand	Lease liabillities
As at 01 Jan 2020	**100,927**
Cash outflow	-3,422
Non-cash changes	
Others	-11,679
Total non-cash changes	-11,679
As at 31 Dec 2020	**85,826**
Cash outflow	-4,456
Non-cash changes	
Others	1,172
Total non-cash changes	1,172
As at 31 Dec 2021	**82,541**

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	43,292	62,595
Liabilities held for trading	**43,292**	**62,596**

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	623	1,024	3,027	4,674
Increases due to origination and acquisition	39	4	0	43
Decreases due to derecognition	-18	-21	-35	-74
Changes due to change in credit risk	149	285	-827	-392
Thereof transfer to stage 1	89	-89	0	0
Thereof transfer to stage 2	-108	108	-1	0
Thereof transfer to stage 3	-6	-20	26	0
Changes due to modifications without derecognition	0	0	0	0
Post-Model Adjustment	1,125	619	0	1,744
Other adjustments	0	0	0	0
As at 31 Dec 2020	1,919	1,911	2,165	5,995
Increases due to origination and acquisition	268	49	98	415
Decreases due to derecognition	-50	-54	-853	-957
Changes due to change in credit risk	-65	270	1,074	1,279
Thereof transfer to stage 1	70	-70	0	0
Thereof transfer to stage 2	-135	139	-4	0
Thereof transfer to stage 3	0	-25	25	0
Changes due to modifications without derecognition	-362	0	0	-362
Post-Model Adjustment	-982	-537	0	-1,520
Other adjustments	0	-19	19	0
As at 31 Dec 2021	**728**	**1,620**	**2,503**	**4,851**

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	4,090	4,292	1,353	1,864	11,600
Transfer of staff	0	0	0	0	0
Unwinding	0	0	0	3	3
Utilisation	-936	-32	-344	-29	-1,341
Release	-1,261	-2,770	-440	-1,007	-5,477
Addition	830	636	98	558	2,122
As at 31 Dec 2020	2,723	2,126	668	1,389	6,907
Transfer of staff	119	0	0	0	119
Unwinding	0	0	0	0	0
Utilisation	-351	0	-5	-85	-442
Release	-144	-1,238	-112	-290	-1,784
Addition	41	356	23	2,335	2,755
As at 31 Dec 2021	**2,388**	**1,244**	**573**	**3,349**	**7,555**

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

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

31) Long-term employee provisions

Euro thousand	Provision for pensions	Provision for severance payments	Provision for anniversary bonuses	Total
Net present value as at 01 Jan 2020	11,788	44,042	7,639	63,469
Transfer of staff	0	0	0	0
Current service costs	60	1,955	516	2,531
Interest costs	36	184	33	252
Payments	-842	-1,930	-324	-3,097
Actuarial gains or losses arising from changes in financial assumptions	-471	-4,721	-559	-5,751
Net present value as at 31 Dec 2020	10,570	39,530	7,304	57,404
Transfer of staff	0	25	5	30
Current service costs	41	1,713	457	2,211
Interest costs	32	165	31	228
Payments	-833	-1,398	-322	-2,554
Actuarial gains or losses arising from changes in financial assumptions	145	-2,207	-196	-2,258
Net present value as at 31 Dec 2021	**9,954**	**37,828**	**7,279**	**55,061**

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
Net present value of plan assets as at 31 Dec 2020	987
Result from plan assets	42
Contributions to plan assets	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.

In 2021, contribution payments to plan assets are expected in the amount of euro 0 thousand (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	10,570	39,530	7,304	57,404
Net present value of plan assets	-987	0	0	-987
Net liability recognised in balance sheet	**9,582**	**39,530**	**7,304**	**56,416**
31 Dec 2021				
Long-term employee provision	9,954	37,828	7,279	55,061
Net present value of plan assets	-1,029	0	0	-1,029
Net liability recognised in balance sheet	**8,925**	**37,828**	**7,279**	**54,032**

Historical information

Euro thousand	2021	2020	2019	2018	2017
Net present value of obligations	55,061	57,404	63,469	61,122	62,476
Net present value of plan assets	1,029	987	971	979	892

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

Sensitivity analysis

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

	Change in the present value	
Euro thousand	Increase of assumption	Decrease of assumption
31 Dec 2020		
Discount rate (0.75 % modification)	-4,122	5,113
Future wage and salary increases (0.50 % modification)	2,875	-2,300
Future pension increases (0.25 % modification)	264	-252
Future mortality (1 year modification)	675	-651
31 Dec 2021		
Discount rate (0.75 % modification)	-3,850	4,655
Future wage and salary increases (0.50 % modification)	2,565	-2,136
Future pension increases (0.25 % modification)	245	-234
Future mortality (1 year modification)	651	-624

As of 31 December 2021, the weighted average term of defined-benefit obligations for pensions was 10.1 years (2020: 10.4 years) and for severance payment 12.1 years (2020: 12.5 years).

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

32) Other liabilities

Euro thousand	31 Dec 2021	31 Dec 2020
Deferred items	1,136	731
Other liabilities	62,095	36,540
Negative fair values of derivative instruments	287,158	442,964
Other liabilities	**350,389**	**480,235**

Other liabilities essentially consist of deferrals and incoming invoices in the amount of euro 35,106 thousand (2020: euro 19,666 thousand), taxes and fiscal liabilities in the amount of euro 12,807 thousand (2020: euro 6,139 thousand), commitments to staff in the amount of euro 6,831 thousand (2020: euro 4,432 thousand), as well as auxiliary accounts of the banking business in the amount of euro 2,689 thousand (2020: euro 2,520 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 25,250 thousand (2020: eur 34,268 thousand) 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	260,292	37	406,964	0
Negative fair values of derivative instruments	**261,871**	**37**	**408,696**	**0**

33) Subordinated liabilities

Euro thousand	31 Dec 2021	31 Dec 2020
Subordinated capital	399,105	402,879
Amortised cost	399,105	402,879
Supplementary capital	4,000	4,000
Amortised cost	4,000	4,000
Subordinated liabilities	**403,105**	**406,879**

Subordinated liabilities are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2021	31 Dec 2020
On demand	0	0
Up to 3 months	0	4,000
Up to 1 year	4,600	0
Up to 5 years	0	2,879
More than 5 years	398,505	400,000
Subordinated liabilities	**403,105**	**406,879**

Presentation of the inflow and outflow of subordinated liabilities

Euro thousand	Subordinated liabilities
As at 01 Jan 2020	**417,783**
Cash outflow	-11,147
Non-cash changes	
Others	243
Total non-cash changes	243
As at 31 Dec 2020	**406,879**
Cash outflow	-4,000
Non-cash changes	
Others	226
Total non-cash changes	226
As at 31 Dec 2021	**403,105**

34) Cash flows based on maturities

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

Euro thousand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Undis-counted cash flows	Carrying amount
31 Dec 2021						
Amounts owed to credit institutions	2,603,581	3,501,944	13,923	102,135	**6,221,582**	6,217,234
Amounts owed to customers	6,782,363	170,096	22,960	1,622	**6,977,041**	6,921,758
Debts evidenced by certificates	0	20,162	1,305,706	674,904	**2,000,772**	1,908,240
Lease liabilities	0	0	0	0	**0**	82,541
Derivative instruments trading book	0	0	0	0	**0**	43,292
Subordinated liabilities	0	15,766	44,000	406,944	**466,710**	403,105
Derivative instruments banking book	0	0	0	0	**0**	287,158
31 Dec 2020						
Amounts owed to credit institutions	2,535,182	1,507,312	14,437	114,316	**4,171,248**	4,165,780
Amounts owed to customers	6,435,843	294,136	49,754	1,775	**6,781,507**	6,636,565
Debts evidenced by certificates	0	36,155	349,791	1,424,465	**1,810,411**	1,463,851
Lease liabilities	0	0	0	0	**0**	85,826
Derivative instruments trading book	0	4,662	9,397	48,601	**62,660**	62,596
Subordinated liabilities	4,000	11,181	47,046	419,438	**481,665**	406,879
Derivative instruments banking book	0	26	20,524	420,548	**441,098**	442,964

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

35) Equity

As at 31 December 2021, the subscribed capital of VBW before deduction of treasury stocks amounted to euro 137,547 thousand (2020: euro 137,547 thousand). It consists of registered shares as follows:

		Euro thousand
1,467,163	Non-par value shares	137,547

Changes in subscribed capital

Number of units	Shares
Shares outstanding as of 31 Dec 2020	1,467,163
Shares outstanding as of 31 Dec 2021	**1,467,163**

Dividend payment

Euro thousand	2021	2020
Dividend non-voting equity	124,016	439
Coupon for the AT1 emission	17,050	17,050
Total	**141,066**	**17,489**

The dividend payment for non-voting capital includes the distribution to the federal government from the participation right (Bundes-Genussrecht) in RZG. Details of the participation right of the federal government are set out in more detail in note 2).

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

		Other reserves						
Euro thousand	Retained earnings	IAS 19 reserve	Revaluation reserve	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	**287,633**	**-2,618**	**1,374**	**17,594**	**1,042**	**0**	**2,100**	**307,126**
Consolidated net income	30,787							30,787
Other comprehensive income	649	4,004		-4,387	43		-106	203
Dividends paid	-439							-439
Coupon for the AT1 emission	-17,050							-17,050
Reclassification capital reserve	414							414
Reclassification fair value reserve due to sale	-186			186				
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation	15							15
As at 31 Dec 2020	**301,823**	**1,386**	**1,374**	**13,394**	**1,085**	**0**	**1,994**	**321,056**
Consolidated net income	105,283							105,283
Other comprehensive income		1,598		3,151	-223	-30	-1,621	2,876
Dividends paid	-124,016							-124,016
Coupon for the AT1 emission	-17,050							-17,050
Reclassification capital reserve	8,949							8,949
Reclassification fair value reserve due to sale	-724			724				
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation	7							7
As at 31 Dec 2021	**274,272**	**2,984**	**1,374**	**17,269**	**862**	**-30**	**374**	**297,105**

Shareholder contributions

Contributions made by the shareholders of VBW to RZG in the amount of euro 53,409 thousand (2020: euro 414 thousand) are presented in the development of the Groups Equity under shareholders contributions.

Return on capital employed

The return on capital employed for the business year was 0.62 % (2020: 0.22 %) and was calculated as the ratio of the 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; Vienna	<0.001 %	<0.001 %	Other companies
Gärtnerbank Immobilien GmbH; Vienna	<0.001 %	<0.001 %	Other companies
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Vienna	<0.001 %	<0.001 %	Other companies
VB Services für Banken Ges.m.b.H.; Vienna	0.000 %	1.110 %	Other companies
VB Verbund-Beteiligung Region Vienna eG in Liqu.; Vienna	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.; Vienna	0.005 %	0.005 %	Other companies

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

Additional information non-controlling interest

	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

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

36) Own funds

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

Euro thousand	31 Dec 2021	31 Dec 2020
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	340,175	340,175
Retained earnings	219,348	423,612
Accumulated other comprehensive income (and other reserves)	134,226	-87,568
Common tier I capital before regulatory adjustments	693,750	676,220
Common tier I capital: regulatory adjustments		
Intangible assets (net of related tax liability)	-18,749	-20,671
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	91	0
Value adjustments due to the requirement for prudent valuation	-732	-1,023
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-8,677	0
Insufficient coverage for non-performing exposures	-568	0
Regulatory adjustments - transitional provisions	5,579	15,396
Adjustments to be made due to transitional regulations under IFRS 9	5,579	15,396
Amount exceeding the threshold of 17.65 %	0	0
Additional CET1 deductions pursuant to article 3 CRR	-22,750	-14,169
Total regulatory adjustments	-46,149	-20,467
Common equity tier I capital - CET1	**647,601**	**655,753**
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)	**867,601**	**875,753**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts	399,829	400,919
Tier II capital before regulatory adjustments	399,829	400,919
Tier II capital: regulatory adjustments		
Total regulatory adjustments	0	0
Tier II capital - T2	**399,829**	**400,919**
Own funds total - TC (T1 + T2)	**1,267,430**	**1,276,672**
Common equity tier I capital ratio	16.89 %	16.78 %
Tier I capital ratio	22.62 %	22.40 %
Equity ratio	33.05 %	32.66 %
each in relation to total risk exposure amount		

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

Euro thousand	31 Dec 2021	31 Dec 2020
Risk weighted exposure amount - credit risk	3,227,683	3,287,849
Total risk exposure amount for position, foreign exchange and commodities risks	27,406	37,895
Total risk exposure amount for operational risk	571,067	533,093
Total risk exposure amount for credit valuation adjustment (cva)	8,914	49,981
Total risk exposure amount	**3,835,071**	**3,908,817**

The following table shows the own funds of the VBW credit institution group 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	340,175	340,175
Retained earnings	219,348	423,612
Accumulated other comprehensive income (and other reserves)	134,226	-87,568
Common tier I capital before regulatory adjustments	693,750	676,220
Common tier I capital: regulatory adjustments		
Intangible assets (net of related tax liability)	-18,749	-20,671
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	91	0
Value adjustments due to the requirement for prudent valuation	-732	-1,023
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-8,677	0
Amount exceeding the threshold of 17.65 %	0	0
Insufficient coverage for non-performing exposures	-568	0
Additional CET1 deductions pursuant to article 3 CRR	-22,750	-14,169
Total regulatory adjustments	-51,728	-35,863
Common equity tier I capital - CET1	**642,022**	**640,357**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	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)	**862,022**	**860,357**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts	399,829	400,919
Tier II capital before regulatory adjustments	399,829	400,919
Tier II capital: regulatory adjustments		
Total regulatory adjustments	0	0
Tier II capital - T2	**399,829**	**400,919**
Own funds total - TC (T1 + T2)	**1,261,851**	**1,261,276**
Common equity tier I capital ratio	16.76 %	16.44 %
Tier I capital ratio	22.51 %	22.09 %
Equity ratio	32.95 %	32.38 %
each in relation to total risk exposure amount		

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

Euro thousand	31 Dec 2021	31 Dec 2020
Risk weighted exposure amount - credit risk	3,222,395	3,274,463
Total risk exposure amount for position, foreign exchange and commodities risks	27,406	37,895
Total risk exposure amount for operational risk	571,067	533,093
Total risk exposure amount for credit valuation adjustment (cva)	8,914	49,981
Total risk exposure amount	**3,829,783**	**3,895,432**

Group issues which are included in tier I or tier II

31 Dec 2021 ISIN	Name	Identification IFRS	Redemption date	Conditions	Nominal value in euro thousand
AT1					
AT000B121991	Additional tier 1 capital	Additional tier 1 capital	perpetual	7.75 % p.a.; from 9 April 2024 all 5 Y with 5 Y-CMS plus 788 bp	220,000
Tier II issues					
QOXDBA032238	Subordinated 12/22	subordinated liabilities at amortised cost	01 Dec 2022	3.50 % p. a.	600
AT000B121967	Subordinated 17/27	subordinated liabilities at amortised cost	06 Oct 2027	2.75% p.a.; from 6 Oct 2023 5Y-Mid Swap + 255 bp p.a.	400,000
QOXDBA000383	Supplementary capital 12/22	subordinated liabilities at amortised cost	01 Dec 2022	12m Euribor + 62.5 bp, max. 7.00 % p.a., at least 4.00 % p.a.	4,000
	Promissory note bond	subordinated liabilities at amortised cost	20 Mar 2021	3m Euribor + 75 bp p.q.	0
31 Dec 2020					
AT1					
AT000B121991	Additional tier 1 capital	Additional tier 1 capital	perpetual	7.75 % p.a.; from 9 April 2024 all 5 Y with 5 Y-CMS plus 788 bp	220,000
Tier II issues					
QOXDBA032238	Subordinated 12/22	subordinated liabilities at amortised cost	01 Dec 2022	3.50 % p. a.	600
AT000B121967	Subordinated 17/27	subordinated liabilities at amortised cost	06 Oct 2027	2.75% p.a.; from 6 Oct 2023 5Y-Mid Swap + 255 bp p.a.	400,000
QOXDBA000383	Supplementary capital 12/22	subordinated liabilities at amortised cost	01 Dec 2022	12m Euribor + 62.5 bp, max. 7.00 % p.a., at least 4.00 % p.a.	4,000
	Promissory note bond	subordinated liabilities at amortised cost	20 Mar 2021	3m Euribor + 75 bp p.q.	4,000

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

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

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

37) Financial assets and liabilities

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

Euro thousand	Amortised cost	Fair value through OCI	Fair value through profit or loss	Carrying amount - total	Fair value
31 Dec 2021					
Liquid funds	6,770,589	0	0	6,770,589	6,770,589
Loans and receivables credit institutions (gross)	2,168,764	0	58	2,168,823	
Loans and receivables credit institutions less accumulated impairment	2,168,764	0	58	2,168,823	2,174,640
Loans and receivables customers (gross)	5,350,884	0	107,693	5,458,578	
Accumulated impairment	-43,598	0	0	-43,598	
Loans and receivables customers less accumulated impairment	5,307,286	0	107,693	5,414,980	5,642,938
Assets held for trading	0	0	41,592	41,592	41,592
Financial investments (gross)	2,093,984	14,891	7,677	2,116,552	
Financial investments less accumulated impairment	2,093,984	14,891	7,677	2,116,552	2,158,021
Participations	0	61,897	0	61,897	61,897
Derivative instruments	0	0	83,571	83,571	83,571
Financial assets total	**16,340,624**	**76,788**	**240,592**	**16,658,004**	**16,933,248**
Amounts owed to credit institutions	6,217,234	0	0	6,217,234	6,217,247
Amounts owed to customers	6,921,758	0	0	6,921,758	6,925,906
Debts evidenced by certificates	1,822,061	0	86,179	1,908,240	1,897,481
Lease liabilities	82,541	0	0	82,541	82,541
Liabilities held for trading	0	0	43,292	43,292	43,292
Derivative instruments	0	0	287,158	287,158	287,158
Subordinated liabilities	403,105	0	0	403,105	406,255
Financial liabilities total	**15,446,699**	**0**	**416,628**	**15,863,328**	**15,859,880**
31 Dec 2020					
Liquid funds	3,798,482	0	0	3,798,482	3,798,482
Loans and receivables credit institutions (gross)	2,285,932	0	118	2,286,050	
Loans and receivables credit institutions less accumulated impairment	2,285,932	0	118	2,286,050	2,283,437
Loans and receivables customers (gross)	5,319,517	0	132,137	5,451,654	
Accumulated impairment	-49,217	0	0	-49,217	
Loans and receivables customers less accumulated impairment	5,270,300	0	132,137	5,402,437	5,565,627
Assets held for trading	0	0	59,775	59,775	59,775
Financial investments (gross)	2,227,387	17,193	39,525	2,284,105	
Financial investments less accumulated impairment	2,227,387	17,193	39,525	2,284,105	2,343,758
Participations	0	49,160	0	49,160	49,160
Derivative instruments	0	0	131,926	131,926	131,926
Financial assets total	**13,582,101**	**66,353**	**363,482**	**14,011,936**	**14,232,165**
Amounts owed to credit institutions	4,165,780	0	0	4,165,780	4,165,809
Amounts owed to customers	6,636,565	0	0	6,636,565	6,649,303
Debts evidenced by certificates	1,373,976	0	89,875	1,463,851	1,474,488
Lease liabilities	85,826	0	0	85,826	85,826
Liabilities held for trading	0	0	62,596	62,596	62,596
Derivative instruments	0	0	442,964	442,964	442,964
Subordinated liabilities	406,879	0	0	406,879	409,037
Financial liabilities total	**12,669,026**	**0**	**595,436**	**13,264,462**	**13,290,024**

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	107,693	107,693
Assets held for trading	486	41,105	0	41,592
Financial investments	17,125	5,442	0	22,568
Fair value through profit or loss	2,234	5,442	0	7,677
Fair value through OCI	14,891	0	0	14,891
Participations	0	0	61,873	61,873
Fair value through OCI - designated	0	0	61,873	61,873
Derivative instruments	0	83,571	0	83,571
Financial assets total	**17,612**	**130,119**	**169,625**	**317,355**
Debts evidenced by certificates	0	0	86,179	86,179
Liabilities held for trading	0	43,292	0	43,292
Derivative instruments	0	287,158	0	287,158
Financial liabilities total	**0**	**330,450**	**86,179**	**416,628**
31 Dec 2020				
Loans and receivables credit institutions	0	0	118	118
Loans and receivables customers	0	0	132,137	132,137
Assets held for trading	1,697	58,078	0	59,775
Financial investments	19,472	4,948	32,298	56,718
Fair value through profit or loss	2,279	4,948	32,298	39,525
Fair value through OCI	17,193	0	0	17,193
Participations	0	0	49,136	49,136
Fair value through OCI - designated	0	0	49,136	49,136
Derivative instruments	0	131,926	0	131,926
Financial assets total	**21,169**	**194,952**	**213,690**	**429,811**
Debts evidenced by certificates	0	0	89,875	89,875
Liabilities held for trading	0	62,596	0	62,596
Derivative instruments	0	442,964	0	442,964
Financial liabilities total	**0**	**505,561**	**89,875**	**595,436**

Please refer to note 3) t) Participations and investments in companies measured at equity for a description of the valuation procedures used for participations. Participations in the amount of euro 24 thousand (2020: euro 24 thousand) were measured at amortised cost due to their insignificance.

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

In 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

EUR Tsd.	Loans and receivables credit institutions	Loans and receivables customers	Financial investments	Partici-pations	Financial assets total	Debts evi-denced by certificates	Financial liabilities total
As at 01 Jan 2020	**119**	**166,419**	**31,559**	**52,927**	**251,024**	**110,308**	**110,308**
Additions	0	89	40	504	634	0	0
Disposals	0	-33,328	-412	-39	-33,779	-21,447	-21,447
Valuation							
Through profit or loss	-1	-1,043	1,111	0	67	872	872
Through OCI	0	0	0	-4,255	-4,255	142	142
As at 31 Dec 2020	**118**	**132,137**	**32,298**	**49,136**	**213,690**	**89,875**	**89,875**
Additions	0	6,267	0	9,234	15,501	774	774
Disposals	-60	-31,612	-34,154	-1,047	-66,873	0	0
Valuation							
Through profit or loss	0	901	1,856	0	2,757	-6,631	-6,631
Through OCI	0	0	0	4,550	4,550	2,161	2,161
As at 31 Dec 2021	**58**	**107,693**	**0**	**61,873**	**169,625**	**86,179**	**86,179**

The valuations shown in the table above are included in the item result from financial instruments and investment properties (income statement) or fair value reserve (other comprehensive íncome). The valuations recorded in the income statement include holdings of financial assets and liabilities to the amount of euro -6,083 thousand (2020: euro 1,435 thousand) at the reporting date.

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

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 32,278 thousand). For details on the disposal, see Note 8) Result from financial instruments and investment properties.

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

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

Euro thousand 31 Dec 2021	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

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

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

The sensitivity analysis regarding the fair values of participations are shown in note 19) Participations.

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

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

Euro thousand	Level 1	Level 2	Level 3	Fair value total	Carrying amount
31 Dec 2021					
Liquid Funds	0	6,770,589	0	6,770,589	6,770,589
Loans and receivables credit institutions (gross)					2,168,764
Loans and receivables credit institutions less accumulated impairment	0	0	2,174,582	2,174,582	2,168,764
Loans and receivables customers (gross)					5,350,884
Accumulated impairment					-43,598
Loans and receivables customers less accumulated impairment	0	0	5,535,244	5,535,244	5,307,286
Financial investments (gross)					2,093,984
Financial investments less accumulated impairment	2,134,549	904	0	2,135,453	2,093,984
Financial assets total	**2,134,549**	**6,771,493**	**7,709,826**	**16,615,868**	**16,340,624**
Amounts owed to credit institutions	0	0	6,217,247	6,217,247	6,217,234
Amounts owed to customers	0	0	6,925,906	6,925,906	6,921,758
Debts evidenced by certificates	0	0	1,811,303	1,811,303	1,822,061
Lease liabilities	0	0	82,541	82,541	82,541
Subordinated liabilities	0	0	406,255	406,255	403,105
Financial liabilities total	**0**	**0**	**15,443,252**	**15,443,252**	**15,446,699**
31 Dec 2020					
Liquid Funds	0	3,798,482	0	3,798,482	3,798,482
Loans and receivables credit institutions (gross)					2,285,932
Loans and receivables credit institutions less accumulated impairment	0	0	2,283,319	2,283,319	2,285,932
Loans and receivables customers (gross)					5,319,517
Accumulated impairment					-49,217
Loans and receivables customers less accumulated impairment	0	0	5,433,490	5,433,490	5,270,300
Financial investments (gross)					2,227,387
Financial investments less accumulated impairment	2,256,416	30,624	0	2,287,040	2,227,387
Financial assets total	**2,256,416**	**3,829,105**	**7,716,808**	**13,802,330**	**13,582,101**
Amounts owed to credit institutions	0	0	4,165,809	4,165,809	4,165,780
Amounts owed to customers	0	0	6,649,303	6,649,303	6,636,565
Debts evidenced by certificates	0	0	1,384,613	1,384,613	1,373,976
Lease liabilities	0	0	85,826	85,826	85,826
Subordinated liabilities	0	0	409,037	409,037	406,879
Financial liabilities total	**0**	**0**	**12,694,588**	**12,694,588**	**12,669,026**

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

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

Fair value hierarchy

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

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

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

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

38) Derivatives

Derivative financial instruments

	Face value					Fair Value
Euro thousand 2021	**Up to 3 months**	**Up to 1 year**	**Up to 5 years**	**More than 5 years**	**Total**	**31 Dec 2021**
Interest related transactions	201,276	125,398	2,233,340	3,444,728	6,004,743	-195,277
Caps & Floors	11,276	5,906	43,619	176,958	237,759	-301
Futures - interest related	0	0	0	0	0	0
Interest rate swaps	190,000	119,492	2,189,721	3,267,770	5,766,984	-194,976
Exchange rate related transactions	404,939	84,583	329,227	94,122	912,871	-9,690
Cross currency interest rate swaps	93,301	45,831	329,227	94,122	562,481	-9,690
FX swaps	309,161	37,937	0	0	347,099	0
Forward exchange transactions	2,476	815	0	0	3,291	0
Other transactions	9,391	3,104	8,579	146,507	167,582	-942
Options	9,391	3,104	8,579	146,507	167,582	-942
Total	**615,606**	**213,086**	**2,571,146**	**3,685,357**	**7,085,195**	**-205,910**
2020						
Interest related transactions	243,945	243,491	1,099,595	4,317,637	5,904,668	-320,134
Caps & Floors	91,392	51,789	60,126	199,917	403,224	6
Futures - interest related	4,100	0	0	0	4,100	0
Interest rate swaps	148,453	191,702	1,039,469	4,117,720	5,497,344	-320,141
Exchange rate related transactions	488,994	90,534	455,571	186,230	1,221,329	5,469
Cross currency interest rate swaps	0	0	455,571	186,230	641,801	5,469
FX swaps	486,469	82,986	0	0	569,455	0
Forward exchange transactions	2,525	7,548	0	0	10,073	0
Other transactions	7,564	3,187	12,274	177,970	200,995	-1,836
Options	7,564	3,187	12,274	177,970	200,995	-1,836
Total	**740,503**	**337,212**	**1,567,440**	**4,681,837**	**7,326,992**	**-316,501**

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

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

Euro thousand 31 Dec 2021	Assets	Liabilities	Total
Interest related transactions	40,956	43,292	-2,336
Exchange rate related transactions	13	0	13
Trading portfolio	**40,969**	**43,292**	**-2,323**
Interest related transactions	74,768	267,709	-192,942
Exchange rate related transactions	7,625	17,328	-9,703
Other transactions	1,178	2,121	-942
Other assets / liabilities	**83,571**	**287,158**	**-203,587**
Total	**124,540**	**330,450**	**-205,910**
Sum interest related transactions	115,724	311,001	-195,277
Sum exchange rate related transactions	7,638	17,328	-9,690
Sum other transactions	1,178	2,121	-942
31 Dec 2020			
Interest related transactions	57,105	62,595	-5,490
Exchange rate related transactions	28	1	27
Trading portfolio	**57,133**	**62,596**	**-5,463**
Interest related transactions	112,979	427,623	-314,644
Exchange rate related transactions	9,041	3,599	5,442
Other transactions	9,907	11,743	-1,836
Other assets / liabilities	**131,926**	**442,964**	**-311,038**
Total	**189,059**	**505,561**	**-316,501**
Sum interest related transactions	170,084	490,218	-320,134
Sum exchange rate related transactions	9,069	3,600	5,469
Sum other transactions	9,907	11,743	-1,836

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 VBW Goup 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 ineffectiveness from hedge relationships recognised in the result from fair value hedges amounts to euro -1,627 thousand at VBW in the 2021 financial year (2020: euro -980 thousand), whereas the face value of the hedged items as at 31 December 2021 amounts to a total of euro 3,528,195 thousand (2020: euro 3,005,105 thousand). Ineffectiveness therefore corresponds to only 0.05 % (2020: 0.03 %) of the hedge portfolio. The hedging strategy in VBW is therefore highly effective.

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

The following tables provide detailed information on hedging instruments and hedged items for fair value hedges and cash flow hedges. The hedging instruments are reported in the balance sheet under positive / negative fair values from derivative financial instruments. The ineffectiveness of fair value hedges and cash flow hedges is presented in the income statement in the result from fair value hedges. The amounts reclassified from the cash flow hedge reserve are reported in net interest income.

The face value of derivatives designated as hedging instruments for fair value hedges is as follows

	Interest rate swaps				
Euro thousand	**Up to**	**Up to**	**Up to**	**More than**	
31 Dec 2021	**3 months**	**1 year**	**5 years**	**5 years**	**Total**
Loans and receivables customers	0	0	103,347	526,085	629,432
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	45,950	533,527	579,477
Financial investments	0	5,000	172,700	990,462	1,168,162
Debts evidenced by certificates	0	10,000	195,000	1,030,000	1,235,000

	Cross currency interest rate swaps				
Euro thousand	**Up to**	**Up to**	**Up to**	**More than**	
31 Dec 2021	**3 months**	**1 year**	**5 years**	**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

The face value of derivatives designated as hedging instruments for cash flow hedges is as follows

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

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 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	629,432	1,824	15,576	20,707	-203
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	**3,519,082**	**36,847**	**260,292**	**51,100**	**-1,638**
31 Dec 2020					
Loans and receivables customers measured at amortised cost	579,477	0	34,764	-12,371	63
Financial investments measured at amortised cost	1,168,162	0	372,200	-44,311	3,503
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	**2,982,640**	**68,839**	**406,964**	**-29,246**	**-832**

The following table shows a breakdown of the corresponding hedged items

Euro thousand 31 Dec 2021	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
Loans and receivables customers measured at amortised cost	629,425	0	13,284	-20,910	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	**1,792,754**	**1,715,144**	**245,499**	**-52,737**	**9,073**
31 Dec 2020					
Loans and receivables customers measured at amortised cost	579,470	0	34,194	12,433	0
Financial investments measured at amortised cost	1,317,142	0	365,173	47,814	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	**1,896,612**	**1,228,962**	**463,327**	**28,413**	**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
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
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 31 Dec 2021	Carrying amount assets	Carrying amount liabilities	Basis adjustment	Changes in value used for calculat-ing 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
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
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
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 hedged 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**

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**

The following table contains information on total hedged items, fair value hedges and cash flow hedges

Euro thousand 31 Dec 2021	Interest rate risk
Financial assets	1,814,104
Financial liabilities	1,715,144
31 Dec 2020	
Financial assets	1,911,855
Financial liabilities	1,228,962

40) Assets and liabilities denominated in foreign currencies

At balance sheet date, assets denominated in foreign currencies totalled euro 452,718 thousand (2020: euro 484,438 thousand), whereas liabilities denominated in foreign currencies amounted to euro 81,836 thousand (2020: euro 107,869 thousand).

41) Trust transactions

Euro thousand	31 Dec 2021	31 Dec 2020
Trust assets		
Loans and receivables credit institutions	80,261	68,263
Loans and receivables customers	74,277	79,009
Trust liabilities		
Amounts owed to credit institutions	80,261	68,263
Amounts owed to customers	74,277	79,009

42) Subordinated assets

Euro thousand	31 Dec 2021	31 Dec 2020
Financial investments	2,256	2,401

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 AG (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 in the amount of euro 353 million (2020: euro 327 million) were provided as collateral for OeNB refinancing of VBW in the 2021 business year.

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	209,065	233,662
Others (amounts guaranteed)	2,636	18,566
Commitments		
Unutilised loan commitments	3,379,639	3,533,495

Based on the management´s estimation of cash outflow for financial guarantees, a provision was built for off-balance risks to the amount of the probable cash outflow under consideration of possible available collaterals. It amounts to euro 2,503 thousand (2020: euro 2,166 thousand).

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

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

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

Euro thousand	Loan commitments	Guarantees as contracted	Guarantees expected
31 Dec 2021			
Carrying amount	3,379,639	209,065	0
Undiscounted cash flows	**3,379,639**	**209,065**	**2,503**
Up to 3 months	3,379,639	209,065	250
Up to 1 year	0	0	1,001
Up to 5 years	0	0	1,252
31 Dec 2020			
Carrying amount	3,533,495	233,662	0
Undiscounted cash flows	**3,533,495**	**233,662**	**2,165**
Up to 3 months	3,533,495	233,662	217
Up to 1 year	0	0	866
Up to 5 years	0	0	1,083

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

45) Repurchase transactions and other transferred assets

As at 31 December 2021, VBW as pledgor had buy-back commitments under genuine repurchase agreements to 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 credit institutions	0	0	3,477	0
Loans and receivables customers	0	4,923	0	0
Bonds and other fixed-income securities	0	0	0	335,174
Amounts owed to credit institutions	0	0	248,463	0
Amounts owed to customers	1,154	196	24,690	0
Provisions	0	0	0	0
Transactions	3,012	4,967	276,820	0
Administrative expenses	-434	-26,008	-15	0
Other operating income	17	274	8,152	0
Other operating expenses	0	0	0	0
31 Dec 2020				
Loans and receivables credit institutions	0	0	15,307	0
Loans and receivables customers	195	1,597	0	0
Bonds and other fixed-income securities	0	0	0	357,062
Amounts owed to credit institutions	0	0	248,164	0
Amounts owed to customers	6,010	4,046	24,466	0
Provisions	0	6	11	0
Transactions	5,402	3,874	259,124	0
Administrative expenses	-519	-32,360	-17	0
Other operating income	0	1,354	6,417	0
Other operating expenses	-152	0	0	0

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

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

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

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

Euro thousand	31 Dec 2021	31 Dec 2020
Outstanding loans and receivables	331	363
Redemptions	32	32

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

As at 31 December 2021 loans and receivables credit institutions/customers contained transactions with the Volksbank-Sector amounting to euro 1,928,235 thousand (2020: euro 1,873,734 thousand) and amounts owed to credit institutions/customers included transactions with the Volksbank-Sector amounting to euro 2,469,523 thousand (2020: euro 2,359,951 thousand).

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

Euro thousand	Covering loans	Coverage requirements	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 covered bonds.

48) Branches

	31 Dec 2021	31 Dec 2020
Total number of branches domestic	**56**	**58**

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

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

Retail

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

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

CO

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

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

Finally, all other activities are reported which are undertaken in managing the Association of Volksbanks and which VBW performs as CO in accordance with the CRR and Austrian Banking Act.

Consolidation

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

Segment reporting by business segments

Euro thousand 1-12/2021	Retail	CO	Consolidation	Total
Net interest income	94,333	31,699	0	126,032
Risk provisions	18,166	-1,602	0	16,564
Net fee and comission income	63,655	-5,095	81	58,641
Net trading income	164	1,850	0	2,014
Result from financial instruments and investment properties	5,898	2,786	0	8,684
Other operating result	6,212	164,748	-59,694	111,265
General administrative expenses	-139,831	-131,740	59,614	-211,957
Result from companies measured at equity	673	-225	0	448
Annual result before taxes	**49,270**	**62,421**	**0**	**111,691**
Income taxes	-5,224	-1,188	0	-6,412
Annual result after taxes	**44,047**	**61,233**	**0**	**105,280**
31 Dec 2021				
Total assets	**6,608,849**	**11,481,950**	**-1,166,136**	**16,924,664**
Loans and receivables customers	5,292,040	110,223	-6,698	5,395,566
Companies measured at equity	30,155	8,755	0	38,909
Amounts owed to customers	5,822,450	1,152,479	-53,170	6,921,758
Debts evidenced by certificates, including subordinated liabilities	99,074	2,212,271	0	2,311,345

1-12/2020	Retail	CO	Consolidation	Total
Net interest income	99,239	16,971	0	116,210
Risk provisions	-18,857	-7,749	0	-26,606
Net fee and comission income	61,349	-4,466	435	57,318
Net trading income	274	-1,557	0	-1,283
Result from financial instruments and investment properties	1,672	1,915	0	3,587
Other operating result	8,638	154,369	-55,529	107,478
General administrative expenses	-132,885	-128,577	55,094	-206,368
Result from companies measured at equity	-151	71	0	-81
Annual result before taxes	**19,278**	**30,977**	**0**	**50,255**
Income taxes	-14,192	-5,288	0	-19,480
Annual result after taxes	**5,086**	**25,690**	**0**	**30,775**
31 Dec 2020				
Total assets	**6,672,096**	**9,133,803**	**-1,524,824**	**14,281,075**
Loans and receivables customers	5,235,990	143,284	-6,941	5,372,333
Companies measured at equity	29,953	8,738	0	38,691
Amounts owed to customers	5,546,177	1,233,026	-142,637	6,636,565
Debts evidenced by certificates, including subordinated liabilities	103,074	1,767,655	0	1,870,730

51) Risk report

General

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

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

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

Current developments

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

Organisation of risk management

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

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

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

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

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

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

Regulatory requirements

The implementation of regulatory requirements at VBW is as follows:

Pillar 1: Minimum own funds requirements

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

Pillar 2: Internal Capital & Liquidity Adequacy Assessment

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

Pillar 3: Disclosure

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

Risk management across the Association

The risk control of VBW as CO is responsible for risk governance, methods and models for strategic risk management issues across the Association, as well as for the regulations for steering at portfolio level. For the purpose of performing its steering function, the CO has issued General Instructions (GI) for the affiliated banks. The GI RAF (Risk Appetite Framework), GI ICAAP, GI ILAAP, GI Principles of Credit Risk Management (GI RMF) and the downstream manuals of the Association govern the risk management in a binding and uniform manner. The risk strategy for the Association of Volksbanks is also issued in the form of a GI 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 Control Function (RCF) that is responsible for independent monitoring and communication of risks within the respective affiliated bank.

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

a) Internal Capital Adequacy Assessment Process

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

The individual elements of the cycle are performed at varying intervals (e.g. daily for market risk / trading book risk measurement, quarterly for the risk-bearing capacity calculation, annually for risk inventory and determination of the risk strategy). All the activities described within the cycle are reviewed for up-to-dateness and adequacy at least annually, and adjusted to the respective current environment if necessary; they are approved by the Managing Board of the CO. 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 risks. The risk inventory results are summarised and analysed for VBW. The findings from the risk inventory process are collected, evaluated for VBW 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. VBW’s local risk strategy essentially builds on the Association’s risk strategy and defines regional specifications and local specifics. 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.

VBW 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.

Risk Appetite Statement (RAS) and limit system

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

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

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

Risk-bearing capacity calculation

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

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

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

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

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

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

Stress testing

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

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

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.

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

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

Recovery and resolution planning

As the Association of Volksbanks was classified as a significant institution in Austria, the Association must prepare a recovery & resolution plan and submit the same to the European Central Bank. VBW in its function as the CO of the Association of Volksbanks is responsible for drawing up the Group Recovery & Resolution Plan (GRP) for the Association. No separate recovery & resolution plan is being prepared for VBW and affiliated institutions. The GRP is updated at least once a year and takes into account changes in business activities as well as changes in regulatory requirements.

b) Credit risk

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

Credit risk management organisation

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

Operational credit risk management

Lending principles

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

Decision-making process

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

Monitoring of exposures and collaterals

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

Limits

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

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

In connection with portfolio limits, within the Association of Volksbanks, mainly limits for external financing transactions and 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.

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

Intensified credit risk management

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

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

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

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

Default identification: The process of default identification serves to recognise defaults in time. A customer is deemed defaulted if there is a default of performance of more than 90 days, pursuant to the CRR, and/or if complete settlement of the debt is considered unlikely without realising any collaterals. The Association of Volksbanks has defined 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 began in early 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 COVID-19 crisis, and separate requirements were defined for refinancing agreements in industry sectors that are hit especially hard by the COVID-19 crisis.

The EWS/PLM portfolio in VBW, which is high as a result of the COVID-19-related forbearance markings or rating downgrades, shows a slight improvement in the second half of 2021. The NPL (non-performing loan) ratio of VBW also shows a slight improvement; defaults on individual larger loan exposures were compensated for by reductions in the portfolio, mainly due to the realisation of collaterals and to debt conversions.

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) for the purpose of determining impairments

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

Rating systems

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

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

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

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

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

Lifetime Probability of Default

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

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

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

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

Forward-looking information

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

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

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

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

Consideration of forward-looking information

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

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

Definition of stage transfers and default

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

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

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

The definition of default is fully in line with the default definition of the bank for own fund requirements (CRR). Any default may be 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.

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

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

Further qualitative indicators for allocation to Stage 2 are:

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

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

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

Measurement of Expected Credit Loss (ECL)

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

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

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

Performing portfolio

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

The most important model parameters for ECL measurement are:

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

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

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

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

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

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

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

Expected losses for financial instruments of Stage 1 are projected over the shorter of a period of 12 months or the maturity of the instrument. For Stage 2 financial instruments, the expected losses are 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 formation of post-model adjustments

VBW uses internal rating systems to distinguish between borrowers whose credit rating was not significantly impaired by the current situation in the long term and those who are very seriously affected, making it unlikely that their credit rating will be restored to the level before the crisis. 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 0.5 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 0.6 million were determined during the year (2020: allocation in the amount of euro 7.2 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 2.2 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 12.9 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 consolidated financial statements, 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 in 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 1.2 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 1.0 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 consolidated financial statements in the net amount of euro 3.0 million (previous year: allocation of euro 8.1 million). In addition, extraordinary income was recognised from receivables previously written off in the amount of euro 2.2 million (previous year: extraordinary income of euro 3.7 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 provision
Risk provisions (Stage 1 & 2 portfolio, without PMA)	19.2	100.0 %
PMA for unrecognised Stage 2 transfers	1.0	5.4 %
All receivables transferred to Stage 2	19.9	103.7 %
All receivables transferred to Stage 1	-9.7	-50.8 %

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 1.6 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
Risk provisions (Stage 1 & 2 portfolio, without PMA)	19.2	100.0 %
ECB scenario set 12/2021, weighting 100 % Severe	-1.1	-5.7 %
ECB scenario set 12/2021, weighting 100 % Baseline	-1.6	-8.6 %
ECB scenario set 12/2021, weighting 100 % Mild	-1.9	-9.9 %

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)	46.1	39.8 %
Depreciation by 15 %	4.0	3.4 %
Depreciation by 25 %	6.2	5.4 %
All receivables in workout	8.3	7.2 %

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 and hence to VBW (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 VBW, its major units and their key areas of business. The information is also included in the credit risk section of the aggregate bank risk report.

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

The following analyses are part of the monthly report:

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

- Customer segments
- Distribution across industry sectors

For the COVID-19-induced portfolio, 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 securities.

Credit risk-related portfolio

Euro thousand	31 Dec 2021	31 Dec 2020
Liquid funds	6,722,765	3,750,394
Loans and receivables credit institutions	2,168,823	2,286,050
At amortised costs	2,168,764	2,285,932
At fair value	58	118
Loans and receivables customers	5,458,578	5,451,654
At amortised costs	5,350,884	5,319,517
At fair value	107,693	132,137
Assets held for trading - fixed-income securities	623	2,603
At fair value	623	2,603
Financial investments - fixed-income securities	2,113,832	2,249,529
At amortised costs	2,093,984	2,227,387
At fair value	19,848	22,142
Contingent liabilities	209,065	233,662
Credit risks	3,379,639	3,533,495
Total	**20,053,325**	**17,507,387**

As at 31 December 2021, the total credit risk-related portfolio amounted to euro 20,053,325 thousand (2020: euro 17,507,387 thousand). Apart from liquid funds, loans and receivables customers constitute the biggest group of receivables, which corresponds to the business model of classic lending business with a focus on Private and SME customers. At VBW, there are no receivables from finance leases.

Loans and receivables credit institutions and liquid funds are primarily used to manage liquidity and include a comparatively low credit risk. Financial investments primarily include securities from the Treasury portfolio that are also preferentially used to manage the liquidity of the entire Association of Volksbanks. The majority of credit risk-related securities are

Austrian and European government bonds and covered bonds of European banks in the investment grade range. A securities portfolio with the main objective of generating profits from market trends is not aimed at within the Association of Volksbanks. As liquidity risk is controlled centrally by VBW in its role as CO of the Association of Volksbanks, there are hardly any credit risk-related positions in these balance sheet items within the other Volksbanks.

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

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

Development by customer segments[1]

The following tables show the distribution of the credit risk-related portfolio by balance sheet items and customer segments. As VBW assumes the central liquidity management function within the Association of Volksbanks, an essential customer segment of credit risk-related positions is the public sector. This segment includes the amount owed by the central bank and the major part of financial investments. In loans and receivables customers, the largest customer segment of the credit risk-relevant items is the SME segment with euro 2,558,990 thousand as at 31 December 2021 (2020: euro 2,415,903 thousand), followed by the Private Customer segment.

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

Portfolio distribution by customer segments

Euro thousand 31 Dec 2021	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	2,168,823	0	0	0	0	0	2,168,823
At amortised costs	2,168,764	0	0	0	0	0	2,168,764
At fair value	58	0	0	0	0	0	58
Loans and receivables customers	0	2,083,119	2,558,990	315,057	46,775	454,637	5,458,578
At amortised costs	0	2,008,614	2,537,526	314,884	45,318	444,543	5,350,884
At fair value	0	74,505	21,464	173	1,457	10,094	107,693
Assets held for trading - fixed-income securities	143	0	0	480	0	0	623
At fair value	143	0	0	480	0	0	623
Financial investments - fixed-income securities	1,098,272	0	0	43,864	971,696	0	2,113,832
At amortised costs	1,085,024	0	0	43,864	965,096	0	2,093,984
At fair value	13,248	0	0	0	6,600	0	19,848
Contingent liabilities	627	18,637	183,582	4,033	80	2,107	209,065
Credit risks	2,502,032	270,990	372,854	50,076	118,560	65,127	3,379,639
Total	**5,769,898**	**2,372,746**	**3,115,425**	**413,510**	**7,859,876**	**521,870**	**20,053,325**

31 Dec 2020							
Liquid funds	0	0	0	0	3,750,394	0	3,750,394
Loans and receivables credit institutions	2,286,050	0	0	0	0	0	2,286,050
At amortised costs	2,285,932	0	0	0	0	0	2,285,932
At fair value	118	0	0	0	0	0	118
Loans and receivables customers	0	2,310,421	2,415,903	273,477	55,396	396,457	5,451,654
At amortised costs	0	2,213,373	2,391,468	273,067	52,774	388,835	5,319,517
At fair value	0	97,049	24,434	409	2,622	7,622	132,137
Assets held for trading - fixed-income securities	921	0	0	1,682	0	0	2,603
At fair value	921	0	0	1,682	0	0	2,603
Financial investments - fixed-income securities	957,234	0	0	73,392	1,218,904	0	2,249,529
At amortised costs	941,939	0	0	73,392	1,212,056	0	2,227,387
At fair value	15,294	0	0	0	6,848	0	22,142
Contingent liabilities	670	17,176	211,209	2,254	75	2,278	233,662
Credit risks	2,647,926	255,738	398,399	62,476	117,545	51,412	3,533,495
Total	**5,892,801**	**2,583,335**	**3,025,510**	**413,280**	**5,142,314**	**450,147**	**17,507,387**

Development by currencies

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

Portfolio distribution by currencies

Euro thousand **31 Dec 2021**	**EUR**	**CHF**	**Others**	**Total**
Liquid funds	6,722,765	0	0	6,722,765
Loans and receivables credit institutions	1,867,010	284,581	17,232	2,168,823
At amortised costs	1,866,951	284,581	17,232	2,168,764
At fair value	58	0	0	58
Loans and receivables customers	5,325,139	127,201	6,238	5,458,578
At amortised costs	5,217,445	127,201	6,238	5,350,884
Thereof Retail private	1,914,072	92,015	2,526	2,008,614
Thereof SME	2,498,629	35,186	3,711	2,537,526
Thereof Corporates	314,884	0	0	314,884
Thereof other	489,861	0	0	489,861
At fair value	107,693	0	0	107,693
Thereof Retail private	74,505	0	0	74,505
Thereof SME	21,464	0	0	21,464
Thereof Corporates	173	0	0	173
Thereof other	11,551	0	0	11,551
Assets held for trading - fixed-income securities	623	0	0	623
At fair value	623	0	0	623
Financial investments - fixed-income securities	2,097,575	0	16,258	2,113,832
At amortised costs	2,077,727	0	16,258	2,093,984
Thereof Banks	1,085,024	0	0	1,085,024
Thereof Corporates	43,864	0	0	43,864
Thereof Public sector	948,838	0	16,258	965,096
At fair value	19,848	0	0	19,848
Thereof Banks	13,248	0	0	13,248
Thereof Public sector	6,600	0	0	6,600
Contingent liabilities	209,026	39	0	209,065
Thereof Banks	589	39	0	627
Thereof Retail private	18,637	0	0	18,637
Thereof SME	183,582	0	0	183,582
Thereof Corporates	4,033	0	0	4,033
Thereof other	2,187	0	0	2,187
Credit risks	3,378,514	0	1,125	3,379,639
Thereof Banks	2,502,032	0	0	2,502,032
Thereof Retail private	270,977	0	12	270,990
Thereof SME	371,741	0	1,112	372,854
Thereof Corporates	50,076	0	0	50,076
Thereof other	183,687	0	0	183,687
Total	**19,600,651**	**411,821**	**40,852**	**20,053,325**

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

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 190,796 thousand (2020: euro 241,121 thousand).

Development by countries

The main business activity of the Association of Volksbanks, and thus of VBW, focuses on the Austrian market. This is also evident from the following tables: at 31 December 2021, Austrian exposures accounted for 91.7 % of the credit risk-related portfolio (2020: 87.6 %).

Portfolio distribution by countries

Euro thousand 31 Dec 2021	Austria	Germany	Others	Total
Liquid funds	6,722,765	0	0	6,722,765
Loans and receivables credit institutions	1,959,450	98,628	110,745	2,168,823
At amortised costs	1,959,391	98,628	110,745	2,168,764
At fair value	58	0	0	58
Loans and receivables customers	5,334,886	49,872	73,820	5,458,578
At amortised costs	5,228,482	49,827	72,575	5,350,884
Thereof Retail private	1,989,385	7,997	11,232	2,008,614
Thereof SME	2,520,449	14,170	2,907	2,537,526
Thereof Corporates	231,913	27,661	55,311	314,884
Thereof other	486,734	0	3,126	489,861
At fair value	106,404	45	1,244	107,693
Thereof Retail private	73,245	45	1,216	74,505
Thereof SME	21,436	0	28	21,464
Thereof Corporates	173	0	0	173
Thereof other	11,551	0	0	11,551
Assets held for trading - fixed-income securities	623	0	0	623
At fair value	623	0	0	623
Financial investments - fixed-income securities	787,924	230,616	1,095,292	2,113,832
At amortised costs	776,317	224,946	1,092,722	2,093,984
Thereof Banks	313,814	178,527	592,683	1,085,024
Thereof Corporates	4,173	0	39,691	43,864
Thereof Public sector	458,330	46,419	460,348	965,096
At fair value	11,607	5,671	2,571	19,848
Thereof Banks	7,456	5,671	122	13,248
Thereof Public sector	4,151	0	2,449	6,600
Contingent liabilities	208,406	282	377	209,065
Thereof Banks	530	97	0	627
Thereof Retail private	18,204	101	331	18,637
Thereof SME	183,506	30	46	183,582
Thereof Corporates	3,979	54	0	4,033
Thereof other	2,187	0	0	2,187
Credit risks	3,378,841	265	533	3,379,639
Thereof Banks	2,502,032	0	0	2,502,032
Thereof Retail private	270,256	226	508	270,990
Thereof SME	372,790	40	25	372,854
Thereof Corporates	50,076	0	0	50,076
Thereof other	183,687	0	0	183,687
Total	**18,392,894**	**379,664**	**1,280,767**	**20,053,325**

Euro thousand 31 Dec 2020	Austria	Germany	Others	Total
Liquid funds	3,750,394	0	0	3,750,394
Loans and receivables credit institutions	1,878,066	162,609	245,375	2,286,050
At amortised costs	1,877,948	162,609	245,375	2,285,932
At fair value	118	0	0	118
Loans and receivables customers	5,352,370	43,145	56,139	5,451,654
At amortised costs	5,221,951	43,090	54,476	5,319,517
Thereof Retail private	2,190,450	11,217	11,706	2,213,373
Thereof SME	2,366,125	14,123	11,220	2,391,468
Thereof Corporates	227,666	17,750	27,651	273,067
Thereof other	437,709	0	3,899	441,608
At fair value	130,419	55	1,662	132,137
Thereof Retail private	95,362	55	1,632	97,049
Thereof SME	24,404	0	31	24,434
Thereof Corporates	409	0	0	409
Thereof other	10,245	0	0	10,245
Assets held for trading - fixed-income securities	2,603	0	0	2,603
At fair value	2,603	0	0	2,603
Financial investments - fixed-income securities	596,123	212,339	1,441,067	2,249,529
At amortised costs	584,369	206,569	1,436,450	2,227,387
Thereof Banks	257,138	159,554	525,247	941,939
Thereof Corporates	12,233	1,000	60,159	73,392
Thereof Public sector	314,998	46,015	851,044	1,212,056
At fair value	11,754	5,771	4,617	22,142
Thereof Banks	7,380	5,771	2,143	15,294
Thereof Public sector	4,374	0	2,474	6,848
Contingent liabilities	232,886	291	484	233,662
Thereof Banks	573	97	0	670
Thereof Retail private	16,644	97	434	17,176
Thereof SME	211,115	43	50	211,209
Thereof Corporates	2,200	54	0	2,254
Thereof other	2,353	0	0	2,353
Credit risks	3,527,589	4,935	971	3,533,495
Thereof Banks	2,647,924	0	2	2,647,926
Thereof Retail private	254,889	316	533	255,738
Thereof SME	397,044	918	436	398,399
Thereof Corporates	58,775	3,701	0	62,476
Thereof other	168,957	0	0	168,957
Total	**15,340,030**	**423,319**	**1,744,037**	**17,507,387**

Development by sectors[2]

The most important sector within loans and receivables to customers of VBW is commercial sector of real estate with 40.8 % (2020: 38.1 %), followed by private households with 38.2 % as at 31 December 2021 (2020: 42.4 %). As at 31 December 2021, the largest commercial sector within loans and receivables to customers in the SME segment is the real estate sector, accounting for 65.05 % (2020: 65.19 %), followed by the retail and repair sector with a share of 6.16 % (2020: 7.53 %).As at 31 December 2021, the largest commercial sector within loans and receivables to customers in the Corporate segment is again the real estate sector, accounting for 37.51 % (2020: 42.37 %).

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	2,168,823	0	0	0
At amortised costs	0	2,168,764	0	0	0
At fair value	0	58	0	0	0
Loans and receivables customers	2,083,119	117,900	46,775	2,224,837	79,985
At amortised costs	2,008,614	117,868	45,318	2,210,464	78,475
At fair value	74,505	33	1,457	14,373	1,510
Assets held for trading - fixed-income securities	0	143	0	90	9
At fair value	0	143	0	90	9
Financial investments - fixed-income securities	0	1,099,675	971,696	0	0
At amortised costs	0	1,086,427	965,096	0	0
At fair value	0	13,248	6,600	0	0
Contingent liabilities	18,637	90,011	80	16,756	11,457
Credit risks	270,675	2,540,301	118,560	232,035	32,606
Total	**2,372,431**	**6,016,854**	**7,859,876**	**2,473,718**	**124,057**

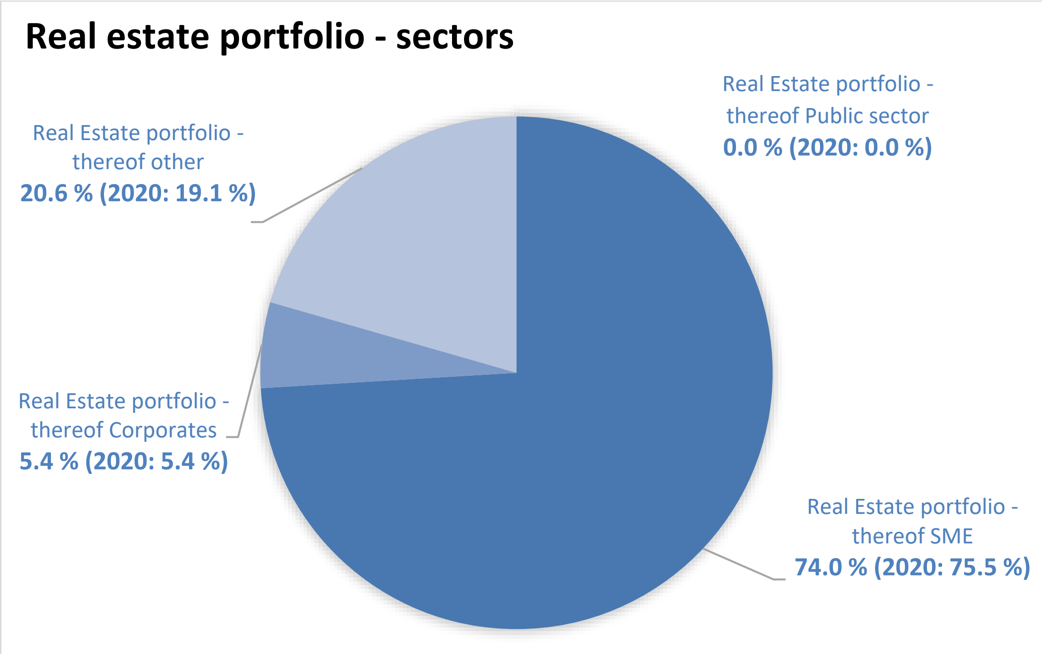
	Tourism	Trade and repairs	Physicians/ healthcare	Food/ agriculture and forestry	Others	Total
Liquid funds	0	0	0	0	0	6,722,765
Loans and receivables credit institutions	0	0	0	0	0	2,168,823
At amortised costs	0	0	0	0	0	2,168,764
At fair value	0	0	0	0	0	58
Loans and receivables customers	123,649	167,828	103,996	145,238	365,250	5,458,578
At amortised costs	119,852	166,150	103,607	136,959	363,578	5,350,884
At fair value	3,797	1,678	389	8,279	1,672	107,693
Assets held for trading - fixed-income securities	0	0	0	0	381	623
At fair value	0	0	0	0	381	623
Financial investments - fixed-income securities	0	0	0	0	42,461	2,113,832
At amortised costs	0	0	0	0	42,461	2,093,984
At fair value	0	0	0	0	0	19,848
Contingent liabilities	4,647	12,375	0	1,529	53,574	209,065
Credit risks	13,399	59,851	0	21,216	90,995	3,379,639
Total	**141,695**	**240,053**	**103,996**	**167,984**	**552,661**	**20,053,325**

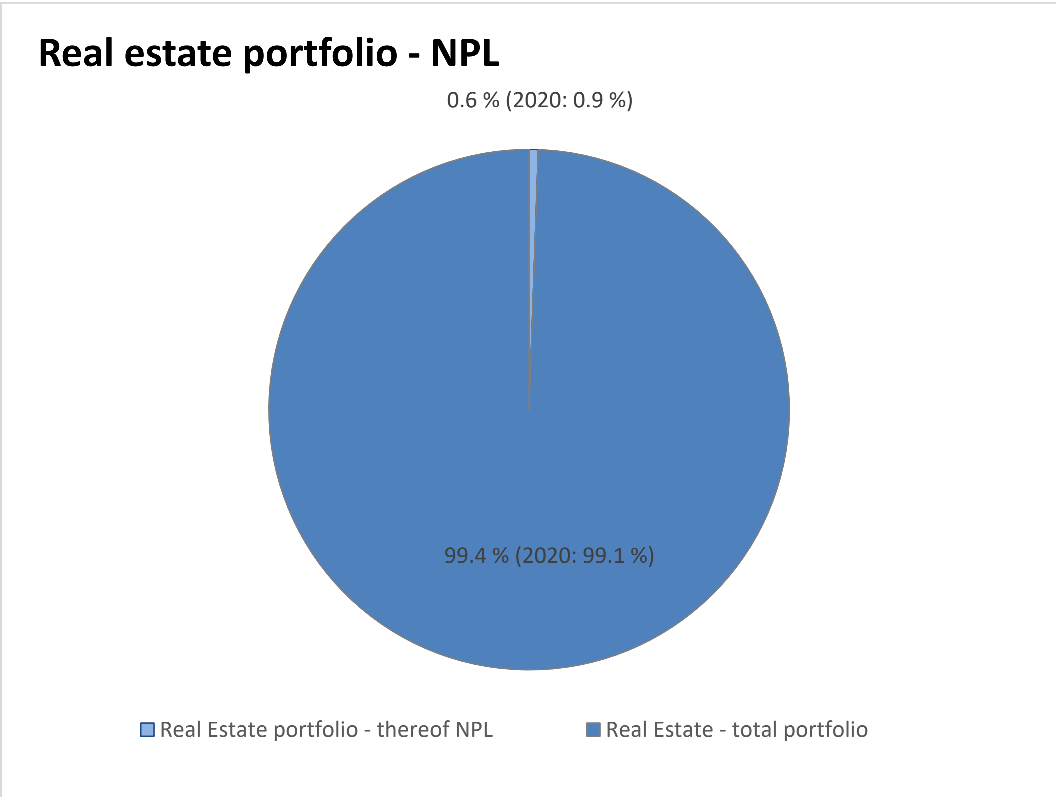
[2] *The definition of the sector is largely aligned with the ÖNACE codes and cannot be compared directly with customer segments, where a different classification logic is applied.*

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

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

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 74.0 % (2020: 75.5 %); at 0.6 % (2020: 0.9 %), the NPL ratio in the real estate portfolio is below the NPL ratio of internal risk control of 1.72 % (2020: 1.95 %), as at 31 December 2021.

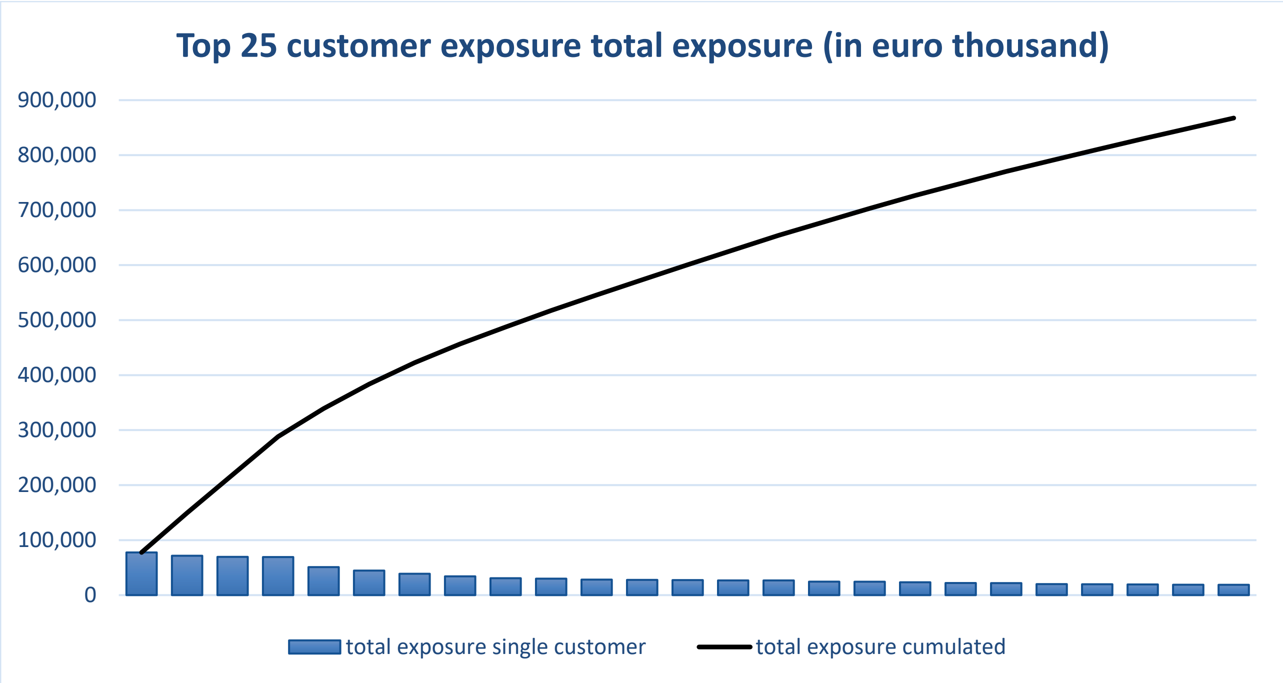




b

Presentation of the Top 25 exposures

The following chart shows the Top 25 loans and receivables customers of VBW as at 31 December 2021 with the total exposure per individual customer as well as the cumulative total exposure of euro 867.462 thousand (2020: euro 787,414 thousand), and reflects the business model of VBW with a focus on small-volume private and SME customers. The Top 25 loans and receivables customers correspond to some 13.8% (2020: 12.4%) of total loans and receivables customers within VBW (Top no. 1 customer: 1.2% 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 customers excluding internal transactions within the Association and the portion of the Association's guarantee that is not allocated to VBW.



Development by ratings

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

Portfolio distribution by ratings and stages

Euro thousand	Risk category						
31 Dec 2021	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	140,374	2,028,412	37	0	0	0	2,168,823
At amortised costs	140,374	2,028,354	37	0	0	0	2,168,764
Thereof Stage 1	140,374	2,028,354	2	0	0	0	2,168,730
Thereof Stage 2	0	0	35	0	0	0	35
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	0	58	0	0	0	0	58
Loans and receivables customers	171,580	2,611,759	2,371,674	193,865	109,510	190	5,458,578
At amortised costs	165,712	2,548,139	2,339,644	191,746	105,453	190	5,350,884
Thereof Stage 1	164,700	2,500,657	2,003,958	1,736	0	142	4,671,194
Thereof Stage 2	1,012	47,483	335,685	190,011	0	47	574,237
Thereof Stage 3	0	0	0	0	105,453	0	105,453
At fair value	5,868	63,620	32,031	2,119	4,057	0	107,693
Assets held for trading - fixed-income securities	0	223	399	0	0	0	623
At fair value	0	223	399	0	0	0	623
Financial investments - fixed-income securities	1,232,802	881,030	0	0	0	0	2,113,832
At amortised costs	1,223,658	870,326	0	0	0	0	2,093,984
Thereof Stage 1	1,223,658	870,326	0	0	0	0	2,093,984
Thereof Stage 2	0	0	0	0	0	0	0
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	9,144	10,704	0	0	0	0	19,848
Contingent liabilities	2,186	63,239	138,449	3,501	1,552	138	209,065
Thereof Stage 1	2,031	59,662	124,592	783	0	136	187,204
Thereof Stage 2	155	3,577	13,857	2,718	0	2	20,309
Thereof Stage 3	0	0	0	0	1,552	0	1,552
Credit risks	219,526	2,836,696	311,604	7,650	2,775	1,388	3,379,639
Thereof Stage 1	217,007	2,826,934	282,576	2,629	0	458	3,329,604
Thereof Stage 2	2,519	9,763	29,028	5,020	0	930	47,260
Thereof Stage 3	0	0	0	0	2,775	0	2,775
Total	**8,489,233**	**8,421,361**	**2,822,163**	**205,015**	**113,837**	**1,716**	**20,053,325**

Euro thousand 31 Dec 2020	1 (1A - 1E)	2 (2A - 2E)	Risk category 3 (3A - 3E)	4 (4A - 4E)	5 (5A - 5E)	6 (NR)	Total
Liquid funds	3,750,394	0	0	0	0	0	3,750,394
Loans and receivables credit institutions	97,839	2,183,039	5,172	0	0	0	2,286,050
At amortised costs	97,839	2,182,921	5,172	0	0	0	2,285,932
Thereof Stage 1	97,839	2,182,921	5,142	0	0	0	2,285,902
Thereof Stage 2	0	0	30	0	0	0	30
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	0	118	0	0	0	0	118
Loans and receivables customers	147,881	2,250,049	2,703,858	229,551	119,278	1,037	5,451,654
At amortised costs	139,850	2,177,219	2,665,183	225,395	110,904	966	5,319,517
Thereof Stage 1	139,226	2,140,791	2,257,885	8,835	0	268	4,547,006
Thereof Stage 2	623	36,428	407,298	216,560	0	698	661,607
Thereof Stage 3	0	0	0	0	110,904	0	110,904
At fair value	8,032	72,831	38,675	4,156	8,373	71	132,137
Assets held for trading - fixed-income securities	0	1,733	870	0	0	0	2,603
At fair value	0	1,733	870	0	0	0	2,603
Financial investments - fixed-income securities	1,427,037	812,507	9,986	0	0	0	2,249,529
At amortised costs	1,412,275	805,127	9,986	0	0	0	2,227,387
Thereof Stage 1	1,412,275	805,127	9,986	0	0	0	2,227,387
Thereof Stage 2	0	0	0	0	0	0	0
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	14,762	7,380	0	0	0	0	22,142
Contingent liabilities	3,414	67,127	149,982	9,317	2,717	1,104	233,662
Thereof Stage 1	3,413	64,675	143,447	6,027	0	990	218,553
Thereof Stage 2	0	2,452	6,535	3,291	0	114	12,391
Thereof Stage 3	0	0	0	0	2,717	0	2,717
Credit risks	214,695	2,914,400	390,541	8,712	3,204	1,944	3,533,495
Thereof Stage 1	212,906	2,906,717	347,246	3,212	0	895	3,470,976
Thereof Stage 2	1,789	7,683	43,295	5,500	0	1,049	59,315
Thereof Stage 3	0	0	0	0	3,204	0	3,204
Total	**5,641,260**	**8,228,855**	**3,260,408**	**247,580**	**125,199**	**4,084**	**17,507,387**

Effects from contract amendments

For the year 2021, the effect on the income statement from changes in contracts for financial instruments is euro -2,658 thousand (2020: euro -4,286 thousand), of which euro -2.7 thousand (2020: euro -706 thousand) is attributable to COVID-19 concessions. Within the Association of Volksbanks, this concerns loans and receivables to customers exclusively.

Development of NPL portfolio

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

As at 31 December 2021, the NPL ratio within internal risk control amounted to 1.72 % for VBW (2020: 1.96 %).

The NPL coverage ratio through risk provisions or Coverage Ratio I for internal reporting amounts to 35.77 % for VBW as at 31 December 2021 (2020: 37.41 %).

The NPL coverage ratio through risk provisions and collateral securities or Coverage Ratio III for internal reporting amounts to 106.06 % for VBW as at 31 December 2021 (2020: 105.62 %).

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

The credit risk volume relevant for calculating the NPL ratio amounted to euro 6,285,008 thousand in internal reporting (2020: euro 6,329,124 thousand). As mentioned already, this amount excludes the pro rata guarantee of the Association as well as the internal transactions of the Association and is accordingly much lower than the euro 9,047,282 thousand shown in the following table as at 31 December 2021 (2020: euro 9,218,811 thousand).

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

Portfolio distribution NPL Portfolio:

Euro thousand 31 Dec 2021	Loan volume - total	NPL	NPL Ratio	Risk provisions for NPL
Liquid funds	6,722,765	0	0.00 %	0
Loans and receivables credit institutions	2,168,823	0	0.00 %	0
At amortised costs	2,168,764	0	0.00 %	0
At fair value	58	0	0.00 %	0
Loans and receivables customers	5,458,578	109,510	2.01 %	43,598
At amortised costs	5,350,884	105,453	1.97 %	43,598
Thereof Retail private	2,008,614	32,533	1.62 %	12,047
Thereof SME	2,537,526	64,878	2.56 %	27,554
Thereof Corporates	314,884	4,665	1.48 %	1,627
Thereof other	489,861	3,378	0.69 %	2,369
At fair value	107,693	4,057	3.77 %	0
Thereof Retail private	74,505	3,079	4.13 %	0
Thereof SME	21,464	977	4.55 %	0
Thereof Corporates	173	0	0.00 %	0
Thereof other	11,551	0	0.00 %	0
Assets held for trading - fixed-income securities	623	0	0.00 %	0
At fair value	623	0	0.00 %	0
Financial investments - fixed-income securities	2,113,832	0	0.00 %	0
At amortised costs	2,093,984	0	0.00 %	0
At fair value	19,848	0	0.00 %	0
Contingent liabilities	209,065	1,552	0.74 %	911
Credit risks	3,379,639	2,775	0.08 %	1,596
Total	**20,053,325**	**113,837**	**0.57 %**	**46,104**
Loans and receivables customers, contingent liabilities, credit risks	9,047,282	113,837	1.26 %	46,104
Liquid funds, loans and receivables credit institutions and customers	14,350,166	109,510	0.76 %	43,598

	NPL coverage ratio (Loan loss allowance)	Collateral for NPL	NPL coverage ratio (Loan loss allowance + collateral)
Liquid funds	0.00 %	0	0.00 %
Loans and receivables credit institutions	0.00 %	0	0.00 %
At amortised costs	0.00 %	0	0.00 %
At fair value	0.00 %	0	0.00 %
Loans and receivables customers	39.81 %	76,848	109.99 %
At amortised costs	41.34 %	73,156	110.72 %
Thereof Retail private	37.03 %	24,690	112.92 %
Thereof SME	42.47 %	45,040	111.89 %
Thereof Corporates	34.87 %	2,181	81.63 %
Thereof other	70.14 %	1,245	107.00 %
At fair value	0.00 %	3,692	91.02 %
Thereof Retail private	0.00 %	3,031	98.41 %
Thereof SME	0.00 %	662	67.72 %
Thereof Corporates	0.00 %	0	0.00 %
Thereof other	0.00 %	0	0.00 %
Assets held for trading - fixed-income securities	0.00 %	0	0.00 %
At fair value	0.00 %	0	0.00 %
Financial investments - fixed-income securities	0.00 %	0	0.00 %
At amortised costs	0.00 %	0	0.00 %
At fair value	0.00 %	0	0.00 %
Contingent liabilities	58.66 %	433	86.58 %
Credit risks	57.50 %	0	57.50 %
Total	**40.50 %**	**77,282**	**108.39 %**
Loans and receivables customers, contingent liabilities, credit risks	40.50 %	77,282	108.39 %
Liquid funds, loans and receivables credit institutions and customers	39.81 %	76,848	109.99 %

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

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

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

Development NPL portfolio

Euro thousand	Total
NPL 01. Dec 2020	140,535
Classified as impaired during the year	36,767
Transferred to not-impaired during the year	-4,094
Write off - NPL	-35,582
Net repayments and other movements	-12,427
NPL 31 Dec 2020	125,199
Classified as impaired during the year	27,900
Transferred to not-impaired during the year	-3,306
Write off - NPL	-26,826
Net repayments and other movements	-9,130
NPL 31 Dec 2021	**113,837**

Development forbearance portfolio

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

In relation to customer loans prior to allocation of the Association's guarantee, concessions were made for economic reasons for a total carrying amount of euro 259,403 thousand (2020: euro 233.665 thousand). This amount relates to performing forborne loan exposure in the amount of euro 198,205 thousand (2020: euro 174,014 thousand) and non-performing forborne loan exposure in the amount of euro 61,198 thousand (2020: euro 59,652 thousand).

In the course of the COVID-19 crisis, an increase in the forbearance portfolio by euro 25,738 thousand (2020: euro 158,688 thousand) was observed in 2021 due to crisis-related concessions in accordance with economic risk reporting, which was offset to a small extent by the discontinuation of older forbearance measures. The conditions of the EBA Guidelines on legislative and non-legislative loan repayments moratoria regarding the "forborne" classification were applied.

COVID-19-induced portfolio

To address the liquidity shortfalls that arose during the COVID-19 crisis and to cope with circumstances that threatened the existence of businesses, customers were granted COVID-19-related measures, and the corresponding loan accounts were flagged. 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 68,682 thousand (2020: euro 237,700 thousand) in accordance with economic risk reporting still have active[3] COVID-19-related measures as at 31 December 2021. This amount concerns

- loan exposures with bridge financing or overdraft facility increases - 74.1 % (2020: 29.4 %),

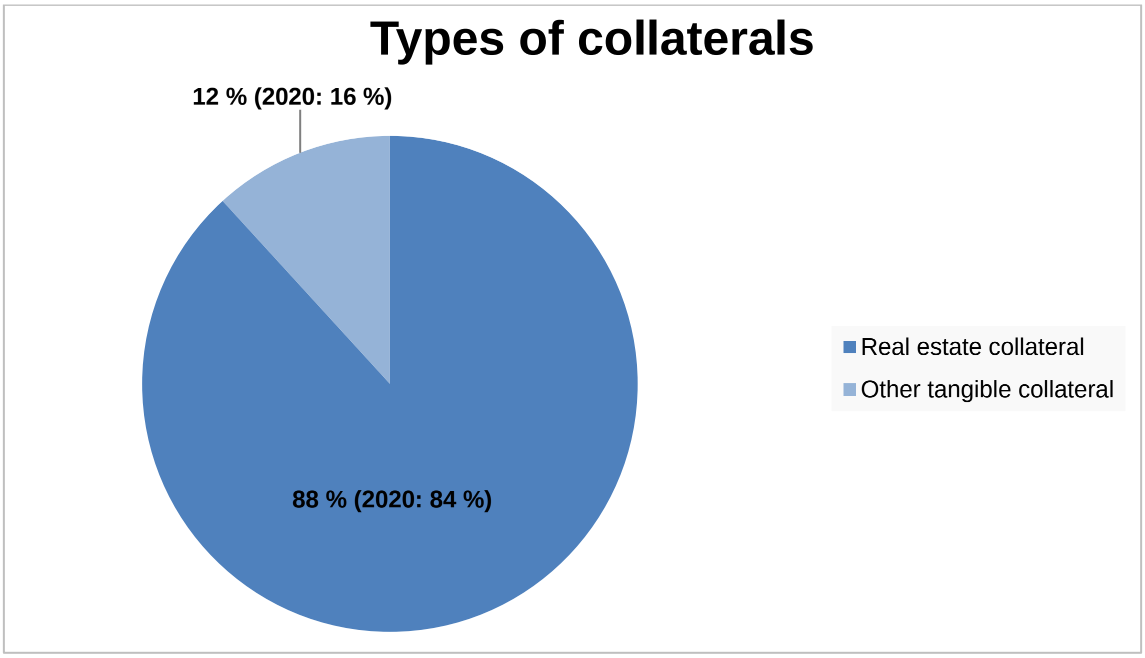
[3] Active COVID-19-related measures: refers, for example, to instalment payments that are still deferred as at the reporting date or to bridge financing or increases of overdraft facilities not matured yet as at the reporting date.

- loan exposures with deferment agreements outside the statutory or private moratorium period - 22.3 % (2020: 25.6 %),
- loan exposures with other measures - 3.6 % (2020: 3.4 %),
- loan exposures with statutory or private moratoria - 0 % (2020: 41.5 %).

Development of the portfolio of collaterals:

The following diagram and table show the development of the portfolio of collaterals, with real estate collaterals accounting for the major part at VBW. The values reported represent the credited value of the collaterals (after measurement and cap based on the amount of the receivable secured). Other collaterals include an imputed collateral value of euro 44,175 thousand (2020: euro 55,817 thousand) from guarantees from the government package of measures in the wake of the COVID-19 crisis.

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	2,168,823	178,476	0	178,476	22	0	1,990,325
At amortised costs	2,168,764	178,428	0	178,428	22	0	1,990,314
At fair value	58	48	0	48	0	0	11
Loans and receivables customers	5,458,578	5,127,973	4,690,317	437,657	63,012	0	267,593
At amortised costs	5,350,884	5,036,111	4,605,289	430,822	63,012	0	251,761
Thereof Retail private	2,008,614	1,930,316	1,827,260	103,055	16,055	0	62,243
Thereof SME	2,537,526	2,466,918	2,238,947	227,971	41,752	0	28,856
Thereof Corporates	314,884	218,186	140,533	77,653	1,745	0	94,953
Thereof other	489,861	420,691	398,548	22,143	3,460	0	65,710
At fair value	107,693	91,862	85,028	6,835	0	0	15,831
Thereof Retail private	74,505	63,389	58,150	5,238	0	0	11,117
Thereof SME	21,464	19,211	17,919	1,292	0	0	2,252
Thereof Corpo-rates	173	173	173	0	0	0	0
Thereof other	11,551	9,089	8,785	304	0	0	2,462
Assets held for trading - fixed-income securities	623	0	0	0	0	0	623
At fair value	623	0	0	0	0	0	623
Financial investments - fixed-income securities	2,113,832	0	0	0	323	0	2,113,509
At amortised costs	2,093,984	0	0	0	323	0	2,093,661
At fair value	19,848	0	0	0	0	0	19,848
Contingent liabilities	209,065	46,035	30,880	15,155	0	2,085	160,945
Credit risks	3,379,639	0	0	0	0	2,766	3,376,873
Total	**20,053,325**	**5,352,484**	**4,721,196**	**631,288**	**63,357**	**4,851**	**14,632,632**

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

Acquisition of real estate collaterals

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

Development of the netting positions

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

Euro thousand 31 Dec 2021 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**

Euro thousand 31 Dec 2020 Derivatives	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. VBW distinguishes the following types of market risk:

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

Interest rate risk in the banking book

Interest rate risks emerge primarily through term transformation, which arises from deviations of interest rate periods between assets and liabilities. VBW pursues an association-wide 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 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.

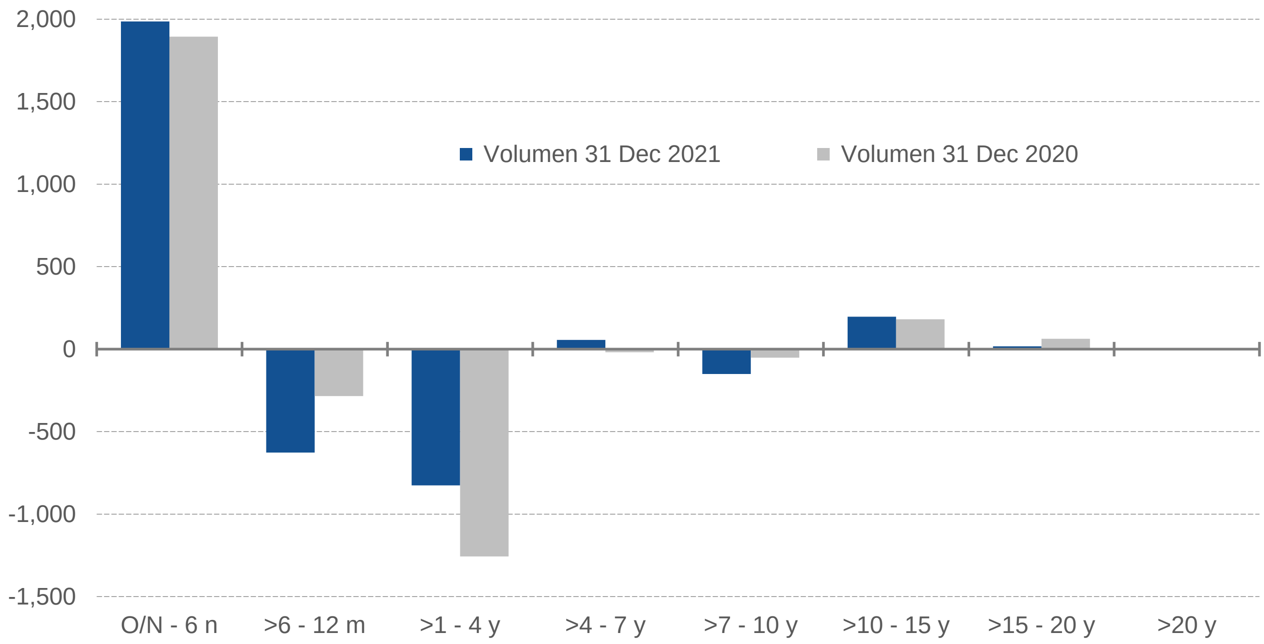
The interest rate risk in the banking book comprises all interest-bearing transactions reported and not reported in the balance sheet, except for transactions in the trading book. The interest rate risk position associated with the retail business of VBW mainly arises from index-linked loans and loans 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.

VBW 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 4 % 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 5 % 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 May 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 low interest rate level, as the EBA scenarios used are limited in the event of further interest rate cuts. It amounted to euro 9 million as at 31 December 2021 (2020: euro 5 million).

Interest rate gap of VOLKSBANK WIEN AG as at 31 December 2021 (in euro million)



A distinguishing feature of the interest rate gap is the large net asset position in the first maturity band, which mainly arises through the index-linked loan portfolio. In the long-term range of more than 10 years, net asset positions result from fixed-interest loans. In the maturity bands up to 10 years, the interest rate replicates of customer deposits largely result in a net liability position.

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 premium on the risk-free interest rate. Credit spread risk arises from fluctuations of the values of assets due to changing credit spreads.

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

Credit spread sensitivities of VOLKSBANK WIEN AG as at 31 December 2021

Euro thousand 31 Dec 2021	100 basis points-shift Amortised cost	Fair value through OCI	Fair value through profit or loss	Total
Section 30a of the Austrian Banking Act - Association of Volksbanks	-133,450	-530	-2,182	-136,163

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

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)	1,809,038	1,773,363
Risk category 2 (2A - 2E)	302,382	481,921
Risk category 3 (3A - 3E)	0	0
Risk category 4 (4A - 4E)	0	0
Risk category 5 (5A - 5E)	0	0
Risk category 6 (NR)	0	0
Total	**2,111,421**	**2,255,283**

A-Depot Risk Cluster

Euro thousand 31 Dec 2021	Amortised cost Carrying amount	Fair value through OCI Carrying amount	Fair value through profit or loss Carrying amount	Total Carrying amount
Covered EUR AAA	1,028,010	5,866	0	1,033,876
Sovereigns Austria	460,975	4,151	0	465,126
Sovereigns Poland	66,783	0	0	66,783
Others Sovereigns EUR AA	63,650	0	0	63,650
Sovereigns France	63,578	0	0	63,578
Sovereigns Belgium	59,449	0	0	59,449
Sovereigns Portugal	56,994	0	0	56,994
Sovereigns Spain	53,483	0	0	53,483
Sovereigns Germany	47,423	0	0	47,423
Sovereigns Slovakia	43,559	0	0	43,559
Others	147,145	4,869	5,486	157,500
Total	**2,091,049**	**14,886**	**5,486**	**2,111,421**
31 Dec 2020				
Covered EUR AAA	917,015	8,034	0	925,048
Sovereigns Austria	519,271	4,238	0	523,508
Sovereigns Italy	172,551	0	0	172,551
Others Sovereigns EUR AA	73,751	0	0	73,751
Sovereigns Poland	63,866	0	0	63,866
Sovereigns Belgium	62,452	0	0	62,452
Sovereigns Portugal	61,976	0	0	61,976
Sovereigns Spain	59,713	0	0	59,713
Corporates EUR BBB	59,199	0	0	59,199
Sovereigns Slovakia	44,022	0	0	44,022
Others	198,863	4,907	5,426	209,196
Total	**2,232,679**	**17,179**	**5,426**	**2,255,283**

Portfolio structure by IFRS 9 categories

Euro thousand 31 Dec 2021	Bond	Syndicated loan & SSD	Fund & Equity	Total
Amortised cost	2,091,049	0	0	2,091,049
Fair value through OCI	14,886	0	0	14,886
Fair value through profit or loss	5,486	0	0	5,486
Total	**2,111,421**	**0**	**0**	**2,111,421**
31 Dec 2020				
Amortised cost	2,232,679	0	0	2,232,679
Fair value through OCI	17,179	0	0	17,179
Fair value through profit or loss	5,426	0	0	5,426
Total	**2,255,283**	**0**	**0**	**2,255,283**

Market risk in the trading book

The market risk in the trading book of VBW is of subordinate importance. The trading book of the Association of Volksbanks is kept centrally at the CO. The main function of the trading book is that of a transformer, where smaller batches from retail banking are collected and dynamically hedged in the market. Additionally, Treasury takes market risks within the scope of the limits approved, in order to produce corresponding income. 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 – VBW does not use any internal model for market risk in the trading book.

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

Euro thousand 31 Dec 2021	Interest +1 basis point	Interest volatility +1 %	Credit spread +1 basis point
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 at VBW. 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 FX sensitivity for each currency (open FX positions)

Euro thousand Currency	31 Dec 2021	31 Dec 2020
CHF	-607	-461
CZK	-113	-209
USD	25	172
JPY	25	-120
GBP	-3	6
Others	889	349
Total	**217**	**-263**

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 considered within the scope of the risk-bearing capacity calculation and the internal stress test. Reporting takes place monthly within the ALCO.

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

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

Euro thousand 31 Dec 2021	Market liquidity costs +10 basis points	Interest rate +10 basis points
Fair value through profit or loss - loans and receivables	-371	-62

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 VBW consists of customer deposits, which have proven to be a stable source of funding in the past. Naturally, this creates the major part of the liquidity risk. The capital market offers VBW additional opportunities for refinancing through securities issues, mainly covered bonds. The stability of customer deposits has become apparent again during the COVID-19 crisis, in the course of which the portfolio has actually grown. The COVID-19 crisis had no negative impact on the liquidity position of the Association. From the perspective of the Association of Volksbanks, dependence 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 VBW, funding risk is defined as a negative income statement effect that occurs due to potential future increases of refinancing costs on the money and capital markets as well as in the retail sphere. This risk is taken into account in the risk-bearing capacity calculation within the scope of the ICAAP. Due to the funding structure at VBW, this risk is relatively low, as the company is hardly dependent on the capital market, and little price sensitivity is observed in the sphere of customer deposits.

The 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 of the CO is responsible for controlling the liquidity position of VBW within the scope of risk limits defined by Risk Control and approved by the Managing Board within ALCO. The ALCO 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 250 % as at 31 December 2021 (2020: 206 %). The NSFR of 190 % as at 31 December 2021 (2020: 146 %) 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 COVID-19 crisis, the issuance of a senior non-preferred bond and to 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. 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 VBW and within the Association of Volksbanks for matters regarding the pricing of liquidity (transfer pricing), the central management of collaterals across the Association, the determination of the funding structure, the disposition of available liquid funds, and compliance with the refinancing strategy. It takes care of the following essential duties:

- Cash management (settlement of all transactions of the Association as well as disposition of the banking connections maintained by VBW)
- Collateral management: ECB-eligible collaterals of the Association (bonds and credit claims)
- Planning of issuance activities
- Daily liquidity forecast for the following 31 days, and weekly for the following 12 months
- Monitoring of refinancing positions of the Association of Volksbanks, and the control system put into effect by VBW as CO with the approval under section 30a Austrian Banking Act, for the affiliated banks – a.o. liquidity reports, refinancing management, utilisation of collaterals, early warning system
- Compliance with minimum reserve regulations for the Association of Volksbanks
- Reporting to the CO Managing Board and to the ALCO
- Daily liquidity reporting of affiliated banks and ALCO reports
- Monitoring of Asset Encumbrance Ratio

e) Operational risk

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

Organisation

At VBW, line management is responsible for the management of operational risks (OpRisk Management). It is supported in this function by centrally and decentrally based experts from the area of operational risk and internal control system.

The aim is to optimise processes in order to reduce the probability of the occurrence of operational risks and/or to reduce the effect of operational losses. Cooperation across departments (with Compliance, Internal Audit, as well as Security & Outsourcing Governance, in particular) allows for optimal and comprehensive control of operational risks.

Methods for the management of operational risks

Within the scope of operational risk management, both quantitative and qualitative methods are used. Quantitative elements 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 of the Association of Volksbanks, apply in OpRisk Management at VBW:

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

Internal control system

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

f) Other risks

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

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

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

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

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

Non-standard risks and/or non-financial risks (conduct risks, compliance risks, legal risks, model risks, as well as IT and system risks, outsourcing risks) are taken into account, among others, in the compliance framework and the frame-work 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 VBW.

Other risks are primarily managed via organisational and process-based measures. ESG risks are mapped within existing risk categories.

52) Fully consolidated companies

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
3V-Immobilien Errichtungs-GmbH; Vienna	HD	100.00 %	100.00 %	35
Gärtnerbank Immobilien GmbH; Vienna	HD	100.00 %	100.00 %	35
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Vienna	HD	100.00 %	100.00 %	35
VB Infrastruktur und Immobilien GmbH; Vienna	HD	100.00 %	100.00 %	35
VB Rückzahlungsgesellschaft mbH; Vienna	HO	100.00 %	100.00 %	35
VB Services für Banken Ges,m,b,H,; Vienna	HD	100.00 %	100.00 %	327
VB Verbund-Beteiligung Region Wien eG in Liqu,; Vienna	HO	90.64 %	90.64 %	3,838
VOBA Vermietungs- und Verpachtungsges,m,b,H,; Baden	HD	99.00 %	99.00 %	36
VVG Vermietung von Wirtschaftsgütern Gesellschaft m,b,H,; Vienna	FI	100.00 %	100.00 %	872

All fully consolidated companies are under control.

53) Companies measured at equity

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
VB Verbund-Beteiligung eG; Vienna	HO	29.11 %	29.11 %	51,804
Volksbank Kärnten eG; Klagenfurt	KI	26.12 %	26.12 %	33,535

54) Unconsolidated affiliated companies

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousend
ARZ-Volksbanken Holding GmbH; Vienna	HO	74.54 %	74.54 %	256
UVB-Holding GmbH; Vienna	SO	100.00 %	100.00 %	35
VB ManagementBeratung GmbH; Vienna	SO	100.00 %	100.00 %	36
VBKA-Holding GmbH; Vienna	SO	100.00 %	100.00 %	35

*Abbreviations Type

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

AUDITOR'S REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Opinion

We have audited the Consolidated Financial Statements of

VOLKSBANK WIEN AG,
Vienna,

and its subsidiaries ("the Group"), which comprise the consolidated Statement of 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 present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) and the Section 59a BWG (Austrian Banking Act).

Basis for our Opinion

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

Key Audit Matters

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

Valuation of receivables from customers at amortised cost

Risk for the consolidated financial statements

Receivables from customers at amortised cost ("receivables from customers") amount to EUR 5,350.9 million in the consolidated statement of financial position. The Managing Board of VOLKSBANK WIEN AG describes the approach to determine loan loss provisions in Notes 3o, 3p and 51b of the Notes to the consolidated financial statements.

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.

AUDITOR'S REPORT

For non-defaulted receivables from customers, a loan loss provision is recognized for the expected credit loss ("ECL"). Generally, the 12-month ECL (stage 1) is used for this loan loss provision. In case the credit risk has increased significantly (stage 2), ECL is calculated based on lifetime expected credit loss. The determination of ECL requires extensive estimation and assumptions. These comprise rating-based probabilities of default and loss given default, which take information about current conditions and forecasts of future economic conditions into account. In order to adequately take the COVID-19 crisis into account, a post model adjustment amounting to the additionally estimated effects was made to the initial result for the first time in 2020 which was adjusted in 2021.

This results in the risk for the consolidated financial statements that after considering above named factors, such as the transfer between stages, the calculation of loan loss provisions taking the post model adjustment into account, is subject to significant estimation and assumptions, resulting in room for discretion as well as estimation uncertainty in respect of the amount of the loan loss provisions.

Our response

In testing the recoverability of receivables from customers we performed the following significant procedures:

- We analysed the process documentation and internal guidelines regarding the monitoring and recognition of loan loss provisions and evaluated whether they are suitable to identify events of default and to adequately determine the recoverability of these receivables from customers. We compiled the relevant key controls, assessed their design and implementation, and tested their effectiveness on a sample basis. 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 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. 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.

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.

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.

AUDITOR'S REPORT

- 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, other than the consolidated financial statements, the group management report and the auditor's report. We expect the annual report to be provided to us after the date of the auditor's report. Our opinion on the consolidated financial statements does not cover other information and we do not provide any kind of assurance thereon.

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) as well as Section 59a BWG (Austrian Banking Act) and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities

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

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

Moreover:
- We identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

AUDITOR'S REPORT

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

Report on Other Legal Requirements

Group Management Report

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

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

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

Opinion

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

Statement

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

Additional Information in accordance with Article 10 AP Regulation

We were elected as auditors at the Annual General Meeting on 14 May 2020 and were appointed by the supervisory board on 26 May 2020 to audit the consolidated financial statements of the Company for the financial year ending on 31 December 2021.

On 29 April 2021 we were elected for the year ending on 31 December 2022 and on 7 May 2021 the supervisory board appointed us as auditors.

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

AUDITOR'S REPORT

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

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

Engagement Partner

The engagement partner is Mr Walter Reiffenstuhl.

Vienna, 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.

STATEMENT OF ALL LEGAL REPRESENTATIVES

VOLKSBANK WIEN AG
Statement of all Legal Representatives

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

Vienna, 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

INDIVIDUAL ANNUAL FINANCIAL STATEMENTS VOLKSBANK WIEN AG

BALANCE SHEET

Assets	Euro	31 Dec 2021 Euro	Euro Thousand	31 Dec 2020 Euro Thousand
1. Cash in hand, balances with central banks		6,770,589,004.77		3,798,482
2. Debt instruments issued by public bodies and similar securities		766,313,678.26		877,658
3. Loans and advances to credit institutions				
a) Due on demand	794,833,119.27		532,390	
b) Other receivables	1,378,771,899.38	2,173,605,018.65	1,776,999	2,309,389
4. Loans and advances to customers		5,411,355,611.69		5,393,782
5. Bonds and other fixed-income securities				
a) From public issuers	16,318,287.88		15,458	
b) From other issuers	1,123,339,349.61	1,139,657,637.49	2,191,785	2,207,243
Of which: In-house issues Euro 0.00 (2020: Euro thousand 1,197,915)				
6. Shares and other variable-yield securities		2,143,417.28		34,053
7. Participations		77,204,683.70		65,704
Of which: in credit institutions Euro 28,389,349.11 (2020: Euro thousand 18,230)				
8. Investments in affiliates		18,525,162.67		19,809
9. Intangible non-current assets		1,040,413.68		1,637
10. Fixed assets		54,306,776.43		58,219
Of which: Land and buildings used by the credit institution within the scope of its own activities Euro 27,082,061.01 (2020: Euro thousand 27,843)				
11. Other assets		122,744,698.47		197,987
12. Deferred items		11,187,783.47		10,020
13. Deferred tax assets		32,535,238.23		36,142
Total assets		**16,581,209,124.79**		**15,010,125**

Off-balance sheet items		
1. Foreign assets	1,614,983,028.68	1,775,673

Liabilities	Euro	31 Dec 2021 Euro	Euro Thousand	31 Dec 2020 Euro Thousand
1. Amounts owed to credit institutions				
a) Due on demand	2,543,592,517.54		2,448,258	
b) With agreed term or period of notice	3,673,641,316.96	6,217,233,834.50	1,717,522	4,165,780
2. Amounts owed to customers				
a) Saving deposits				
aa) Due on demand	1,600,544,220.48		1,663,193	
bb) With agreed term or period of notice	76,747,171.51		151,433	
	1,677,291,391.99		1,814,626	
b) Other liabilities				
aa) Due on demand	5,069,577,647.88		4,473,796	
bb) With agreed term or period of notice	228,349,540.55		490,781	
	5,297,927,188.43	6,975,218,580.42	4,964,577	6,779,203
3. Debts evidenced by certificates				
a) Issued debt securities	1,588,162,838.77		2,284,017	
b) Other debts evidenced by certificates	284,147,301.77	1,872,310,140.54	292,095	2,576,112
4. Other liabilities		164,337,748.44		160,479
5. Deferred items		3,049,247.09		9,639
6. Provisions				
a) Provisions for severance payments	17,838,530.00		17,781	
b) Provisions for pensions	8,095,149.55		8,416	
c) Provisions for taxes	2,289,736.88		1,331	
d) Other	58,276,118.29	86,499,534.72	69,284	96,812
7. Supplementary capital pursuant to Part 2, Title I, Chapter 4 of Regulation (EU) No 575/2013		404,600,000.00		408,600
8. Additional Tier 1 capital pursuant to Part 2, Title I, Chapter 3 of Regulation (EU) No 575/2013		220,000,000.00		220,000
9. Subscribed capital		137,546,531.25		137,547
10. Capital reserves				
a) appropriated	235,976,862.73		235,977	
b) unappropriated	44,460,301.85	280,437,164.58	0	235,977
11. Retained earnings				
Other reserves		171,363,761.61		171,364
12. Liability reserve pursuant to section 57 (5) BWG		44,819,308.55		44,819
13. Net profit		3,793,273.09		3,793
Total liabilities and equity		**16,581,209,124.79**		**15,010,125**

Off-balance sheet items		
1. Contingent liabilities and liabilities from sureties, guarantees and provision of collateral	214,449,254.25	253,298
2. Credit risks	3,376,038,044.98	3,529,960
3. Liabilities from fiduciary transactions	154,537,703.08	147,272
4. Eligible capital pursuant to Part 2 of Regulation (EU) No 575/2013	1,256,472,446.11	1,210,482
Of which: Supplementary capital pursuant to Part 2, Title I, Chapter 4 of Regulation (EU) No 575/2013 Euro 417,702,560.49 (2019: Euro thousand 418,795)		
5. Capital requirement pursuant to Article 92 of Regulation (EU) No 575/2013	3,671,977,926.07	3,751,313
Of which: Capital requirement pursuant to Article 92 (1)		
(a) of Regulation (EU) No 575/2013 (Common Equity Tier 1 capital ratio in %)	16.85 %	15.24 %
(b) of Regulation (EU) No 575/2013 (Tier 1 capital ratio in %)	22.84 %	21.10 %
(c) of Regulation (EU) No 575/2013 (Total capital ratio in %)	34.22 %	32.27 %
6. Foreign liabilities	706,150,913.60	732,143

INCOME STATEMENT

		1-12 2021		1-12 2020
	Euro	Euro	Euro Thousand	Euro Thousand
1. Interest and similar income		142,203,741.39		127,199
Of which: From fixed-income securities	891,294.42		3,183	
2. Interest and similar expenses		-62,207,555.60		-46,803
I. NET INTEREST INCOME		79,996,185.79		80,396
3. Income from securities and investments				
a) Income from shares, other ownership interests and variable-yield securities	316,951.63		1	
b) Income from investments	2,380,748.83		1,123	
c) Income from shares in affiliates	7,717,695.27	10,415,395.73	30,097	31,221
4. Fee and commission income		85,106,208.94		81,941
5. Fee and commission expenses		-22,668,672.97		-21,715
6. Net trading income/expenses		2,319,895.00		2,791
7. Other operating income		122,684,517.23		113,167
II. OPERATING INCOME		277,853,529.72		287,801
8. General administrative expenses				
a) Staff expenses				
aa) Salaries	-71,083,420.15		-71,991	
bb) Expenses for statutory social contributions and remuneration-related charges and compulsory contributions	-18,102,828.71		-18,423	
cc) Other social expenses	-1,116,343.14		-1,202	
dd) Expenses for retirement benefits and support	-1,517,802.10		-2,318	
ee) Allocation to provision for pensions	-504,672.97		726	
ff) Allocation to provision for severance payments and employee welfare funds	-2,046,669.96		-634	
	-94,371,737.03		-93,842	
b) Other administrative expenses (administrative expenses)	-101,123,759.56	-195,495,496.59	-102,989	-196,831
9. Value adjustments on assets within items 9 and 10		-5,517,058.54		-6,829
10. Other operating expenses		-18,817,964.62		-18,632
III. OPERATING EXPENSES = AMOUNT CARRIED FORWARD		-219,830,519.75		-222,292

	Euro	1-12 2021 Euro	Euro Thousand	1-12 2020 Euro Thousand
III. OPERATING EXPENSES = AMOUNT CARRIED FORWARD		-219,830,519.75		-222,292
IV. OPERATING PROFIT		58,023,009.97		65,509
11. Balance from impairments on receivables and allocations to provisions for contingent liabilities and for credit risks as well as from securities held within the liquidity reserve as well as income from the reversal of impairments on receivables and from provisions for contingent liabilities and for credit risks as well as from securities held within the liquidity reserve		17,722,220.66		-28,038
12. Balance from impairments on securities measured as financial assets, as well as on participations and shares in affiliates and income from impairments on securities measured as financial assets, as well as on participations		-75,667,170.03		-9,169
V. RESULT FROM ORDINARY OPERATIONS		78,060.60		28,302
13. Income taxes		-6,589,316.69		6,614
14. Other taxes not shown under item 13		-2,437,722.04		-2,153
VI. ANNUAL RESULT AFTER TAXES		-8,948,978.13		32,763
15. Movement in reserves		8,948,978.13		-32,350
VII. ANNUAL RESULT		0.00		413
16. Profit carried forward		3,793,273.09		3,380
VIII. NET PROFIT		3,793,273.09		3,793

NOTES FOR THE FINANCIAL YEAR 2021

1. Accounting and valuation principles

General information

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

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 central organisation (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.

The annual financial statements of VBW as at 31 December 2021 were prepared by the Managing Board in accordance with Austrian corporate and banking law. The annual financial statements have been prepared in accordance with the principles of proper accounting, as well as in compliance with the general standard to present a true and fair view of the net worth, financial and earnings position of the Company.

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

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

The principle of prudence was taken into account in that only profits already realised on the balance sheet date are included in particular. All identifiable risks and imminent losses that have arisen in the 2021 business year or in any of the previous business years were taken into account, if known.

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

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

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

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

For financial contracts that are debt instruments, the following accounting and valuation principle (observing the principle of materiality) is applied: if there was no corresponding option for a contract adjustment in the original contract, an impairment of the debt instrument is recognised in the event of a subsequent – non-significant – contract adjustment. In the event of a significant contract adjustment, the carrying amount of the (old) debt instrument before contract adjustment is derecognised and the fair value of the (new) debt instrument after contract adjustment is recognised.

Principle of determining risk provisions/impairments

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

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

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

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

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

Information regarding the calculation logic:
- Time horizon: The expected losses are calculated either for a 12-month period or for the entire residual term.
- Individual transaction or portfolio perspective: The calculation of the impairment at individual transaction level usually takes place for customers at Stage 3 from a certain minimum exposure (so-called "Verbund-Metakunden-Obligo"; meta-customer exposure of the Association) of euro 750 thousand (individual loan loss provisions and specific provisions). While for all other credit exposures, the calculation is carried out for each transaction individually as well, the parameters used (PD, LGD, etc.) are derived from portfolios/groups with the same risk characteristics (portfolio loan loss provisions and collective allowances for impairment/provisions).
- Scenario analysis: The impairment is determined on the basis of at least two probability-weighted scenarios.
- Expected cash flows: With respect to determination of the expected losses, there are requirements for estimating the expected cash flows (determination of cash flows from collaterals, cash flows from current operations, etc.).
- Time value of money: The expected loss includes the "time value of money" and accordingly constitutes a discounted value.
- Taking into account available information: For the purpose of calculating the impairment, debtor-specific, transaction-specific and macroeconomic information about past events, current conditions and projections about the future are taken into account within the scope of the PD, LGD and cash flow models applied.

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

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

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

Risk provisions/impairments relating to the COVID-19 pandemic

Risk provisions/impairments Stage 1 and 2 prior to post-model adjustments

VBW uses internal rating systems to distinguish between borrowers whose credit rating was not significantly impaired by the current situation in the long term and those who are very seriously affected, making it unlikely that their credit rating will be restored to the level before the crisis. The rating and the associated allocation to risk provisions take into account, on the one hand, the actually observed impact of 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 this model adjustment was made in the last quarter of 2021. 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.

Formation of post-model adjustments Stage 1 and 2

Analogously applying IFRS 9 provisions, expected credit losses are determined on the basis of 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 (the 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 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.

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 annual financial statements, 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 in 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. 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.

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 annual financial statements. In addition, extraordinary income was recognised from receivables previously written off.

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

Currency conversion: The main currencies were valued at the mean rates of exchange of the European Central Bank (ECB) as published on 31 December 2021. Other currencies were converted at the mean rate of exchange of the balance sheet date. The foreign exchange portfolios were converted at the reference mean rate.

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

At the beginning of the financial year 2021, the presentation of securities classified as financial assets that had not been put into circulation was changed. Own securities held as financial assets that are not put into circulation are no longer recognised on the balance sheet either as assets or liabilities; interest expenses and income from such securities are no longer recognised in profit or loss. This presentation did not have any net effects on earnings compared with the previous year. Equity according to the Austrian Business Code/Banking Act and the regulatory capital ratios remained unchanged. As at 31 December 2020, securities not circulated were recognised on the assets and liabilities side in the amount of euro 1,095,756,205.52 each. In the 2020 financial year, this resulted in interest expenses and income of euro 874,483.86 each.

VBW holds equity interests in various companies (participations and shares in affiliates). None of these participations/shares in affiliates is listed at a stock exchange, and accordingly there is no active market. The participations are measured by means of valuation methods and, to a certain extent, non-observable input factors. The valuations are effected according to the discounted cash flow method and peer group approach. Various calculation models are applied. The income approach is used if VBW is in control or exercises any management function and if, accordingly, budgets are available. If the company is not controlled, the fair value calculation is performed on the basis of the dividend paid as well as the annual results of the last five years. In case of companies whose object does not permit any regular income or the result of which is controlled by the parent company through settlements, the net assets are used as valuation criterion. In case of participations in co-operatives, the share capital is used as the market value, provided the subscription of new shares and the cancellation of existing shares are possible at any time. If valuation reports for participations are prepared by external valuators, they will be used for current valuation. To the extent that the discounted cash flow method is applied, the discount rates used are based on the respective current recommendations of the "Fachsenat der österreichischen Kammer der Wirtschaftstreuhänder" as well as of international financial data service providers and, in the 2021 business year, range between 6.95 and 10.08 % (2020: 7.00 – 9.80 %). The market risk premium used for the calculation is 8.32 % (2020: 8.63 %), the beta values used range between 0.84 and 1.22 (2020: 0.82 – 1.15). Additional country risks did not have to be considered. Discounts due to fungibility and exercise of control are effected for two participations.

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

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

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

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

Provisions for pensions and severance payments are determined according to generally recognised actuarial principles using the entry age normal method based on a discount rate of 1.15 % (2020: 1.53 %), planned salary increases of 2.5 % (2020: 2.5 %) and pension increases of 1.7 % (2020: 1.7 %), as well as a retirement age of 60-65 years (2020: 60-65 years) for women and 65 years (2020: 65 years) for men. The measurement of retirement pension obligations includes legitimate claims of employees that were in active service at the measurement date, as well as current pension recipients. The accrual period extends until retirement age is reached. As regards expected mortality, the calculation tables "AVÖ 2018 P-Rechnungsgrundlagen für die Pensionsversicherung – Angestelltenbestand" are applied. Termination of employment due to reaching the age limit and also due to invalidity or death, as well as the vested rights of surviving dependants are taken into account, but no fluctuation discount.

The discount rate used is derived from the 7-year average interest rate (for 11-year maturities; previous year: 12-year maturities), as published by Deutsche Bundesbank at 30 September 2021 (previous year: 30.9.2020) (cf. AFRAC statement 27 "Provisions for post-employment benefits (Austrian Business Code)"). Interest expenses as well as the effects from a change of interest rate are reported in the item Staff expenses together with allocations and reversals.

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

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

The item Supplementary capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) no. 575/2013 shows those supplementary capital instruments that are eligible as Tier 2 capital without restrictions under the conditions of the CRR.

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

The comparable prior-year figures are rounded to the nearest thousand euros and added in brackets in the notes; accordingly rounding differences cannot be excluded in the totals stated.

Measurement and accounting of derivative financial instruments

Derivative financial instruments of the banking book

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

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

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

As at 31 December 2021, only cash margins were provided by way of hedging in connection with derivatives. The option to pledge other financial instruments was not made use of.

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

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

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

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

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

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

Derivative financial instruments of the trading book

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

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

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

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

Determination of fair value

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

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

2. Notes concerning the balance sheet

2.1 Explanatory notes on assets

Breakdown of loans and receivables to credit institutions:

Residual term:	31 Dec 2021 Euro	31 Dec 2020 Euro thousand
repayable on demand	794,833,119.27	532,390
up to three months	521,885,803.33	656,972
more than 3 months up to 1 year	193,385,601.25	260,501
more than 1 year up to 5 years	636,475,648.82	808,797
more than 5 years	27,024,845.98	50,729
not repayable on demand	1,378,771,899.38	1,776,999
Loans and receivables to customers, total	**2,173,605,018.65**	**2,309,389**

Subordinated assets:

	31 Dec 2021 Euro	31 Dec 2020 Euro thousand
Loans and receivables to credit institutions	2,255,899.05	2,401

Breakdown of loans and receivables to customers:

Residual term:	31 Dec 2021 Euro	31 Dec 2020 Euro thousand
repayable on demand	302,459,859.92	302,011
up to 3 months	73,096,213.56	68,504
more than 3 months up to 1 year	119,704,237.93	103,789
more than 1 year up to 5 years	535,626,562.77	492,259
more than 5 years	4,380,468,737.51	4,427,218
not repayable on demand	5,108,895,751.77	5,091,770
Loans and receivables to customers, total	**5,411,355,611.69**	**5,393,781**

Loans and receivables to affiliates and participating interests:

	31 Dec 2021		31 Dec 2020	
	to affiliates Euro	to participations Euro	to affiliates Euro thousand	to participations Euro thousand
Loans and receivables to credit institutions	0.00	855,446,373.42	0	1,089,439
Loans and receivables to customers	6,847,366.92	123,093,554.06	6,872	95,048
	6,847,366.92	978,539,927.48	6,872	1,184,487

Composition of risk provisions:

	31 Dec 2021		31 Dec 2020	
	Risk provision Euro	Collective allowance pursuant to sec. 57 (1) Austrian Banking Act Euro	Risk provision Euro thousand	Collective allowance pursuant to sec. 57 (1) Austrian Banking Act Euro thousand
Loans and receivables to credit institutions	2,308,761.64	0.00	3,120	0.00
Loans and receivables to customers	68,625,622.22	17,870,754.88	85,673	17,871
Provisions for off-balance sheet transactions	5,050,975.51	0.00	6,105	0.00
	75,985,359.37	17,870,754.88	94,898	17,871

The risk provisions for loans and receivables to customers include post-model adjustments in the amount of euro 1,968,893.20 (31.12.2020: euro 11,170 thousand) and the provisions for off-balance sheet transactions include post-model adjustments in the amount of euro 224,496.44 (31.12.2020: euro 1,744 thousand).

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

31 Dec 2021:	Listed Euro	Unlisted Euro
Debt instruments issued by public bodies and similar securities	751,117,486.98	0.00
Bonds and other fixed-income securities	1,134,614,350.04	0.00
Equities and other variable-yield securities	721,345.48	1,418,500.03

31 Dec 2020:	Listed Euro thousand	Unlisted Euro thousand
Debt instruments issued by public bodies and similar securities	860,382	0
Bonds and other fixed-income securities	2,201,549	0
Equities and other variable-yield securities	725	33,328

As in the previous year, VBW did not hold any own supplementary capital or subordinated capital in its asset portfolio as at 31 December 2021. No own bonds (31.12.2020: euro 1,197,915 thousand) were recognised as at the balance sheet date either.

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

31 Dec 2021:	Fixed assets Euro	Current assets (incl. trading book) Euro
Debt instruments issued by public bodies and similar securities	750,104,436.98	1,013,050.00
Bonds and other fixed-income securities	1,132,144,747.09	2,469,602.95
Equities and other variable-yield securities	724,917.25	-3,571.77

31 Dec 2020:	Fixed assets Euro thousand	Current assets (incl. trading book) Euro thousand
Debt instruments issued by public bodies and similar securities	858,296	2,085
Bonds and other fixed-income securities	998,963	1,202,587
Equities and other variable-yield securities	725	0

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

The difference between the acquisition cost and the fair value, if higher, of securities not designated as fixed assets (current assets incl. trading book) and admitted to stock exchange trading amounts to euro 57,755.80 as at 31 December 2021 (31.12.2020: euro 23,685 thousand).

Other information on securities

The difference, to be written down pro rata temporis over the residual term, between historical cost and redemption amount in case of non-current securities amounts to euro 28,169,671.60 in total (31.12.2020: euro 31,426 thousand). As at 31 December 2021, euro 12,143,922.53 of that amount (31.12.2020: euro 14,710 thousand) need yet to be written down over the residual term.

The difference, to be written up pro rata temporis over the residual term, between historical cost and redemption amount in case of non-current securities amounts to euro 5,893,287.25 in total (31.12.2020: euro 27,188 thousand). As at 31 December 2021, euro 3,839,417.96 of that amount (31.12.2020: euro 15,797 thousand) need yet to be written up over the residual term.

With respect to the below-mentioned non-current securities that were reported above fair value, impairment was omitted, as an intention to hold them and service them in full – and accordingly full recoverability – is assumed. In the 2021 business year, as in the 2020 business year, no contractual violations and no delays in payment were found due to serious financial difficulties of the issuers.

31 Dec 2021:	Fair value in euro	Carrying amount in euro	Difference in euro
Debt instruments issued by public bodies and similar securities	48,824,428.60	49,459,066.91	-634,638.31
Bonds and other fixed-income securities	304,585,747.69	310,343,106.44	-5,757,358.75
Equities and other variable-yield securities	651,511.96	724,917.27	-73,405.31
	354,061,688.25	360,527,090.62	-6,465,402.37

31 Dec 2020:	Fair value in euro thousand	Carrying amount in euro thousand	Difference in euro thousand
Bonds and other fixed-income securities	15,981	16,110	-129
Equities and other variable-yield securities	599	725	-126
	16,580	16,835	-255

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

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

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

In 2022, receivables from bonds and other fixed-income securities in the amount of euro 41,317,722.51 will mature (2021: euro 156,290 thousand).

In the 2021 business year, there were genuine repurchase transactions with a carrying amount of euro 20,197,264.26 (31.12.2020: euro 20,239 thousand).

The credit institution keeps a trading book. As at 31 December 2021, securities with a fair value of euro 636,746.58 (31.12.2020: euro 2,960 thousand) and other financial instruments with a fair value including accrued/deferred interest in the amount of euro -1,080,810.30 (31.12.2020: euro 4,136 thousand) have been designated for this trading book, of which an amount of euro -47,781,507.00 (31.12.2020: euro -70,126 thousand) with external counterparties.

In 2021, no securities were reclassified from current assets (trading book) to fixed assets. No reclassifications of fixed assets to current assets were effected either.

Equities and other variable-yield securities

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

Participations and shares in affiliates

Composition of participations:

Name of entity	Share	Annual financial statements	Total equity Euro Thousand	Annual result Euro Thousand	Carrying amount as at 31 Dec 2021 Euro
Volksbank Kufstein-Kitzbühel Holding eG 6330 Kufstein, Unterer Stadtplatz 21	41.41 %	31.12.2020	63,183	-79	727,050.00
Wiener Landwirtschaftliche Siedlungsgesellschaft mbH 1220 Vienna, Kagraner Platz 48	33.33 %	31.12.2020	209	-1	70,000.00
VB Verbund-Beteiligung eG	29.10 %	31.12.2020	103,633	-176	18,676,564.56
Volksbanken – Versicherungsdienst – Gesellschaft m.b.H. 1071 Vienna, Lindeng. 5	27.27 %	31.12.2020	5,663	1,786	101,000.00
VB Niederösterreich Süd eG 2700 Wiener Neustadt, Herzog-Leopold Strasse 3	27.21 %	31.12.2020	30,178	-48	413,016.00
Volksbank Kärnten eG 9020 Klagenfurt, Pernhartgasse 7	26.12 %	31.12.2020	104,753	614	8,760,073.00
ARZ Allgemeines Rechenzentrum GmbH 6020 Innsbruck, Mitterweg 96	25.99 %	31.12.2020	11,566	2,238	294,473.45
VB Beteiligungsgenossenschaft Obersdorf-Wolkersdorf-Deutsch-Wagram e.Gen. 2120 Obersdorf, Hauptstrasse 57	24.23 %	31.12.2020	9,119	-70	160,040.00
VB Südburgenland Verwaltung eG 7423 Pinkafeld, Marktplatz 3	22.76 %	31.12.2020	17,912	-49	318,772.50
VB-Beteiligungsgenossenschaft der Obersteiermark eG 8700 Leoben, Hauptplatz	20.72 %	31.12.2020	19,299	14	1,500,047.27
Volksbanken Holding eGen 1030 Vienna, Hauptplatz 4	16.97 %	30.06.2020	99,708	39,025	18,892,000.00
PSA Payment Services Austria GmbH 1030 Vienna, Marxergasse 1B	6.89 %	31.12.2020	32,055	4,605	3,828,767.48
Volksbank Oberösterreich AG 4600 Wels, Pfarrgasse 5	6.82 %	31.12.2020	181,798	189	9,956,551.77
Schulze-Delitzsch Ärzte und Freie Berufe e.Gen. 1010 Vienna, Schottengasse	6.63 %	31.12.2020	11,172	-1,260	874,000.00
Österreichische Ärzte- und Apothekerbank 1090 Vienna, Spitalgasse 31	5.80 %	31.12.2020	51,184	-3,749	2,400,040.00
Volksbank Steiermark AG 8010 Graz, Schmiedgasse 31	5.11 %	31.12.2020	193,448	-234	5,751,434.52
Österreichische Kontrollbank AG, 1010 Vienna, Strauchgasse 3	1.50 %	31.12.2020	820,592	47,729	1,180,061.00
Wiener Börse AG (formerly CEESEG Aktiengesellschaft) 1010 Vienna, Wallnerstrasse 8	1.42 %	31.12.2020	166,278	41,396	1,377,582.14
Remaining participations					1,923,210.01
					77,204,683.70

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

Information on mutual participations:

Share of VBW	Participations	Share in VBW
26.12 %	Volksbank Kärnten eG	2.22 %
24.23 %	VB Beteiligungsgenossenschaft Obersdorf-Wolkersdorf-Deutsch-Wagram eG	1.29 %
22.76 %	VB Südburgenland Verwaltung eG	3.11 %
29.10 %	VB Verbund-Beteiligung eG	5.31 %
16.97 %	Volksbanken Holding eGen	0.62 %
8.38 %	VB Ost Verwaltung eG	6.61 %
6.82 %	Volksbank Oberösterreich AG	2.76 %
5.11 %	Volksbank Steiermark AG	5.11 %
0.003 %	Volksbank Niederösterreich AG	3.08 %

Composition of shares in affiliates:

Name of entity	Share	Annual financial statements	Total equity Euro Thousand	Annual result Euro Thousand	Carrying amount as at 31 Dec 2021 Euro
VB Infrastruktur und Immobilien GmbH (formerly: VOME Holding GmbH) 1030 Vienna, Dietrichgasse 25	100.00 %	31.12.2020	1,232	1	434,928.38
VB Services für Banken Ges.m.b.H. 1030 Vienna, Dietrichgasse 25	100.00 %	31.12.2020	4,263	1,809	389,505.80
VB ManagementBeratung GmbH 1030 Vienna, Dietrichgasse 25	100.00 %	31.12.2020	817	30	36,336.40
VBKA-Holding GmbH 1030 Vienna, Dietrichgasse 25	100.00 %	31.12.2020	23	-2	1.00
UVB-Holding GmbH 1030 Vienna, Dietrichgasse 25	100.00 %	31.12.2020	26	-2	0.00
VB Rückzahlungsgesellschaft mbH 1030 Vienna, Dietrichgasse 25	100.00 %	30.06.2021	53,415	-11	35,000.00
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H. 1030 Vienna, Dietrichgasse 25	99.50 %	31.12.2020	1,831	215	867,713.64
VOBA Vermietungs- und Verpachtungsges.m.b.H. 2500 Baden, Hauptplatz 9-13	99.00 %	31.12.2020	9,478	1,323	4,694,000.00
3V-Immobilien Errichtungs-GmbH 1030 Vienna, Dietrichgasse 25	99.00 %	31.12.2020	37,531	29,612	8,239,000.00
Gärtnerbank Immobilien GmbH 1030 Vienna, Dietrichgasse 25	99.00 %	31.12.2020	888	1	34,650.00
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH 1030 Vienna, Dietrichgasse 25	99.00 %	31.12.2020	3,440	610	84,650.00
VB Verbund-Beteiligung Region Wien eG (formerly: Verwaltungsgenossenschaft der IMMO-BANK eG) 1030 Vienna, Dietrichgasse 25	90.63 %	31.12.2020	20,804	-267	3,478,092.20
ARZ-Volksbanken Holding GmbH 1030 Vienna, Dietrichgasse 25	74.54 %	30.06.2021	261	-5	231,285.25
					18,525,162.67

Relationships with affiliates

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

As at 31 December 2021, the number of group members amounts to 8 (31.12.2020: 9).

Tangible assets

The value of developed and undeveloped land amounts to euro 9,937,605.91 (31.12.2020: euro 10,225 thousand). As for the development of tangible assets, please refer to the movement in non-current assets.

Breakdown of other assets

	31 Dec 2021 Euro	31 Dec 2020 Euro thousand
Receivables from derivative financial instruments	99,324,621.59	137,455
Claim for profit distribution	0.00	29,200
Receivables from taxes and charges	3,265,604.57	4,841
Auxiliary accounts of banking business	697,501.50	768
Sundry other receivables	19,456,970.81	25,723
	122,744,698.47	197,987

Income in the amount of euro 23,663,459.90 (31.12.2020: euro 19,092 thousand) is included in the item Other assets, which will be received only after the balance sheet date. Other assets include items with maturities of more than one year in the amount of euro 181,760.56 (31.12.2020: euro 175 thousand).

Prepaid expenses

Accruals in the amount of euro 11,187,783.47 (31.12.2020: euro 10,026 thousand) essentially include premiums from issued bonds and the accrual of a building cost subsidy.

Deferred tax assets

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

	31 Dec 2021 Euro	31 Dec 2020 Euro thousand
Collective provisions pursuant to section 9 (3) Income Tax Act (EStG)	19,569,547.07	26,500
Portfolio loan loss provisions and impairments as per section 57 (1) of the Austrian Banking Act	48,003,647.47	55,537
Participations	39,824,001.85	34,449
Provision for severance payments	5,377,653.56	5,614
Provision for pensions	3,068,918.55	3,084
Provision for anniversary bonuses	2,092,397.91	2,059
Long-term provisions	145,078.07	214
Fifth part of severance payments	886,086.85	1,137
LIVEBank	300,000.00	367
Other temporary differences	0.00	4,914
Tangible assets and intangible assets	898,970.88	868
Distribution of flotation cost	4,328,290.51	4,967
	124,494,592.72	139,710
Deferred tax assets from difference amounts determined (25 %)	31,123,648.18	34,927
Deferred tax assets of group members from (contractual) tax rate differences	1,411,590.06	1,214
Deferred tax assets (25 %)	32,535,238.23	36,141

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

	Euro
As at 31.12.2020	36,141,786.52
Change in profit or loss	3,606,548.29
As at 31.12.2021	32,535,238.23

2.2 Explanatory notes on liabilities

Breakdown of amounts owed to credit institutions:

Residual term:	31 Dec 2021 Euro	31 Dec 2020 Euro thousand
repayable on demand	2,543,592,517.54	2,448,258
up to 3 months	59,843,657.07	86,802
more than 3 months up to 1 year	3,501,517,712.77	1,506,948
more than 1 year up to 5 years	11,505,000.00	11,329
more than 5 years	100,774,947.12	112,443
not repayable on demand	3,673,641,316.96	1,717,522
Amounts owed to credit institutions, total	**6,217,233,834.50**	**4,165,780**

Breakdown of amounts owed to customers:

Residual term:	31 Dec 2021 Euro	31 Dec 2020 Euro thousand
repayable on demand	6,670,121,868.36	6,136,989
up to 3 months	112,013,961.19	298,789
more than 3 months up to 1 year	170,018,748.21	294,089
more than 1 year up to 5 years	23,021,824.95	49,279
more than 5 years	42,177.71	56
not repayable on demand	305,096,712.06	642,213
Amounts owed to customers, total	**6,975,218,580.42**	**6,779,202**

At the balance sheet date, trust savings deposits amount to euro 13,535,104.96 (31.12.2020: euro 14,027 thousand). The underlying stock designated for this purpose consists of investment grade securities and amounts to euro 15,418,993.51 (31.12.2020: euro 16,315 thousand).

Amounts owed to affiliates and participating interests:

		31 Dec 2021		31 Dec 2020
	to affiliates Euro	to participations Euro	to affiliates Euro thousand	to participations Euro thousand
Amounts owed to credit institutions	0.00	1,619,925,094.99	0.00	1,775,545
Amounts owed to customers	56,362,327.55	63,757,917.80	146,517	59,016
	56,362,327.55	1,683,683,012.79	146,517	1,834,561

Debts evidenced by certificates

No issued bonds will mature in the 2022 business year (2021: euro 130,000 thousand).

Under the value date of 23 March 2021, senior non-preferred eligible bonds (ISIN AT000B122080) in the nominal amount of euro 500 million and with an issue price of 99.456 % were issued. The bonds have a term of 5 years, will mature on 23 March 2026 and will be redeemed at a rate of 100 % of the face value. The fixed interest rate was set at 0.875 % p.a. and is payable annually on 23 March. The bonds are meant to constitute instruments of eligible liabilities serving compliance with the statutory MREL requirements, and meet the requirements of section 131 para 3 lines 1 to 3 of the Federal Act on the Recovery and Resolution of Banks (BaSAG).

For more information on the issued subordinated liabilities and supplementary capital as well as additional Tier 1 capital, please refer to the relevant details in the notes.

Other liabilities

	31 Dec 2021 Euro	31 Dec 2020 Euro thousand
Liabilities from derivative financial instruments	117,277,969.16	138,868
Liabilities from taxes and charges	11,801,935.86	5,160
Accrued interest for own issues	6,494,170.47	6,494
Sundry other liabilities	28,763,672.95	9,957
	164,337,748.44	160,479

Expenses in the amount of euro 28,102,759.16 (31.12.2020: euro 32,656 thousand) are included in the item Other liabilities, which will be paid only after the balance sheet date.

Other liabilities (excluding fair values of derivative financial instruments) include items with a term of less than one year in the amount of euro 66,090,291.08 (31.12.2020: euro 54,332 thousand).

Deferred items

Deferred items in the amount of euro 3,049,247.09 (31.12.2020: euro 9,639 thousand) essentially concern the deferral of processing fees. This item includes a deferral of the COVID-19 investment subsidy in the amount of euro 30,556.56 (previous year: euro 0 thousand).

Other provisions

Other provisions break down as follows:

	31 Dec 2021 Euro	31 Dec 2020 Euro thousand
Repayment of subsidies from the reorganisation agreement	19,569,547.07	26,500
Unpaid incoming invoices	10,687,052.73	13,048
Imminent losses from derivative financial instruments	6,681,692.41	6,988
Losses and risks due to the granting of loans and guarantees	8,152,599.10	9,320
Anniversary bonuses	5,584,244.01	5,514
Redimensioning	1,418,434.17	3,136
Leave not yet taken	3,509,048.11	3,762
Other liabilities	2,673,500.69	1,017
	58,276,118.29	69,284

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

Issued subordinated liabilities and supplementary capital and Additional Tier 1 capital

	31 Dec 2021 Euro	31 Dec 2020 Euro thousand
Subordinated liabilities	404,600,000.00	404,600
Supplementary capital, eligible without restrictions	0.00	4,000
Participation capital not meeting the criteria of CET1 capital	0.00	0.00
Supplementary capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No. 575/2013	404,600,000.00	408,600

	31 Dec 2021 Euro	31 Dec 2020 Euro thousand
Additional Tier 1 capital pursuant to Part 2 Title I Chapter 3 of Regulation (EU) No. 575/2013	220,000,000.00	220,000

As at 31 December 2021, the terms of the issued subordinated liabilities and supplementary capital as well as the additional Tier 1 capital are as follows:

ISIN	Name	Nominal value	Currency	Interest rate (Dec 31)	Redemption
AT000B121967	2.75% VBWIEN FIX TO FIX 17-27	400,000,000	euro	2.750%	6 Oct 2027
QOXDBA032238	3.50% Volksbank Wien-Baden AG Subordinate tier 2 bond 2014-2022	600,000	euro	3.500%	1 Dec 2022
QOXDBA000383	ERG.KAP.SCHV. 2007-2022	4,000,000	euro	4,000%	1 Dec 2022
AT000B121991	VBW FIX TO R.R.AT1 NTS 19	220,000,000	euro	7,750%	perpetual

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

Expenses for subordinated liabilities and supplementary capital amount to euro 11,282,144.56 (2020: euro 11,290 thousand).

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

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

At the value date of 9 April 2019, an Additional Tier 1 bond (ISIN AT000B121991 or WKN A191M4) in the nominal amount of euro 220 million and with an issue price of 100.00 % was issued, which represents additional Tier 1 capital under Article 52 of the CRR. The bond has an indefinite term with the issuer being entitled to terminate the bond on 9 April 2024 for the first time, and thereafter every five years on 9 April in each case. Until 9 April 2024, the fixed distribution will be 7.75 % p.a. After that date, the amount of the distribution will be newly fixed every five years on 9 April, in the amount of the 5-year swap rate then prevailing plus premium of 7.88 % p.a. Payments will be effected on 9 April and 9 October each year. The distributions are not cumulative and are subject to the discretion of the issuer, who shall be entitled to omit distributions in full or in part. In the event that the issuer does not dispose of sufficient distributable items to pay the amount required for the total distributions due, that an instruction by the official authority exists, or that the proposed distributions taken together would exceed the maximum distributable amount (at the level of the issuer and/or the regulatory group), the distributions relating to the AT1 issue shall mandatorily and automatically be omitted in full or in part. The trigger for writing down the issue is

Continuous issue	Right of termination	Conversion into equity	Carrying amount as at 31 Dec 2021	Balance sheet item
no	issuer	no	400,000,000.00	Supplementary capital acc. to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013
no	impossible	no	600,000.00	Supplementary capital acc. to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013
			400,600,000.00	Subordinated liabilities
yes	issuer	no	4,000,000.00	Supplementary capital acc. to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013
			4.000.000,00	Supplementary capital, eligible without restrictions
			404,600,000.00	**Supplementary capital acc. to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013**
no	issuer	no	220,000,000.00	Additional Tier 1 capital acc. to Part 2 Title I Chapter 3 of Regulation (EU) No 575/2013

a CET1 capital ratio of 5.125 % at the level of the issuer and/or the regulatory group. The option to terminate the issue may only be exercised if the actual face value corresponds to the original face value and if the relevant prerequisites of the CRR are met.

Equity

As at 31 December 2021, the subscribed capital of VBW amounted to euro 137,546,531.25 (31.12.2020: euro 137,546,531.25) and consisted of 1,467,163 (31.12.2020: 1,467,163) no-par shares. The shares are registered ordinary shares.

The following shareholders participate in the share capital as at 31 December 2021:

	Euro thousand	%
Volksbanks	39,307	28.57
Republic of Austria	34,387	25.00
VB Baden Beteiligung e.Gen.	11,512	8.37
VB Ost Verwaltung eG	9,096	6.61
VBW eins Beteiligung eG	7,467	5.43
VB Verbund-Beteiligung eGen	7,299	5.31
VB Niederösterreich Süd eG	7,271	5.29
VB Wien Beteiligung eG	4,895	3.56
VB Südburgenland Verwaltung eG	4,283	3.11
WV Beteiligung EG	4,131	3.00
VB Weinviertel Verwaltung eG	3,860	2.81
VB Beteiligung Obersdorf-Wolkersdorf-Deutsch-Wagram eG	1,779	1.29
Verwaltungsgenossenschaft Gärtnerbank e.Gen.	1,053	0.77
Volksbank Holding eGen	851	0.62
SPARDA AUSTRIA Holding eG	356	0.26
	137,547	100.00

Capital reserves and retained earnings

For changes in capital reserves and retained earnings, please refer to the comments regarding the income statement.

Liability reserve pursuant section 57 (5) of the Austrian Banking Act

As at 31 December 2021, the liability reserve amounts to euro 44,819,308.55 (31.12.2020: euro 44,819 thousand).

2.3 Explanatory notes on contingencies

Composition of contingent liabilities:

	31 Dec 2021 Euro	31 Dec 2020 Euro thousand
Sureties and guarantees	209,786,113.59	233,814
Haftsummenzuschläge (guaranteed amounts)	6,113,137.77	22,054
less: provisions	-1,449,997.11	-2,570
	214,449,254.25	253,298

Composition of credit risks:

	31 Dec 2021 Euro	31 Dec 2020 Euro thousand
Loan commitments	3,379,639,023.38	3,533,495
less: provisions	-3,600,978.40	-3,535
	3,376,038,044.98	3,529,960

2.4 Other financial obligations

Composition of liabilities from trust transactions:

	31 Dec 2021 Euro	31 Dec 2020 Euro thousand
Loans on a trust basis/deposits	74,276,703.08	79,009
Other assets from trust transactions	80,261,000.00	68,263
	154,537,703.08	147,272

Reorganisation agreement

The 2015 reorganisation agreement between, among others, the Republic of Austria ("federal government") and VBW, which was supplemented by an implementation agreement between (among others) VBW, the Volksbanks and other shareholders of VBW, regulates, among others, a participation rights issue (the "federal government's participation right") through VB Rückzahlungsgesellschaft mbH ("VB RZG"), a direct subsidiary of VBW. The federal government's participation right was issued for the purpose of meeting those commitments that were made to the federal government for the purpose of obtaining the EU Commission's approval of the reorganisation under the funding guidelines. In 2017, an adjustment of the 2015 reorganisation agreement and of the implementation agreement was carried out, which does not, however, affect the federal government's participation right.

Distributions of VB RZG on the federal government's participation right, vis-à-vis the Republic, are effected at the discretion of VBW as the sole shareholder of VB RZG. No claim for profit shares exists under the federal government's participation right. In that context, shareholders of VBW have transferred VBW shares (at a rate of 25 % of the share capital plus 1 share) to the federal government without consideration. The shares were first transferred to the federal government on 28 January 2016 with subsequent adjustments as a result of corporate actions. The federal government is obliged to transfer said shares back to the respective shareholders without consideration, as soon as the sum of the distributions, on the federal government's participation right, received by the federal government and other eligible amounts, as defined, reaches a certain amount. Should the distributions received by the federal government in respect of the federal government's participation right fail to reach certain minimum amounts defined, taking into account certain eligible amounts (such as any distributions on the shares held by the federal government in VBW) on certain contractually agreed effective dates (a "disposal event"), the federal government shall be entitled to freely dispose of such shares without any further consideration and to claim additional ordinary shares of VBW at a rate of 8 % of the share capital of VBW, without further consideration, from VBW shareholders. Overall, accordingly, in case a disposal event occurs, up to 33 % plus 1 share of the shares in VBW may pass into the (legal and beneficial) ownership of the federal government, and the federal government is entitled to freely dispose of said shares (subject to the pre-emptive right granted). In case that the pre-emptive right granted by the federal government is exercised by a purchaser nominated by VBW and that a minimum threshold for the sum of the distributions in respect of the federal government's participation right and of the eligible amounts is missed again, the shareholders of VBW have undertaken to transfer to the federal government additional ordinary shares of VBW in the amount of the VBW shares previously transferred to the federal government and acquired by the purchaser nominated by VBW, with immediate unrestricted power of disposition of the federal government.

Under its contractual obligations towards the federal government, VBW shall submit to the Volksbanks, by 30 November of each year, a proposal regarding the total amount to be distributed by VB RZG in respect of the federal government's participation right in the following calendar year and for the total amount of the primary banks' contributions required in this respect (indirect contributions of Volksbanks and direct contribution of VBW to VB RZG). VBW is charged according to the share of its retail segment in the Association of Volksbanks (total assets under the Austrian Business Code/Austrian Banking Act).

In the 2017 business year, item 4.1. of the 2015 reorganisation agreement was amended by the rider dated 12 December 2017 to the effect that profit distributions to unconsolidated holding companies are admissible under certain conditions.

In the 2021 business year, compensation payments to the federal government under the reorganisation agreement based on mandatory distributions to holders of participation certificates, as well as the payment to achieve the third threshold were effected. Hence, the third threshold determined for eligible amounts and distributions for the business year ending on 31 December 2021 in the amount of euro 200 million has been reached already. The next threshold must be reached with the distribution in respect of the business year ending on 31 December 2023.

Letter of Comfort VB-Forum

The main tenant of the headquarters of VB Wien (the VB Forum) is VOBA Vermietungs- und Verpachtungsgesellschaft m.b.H. (VOBA), a 99 % subsidiary of VB Wien. VB Wien and the group companies VB Services für Banken GmbH, VB Infrastruktur und Immobilien GmbH and Volksbank Akademie have acquired the rental and usage rights to the office premises and parking spaces rented from VOBA on the basis of a verbal agreement. The pro rata costs (rent, operating costs, administrative costs, cost of guarantees of the main lessor) are charged by VOBA to these companies.

With a view to moving into the VB Forum in Q4/2019, VB Wien has provided a written statement to the external lessor of VOBA: in the event of termination with notice of the entire lease agreement, or any parts thereof, by VOBA, VB Wien undertakes vis-à-vis the external lessor to nominate a new tenant (that meets certain requirements) for a successor lease agreement, unless the lease agreement is terminated with notice by VOBA with effect on certain fixed dates. In the event of VOBA giving notice of the lease with effect on any date not so fixed and simultaneous failure to conclude any successor lease, VB Wien undertakes to put the external lessor in the same position, in economic terms, as if a successor lease had been concluded. This results in a maximum effect of this other financial obligation in the amount of euro 10,234,468.00 (previous year: euro 13,195 thousand).

2.5 Additional disclosures

Breakdown of assets pledged as collateral for liabilities:

	31 Dec 2021 Euro	31 Dec 2020 Euro thousand
Loans and receivables to customers	3,546,893,917.00	3,850,512
Debt instruments issued by public bodies, bonds and other fixed-income securities	13,535,104.96	14,027
	3,560,429,021.96	3,864,539
Assets were pledged as collateral for the following obligations		
Amounts owed to credit institutions	417,342,949.00	399,200
Debts evidenced by certificates	3,129,550,968.00	3,451,312
Amounts owed to customers (savings deposits)	13,535,104.96	14,027
	3,560,429,021.96	3,864,539

Assets pledged as collaterals include the underlying stock for covered bonds in the amount of euro 3,129,550,968.00 (31.12.2020: euro 3,451,312 thousand).

For the following business year, the total amount of obligations from using tangible assets not reported in the balance sheet is euro 7,108,093.07 (31.12.2020: euro 5,294 thousand), of which affiliates euro 2,271,103.00 (31.12.2020: euro 1,394 thousand), and for the following five business years euro 16,490,603.16 (31.12.2020: euro 16,425 thousand), of which affiliates euro 4,495,406.00 (31.12.2020: euro 3,046 thousand).

Total amount of assets and liabilities denominated in foreign currencies:

	31 Dec 2021 Euro	31 Dec 2020 Euro thousand
Foreign currency assets	452,717,793.82	484,438
Foreign currency liabilities	81,835,612.78	107,690

An amount of euro 4,901,000.00 (31.12.2020: euro 4,901 thousand) is included in the liquid funds, which is earmarked for the purposes of the trust fund (Leistungsfonds).

This table contains information on derivative financial instruments (fair values including accrued interest):

TOTAL — 31 DEC 2021

Euro thousand	Nominal value up to 1 year	Nominal value 1-5 years	Nominal value more than 5 years	Nominal value Total	Market value	thereof hedge	Other receivables	Other liabilities
INTEREST RATE RELATED TRANSACTIONS	**326,675**	**2,233,340**	**3,444,728**	**6,004,743**	**-195,342**	**-223,794**	**90,552**	**99,477**
Caps&Floors	17,183	43,619	176,958	237,759	-466		726	1,244
Interest rate futures			-			-	-	-
IRS	309,492	2,189,721	3,267,770	5,766,984	-194,877	-223,794	89,826	98,234
EXCHANGE RATE RELATED TRANSACTIONS	**489,522**	**329,227**	**94,122**	**912,871**	**-9,703**	**-1,583**	**8,310**	**19,117**
Cross Currency Interest Rate Swaps	139,132	329,227	94,122	562,481	-15,951	-1,583	2,049	18,997
Forward exchange transactions/FX SWAPS	350,390		-	350,390	6,248	-	6,261	120
OTHER TRANSACTIONS	**12,495**	**8,579**	**146,507**	**167,582**	**2,456**	**-**	**442**	**-**
Market price guarantees								
Pension provision/guarantee funds	-	-	146,507	146,507	1,575	-	-	-
Options	12,495	8,579		21,074	881	-	442	-
TOTAL	**828,692**	**2,571,146**	**3,685,357**	**7,085,195**	**-202,589**	**-225,377**	**99,304**	**118,595**
of which internal	106,500	32,714	246,651	385,865	-	-46,726	42,202	13

TRADING BOOK — 31 DEC 2021

Euro thousand	Nominal value up to 1 year	Nominal value 1-5 years	Nominal value more than 5 years	Nominal value Total	Market value	thereof hedge	Other receivables	Other liabilities
INTEREST RATE RELATED TRANSACTIONS	**289,919**	**382,149**	**648,965**	**1,321,033**	**-1,085**	**-**	**81,859**	**87,198**
Caps&Floors	16,512	42,955	167,228	226,696	-327	-	726	1,053
Interest rate futures			-			-	-	-
IRS	273,406	339,194	481,737	1,094,337	-758	-	81,133	86,145
EXCHANGE RATE RELATED TRANSACTIONS	**30,961,399**			**30,961**	**4**	**-**	**1,339**	**1,566**
Cross Currency Interest Rate Swaps	30,961			30,961	4	-	1,339	1,566
TOTAL TRADING BOOK	**320,880**	**382,149**	**648,965**	**1,351,995**	**-1,081**	**-**	**83,198**	**88,764**
of which internal	58,921	31,210	138,908	229,038	46,701	-	42,202	-

BANKING BOOK — 31 DEC 2021

Euro thousand	Nominal value up to 1 year	Nominal value 1-5 years	Nominal value more than 5 years	Nominal value Total	Market value	thereof hedge	Other receivables	Other liabilities	
INTEREST RATE RELATED TRANSACTIONS	**36,756**	**1,851,191**	**2,795,762**	**4,683,709**	**-194,258**	**-223,794**	**8,693**	**12,279**	
Caps&Floors	670	663	9,730	11,063	-139		-	191	
IRS	36,086	1,850,528	2,786,033	4,672,646	-194,119	-223,794	8,693	12,089	
EXCHANGE RATE RELATED TRANSACTIONS	**458,561**	**329,227**	**94,122**	**881,910**	**-9,706**	**-1,583**	**6,971**	**17,551**	
Cross Currency Interest Rate Swaps	108,171	329,227	94,122	531,520	-15,955	-1,583	710	17,431	
Forward exchange transactions/FX SWAPS	350,390		-	350,390	6,248	-	6,261	120	
OTHER TRANSACTIONS	**12,495**	**8,579**	**146,507**	**167,582**	**2,456**	**-**	**442**	**-**	
Market									price
Pension provision/guarantee funds	-	-	146,507	146,507	1,575	-	-	-	
Options	12,495	8,579		21,074	881	-	442	-	
TOTAL BANKING BOOK	**507,812**	**2,188,997**	**3,036,392**	**5,733,201**	**-201,508**	**-225,377**	**16,106**	**29,831**	
of which internal	47,579	1,504	107,744	156,827	-46,701	-46,726	-	13	

31 DEC 2020

Provisions	Nominal value up to 1 year	Nominal value 1-5 years	Nominal value more than 5 years	Nominal value Total	Market value	thereof hedge	Other receiveables	Other liabilities	Provisions
3,826	487,436	1,099,595	4,317,637	5,904,668	-317,820	-359,090	133,757	140,907	2,853
	143,180	60,126	199,917	403,224	34		644	573	43
-	4,100		-	4,100	2,278	-	-	-	-
3,825	340,155	1,039,469	4,117,720	5,497,344	-320,132	-359,090	133,113	140,334	2,810
274	579,528	455,571	186,230	1,221,329	5,442	-1,740	2,683	-1,412	347
204		455,571	186,230	641,801	5,351	-1,740	2,361	-1,728	98
70	579,528		-	579,528	91	-	323	317	248
2,582	10,751	12,274	177,970	200,995	-1,925	-	992	-	3,788
2,582	-	-	177,970	177,970	-3,274	-	-	-	3,788
-	10,751	12,274		23,025	1,348	-	992	-	-
6,682	1,077,715	1,567,440	4,681,837	7,326,992	-314,304	-360,830	137,433	139,495	6,988
	134,136	99,283	256,464	489,883	-	-74,222	69,047	40	

31 DEC 2020

Provisions	Nominal value up to 1 year	Nominal value 1-5 years	Nominal value more than 5 years	Nominal value Total	Market value	thereof hedge	Other receiveables	Other liabilities	Provisions
7	385,368	551,360	707,961	1,644,688	4,128	-	124,737	127,885	15
-	135,395	58,543	197,057	390,995	72	-	644	573	-
-	4,100		-	4,100	2,278	-	-	-	-
7	245,873	492,817	510,903	1,249,593	1,779	-	124,093	127,313	15
-	-	30,113		30,113	8	-	1,522	1,733	-
-		30,113		30,113	8	-	1,522	1,733	-
7	385,368	581,472	707,961	1,674,801	4,136	-	126,259	129,618	15
	67,068	49,828	128,232	245,128	74,262	-	69,046	-	

31 DEC 2020

Provisions	Nominal value up to 1 year	Nominal value 1-5 years	Nominal value more than 5 years	Nominal value Total	Market value	thereof hedge	Other receiveables	Other liabilities	Provisions
3,819	102,068	548,235	3,609,676	4,259,980	-321,949	-359,090	9,020	13,022	2,839
	7,786	1,584	2,860	12,229	-38		-	-	43
3,819	94,282	546,651	3,606,817	4,247,751	-321,911	-359,090	9,020	13,022	2,796
274	579,528	425,458	186,230	1,191,217	5,434	-1,740	1,161	-3,144	347
204		425,458	186,230	611,688	5,343	-1,740	838	-3,461	98
70	579,528		-	579,528	91	-	323	317	248
2,582	10,751	12,274	177,970	200,995	-1,925	-	992	-	3,788
									guarantees
2,582	-	-	177,970	177,970	-3,274	-	-	-	3,788
-	10,751	12,274		23,025	1,348	-	992	-	-
6,675	692,347	985,967	3,973,877	5,652,191	-318,440	-360,830	11,173	9,877	6,973
	67,068	49,455	128,232	244,755	-74,262	-74,222	-	40	

3. Explanatory notes regarding the income statement

Net interest income

	2021 Euro	2020 Euro thousand
Interest and similar income		
from loan and investment transactions		
for loans and receivables to credit institutions	41,674,438.26	14,737
for loans and receivables to customers	94,055,859.68	101,362
fees and commissions equivalent to interest	3,401,525.89	4,034
from bonds and other fixed-income securities	891,294.42	3,183
from other assets – total	2,180,623.14	3,883
	142,203,741.39	127,199
Interest and similar expenses		
from refinancing transactions		
for amounts owed to credit institutions	-23,139,383.39	-9,193
for amounts owed to customers	-3,201,192.01	-3,360
for debts evidenced by certificates	-32,731,321.04	-30,619
fees and commissions equivalent to interest	-3,135,659.16	-3,631
	-62,207,555.60	-46,803
	79,996,185.79	80,396

Negative interest

Due to the trend of money market interest rates towards negative reference rates, interest income (negative interest expenses) in the amount of euro 40,752,774.61 (2020: euro 10,261 thousand) and interest expenses (negative interest income) in the amount of euro 22,553,232.80 (2020: euro 7,782 thousand) were realised in the 2021 business year. The negative interest expenses were reported within interest and similar income from other assets and the negative interest income in interest and similar expenses from amounts owed to credit institutions.

Income from securities and participations

	2021 Euro	2020 Euro thousand
a) Income from equities, other share rights and variable-yield securities	316,951.63	1
b) Income from participations	2,380,748.83	1,123
c) Income from shares in affiliates	7,717,695.27	30,097
	10,415,395.73	31,221

Net fee and commission income

	2021 Euro	2020 Euro thousand
Fee and commission income		
from payment transactions	32,740,196.28	32,849
from securities business	33,560,325.82	29,418
from lending business	7,651,793.07	9,479
from other service business	11,028,135.70	10,085
from foreign exchange, foreign notes and coins, precious metals business	125,758.07	110
	85,106,208.94	81,941
Fee and commission expenses		
for payment transactions	4,499,202.87	4,928
for securities business	7,379,612.46	6,111
for lending business	10,761,792.15	10,650
for other service business	28,065.49	26
	22,668,672.97	21,715
	62,437,535.97	60,226

Income/expenses from financial transactions

	2021 Euro	2020 Euro thousand
Result from financial transactions		
Equity-related transactions	-11,180.77	-12
Interest rate-related transactions	281,398.87	259
Foreign exchange business	842,901.12	917
Foreign notes and coins, and precious metals business	1,122,986.40	1,491
Other financial transactions	83,789.38	137
	2,319,895.00	2,792

Other operating income breaks down as follows:

	2021 Euro	2020 Euro thousand
Charged-out staff expenses and administrative expenses	81,553,451.11	65,564
Charged-out flotation costs	23,780,360.18	21,498
Income from derivative financial instruments	508,233.70	151
Charged-out contributions to Single Resolution Fund (SRF)	5,846,103.05	5,150
Income from the release of provisions	4,587,471.68	11,313
Income from the disposal of assets	1,066,529.91	1,186
Income from letting and leasing	2,034,146.84	2,450
From other transactions	3,308,220.76	5,855
	122,684,517.23	113,167

Charged-out staff expenses and administrative expenses essentially include the expenses incurred by VBW in its capacity as the central organisation of the Association of Volksbanks and charged out to the primary banks of the Volksbank Sector according to the agreement on the assumption of the costs of the Association.

In 2021, impairments of the assets included in asset items 9 and 10 (tangible assets and intangible assets) include impairments effected in relation to land and buildings reported in tangible assets in the amount of euro 143,221.05 million (2020: euro 626 thousand).

Pension expenses for commitments for which provisions are recorded amount to euro 828,510.29 (2020: euro 837 thousand) in the business year. Expenditure from the allocation of provisions for anniversary bonuses are included in the item Wages and salaries in the amount of euro 332,403.12 (2020: allocation of euro 197 thousand).

Other operating expenses break down as follows:

	2021 Euro	2020 Euro thousand
Charged-out expenses	7,839,410.80	8,778
Charged-out contributions to Single Resolution Fund (SRF)	5,857,702.37	5,150
Other expenses	5,104,623.35	4,704
	18,817,964.62	18,632

Charged-out expenses primarily include amounts charged out from joint advertising, as well as costs incurred under regulatory provisions.

Result from valuations and disposals:

	2021 Euro	2020 Euro thousand
Result from valuations and disposals	**-57,944,949.37**	**-37,207**
Impairments on receivables, and allocations to provisions for contingent liabilities and for credit risks	-22,099,350.86	-53,314
Lending business	-22,026,650.86	-52,754
Securities held as current assets	-72,700.00	-560
Income from the reversal of impairments on receivables and from provisions for contingent liabilities and for credit risks	39,821,571.52	25,276
Lending business	39,363,047.00	25,002
Securities held as current assets	458,524.52	274
Balance Item 11 of the income statement	17,722,220.66	-28,038
Impairments on securities valued as financial assets, as well as on participations and shares in affiliates	-81,477,328.56	-10,341
Non-current securities	-15,864,274.22	-89
Participations, shares in affiliates	-65,613,054.34	-10,252
Income from impairments on securities valued as financial assets, as well as on participations and shares in affiliates	5,810,158.53	1,172
Non-current securities	2,705,618.28	1,144
Participations, shares in affiliates	3,104,540.25	28
Balance Item 12 of the income statement	-75,667,170.03	-9,169

Impairments on shares in affiliates include valuation losses on the shares in VB RZG in the amount of euro 53,409,279.98 (2020: euro 500 thousand) and provisions for future shareholder contributions to VB RZG in the amount of euro 11,001,298.59 (2020: euro 0 thousand). See also "2.4 Other financial obligations – reorganisation agreement".

Income taxes

Income taxes only relate to the result from ordinary operations. The tax expense in the amount of euro 6,589,316.69 (2020: tax income of euro 6.615 thousand) essentially comprises a tax expense from current corporate income tax in the amount of euro 3,022,472.12 (2020: euro 3,196 thousand), tax income from previous periods in the amount of euro 3,938.75 (2020: euro 195 thousand), a tax expense from the change in deferred taxes in the amount of euro 3,606,548.29 (2020: tax income of euro 7,550 thousand), as well as corporate income tax income from current offsetting within the Austrian tax group of euro 35,763.48 (2020: euro 2.034 thousand).

Other taxes, unless they must be reported in item 14

Other taxes in the amount of euro 2,437,722.04 (2020: euro 2,153 thousand) essentially include the bank levy incurred in 2021 under the Stability Levy Act (Stabilitätsabgabegesetz) in the amount of euro 2,277,862.76 (2020: euro 1,996 thousand).

Movements of capital reserves and retained earnings in the income statement

In the 2021 financial year, no allocation was made to retained earnings ("other reserves") (2020: euro 32,763 thousand), and unappropriated capital reserves of euro 8,948,978.13 (2020: euro 414 thousand) were released.

4. Other information

As the central organisation, VBW prepares the consolidated financial statements pursuant to section 59 of the Austrian Banking Act and the annual financial statements of the Association of Volksbanks pursuant to section 59a of the Austrian Banking Act. Disclosure of the annual financial statements of the Association is effected by VBW, domiciled in Vienna, by filing the same with Vienna Commercial Court.

The Company is the parent company of the VBW Group and prepares the consolidated financial statements for the largest and the smallest group of companies. The consolidated financial statements are available at Vienna Commercial Court.

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

In 2021, the average headcount was 909.68 (2020: 950.92), with 909.68 (2020: 950.92) white-collar employees and no (2020: 0) blue-collar employees, corresponding to full-time equivalents.

Expenses for severance payments and contributions to employee pension funds include expenses from statutory severance payments in the amount of euro 1,326,884.89 (2020: euro 94 thousand).

The auditing expenses for the business year are reported in the notes to the consolidated financial statements of VOLKSBANK WIEN AG.

Return on total capital employed

Pursuant to section 64 (1) (19) of the Austrian Banking Act as amended by Fed. Law Gazette I 2014/184, the return on total capital employed is 0.05 % (31.12.2020: 0.22 %). Return on total capital employed under the Austrian Banking Act is the quotient of annual result after taxes divided by total assets at the balance sheet date.

Own funds requirements pursuant to Art. 92 (1) lit. a to c of Regulation (EU) No. 575/2013

By assuming the function of a central organisation pursuant to section 30a of the Austrian Banking Act, VBW is subject to the external capital requirements based on the CRD IV and CRR of the European Union (Basel III) at individual bank level.

Pursuant to Art 92 CRR, VBW must meet the following own funds requirements at all times:
a) a CET1 capital ratio of 4.50 %,
b) a Tier 1 capital ratio of 6.00 % and
c) a total capital ratio of 8.00 %.

The total risk exposure amount pursuant to Art. 92 (3) CRR is euro 3,671,977,926.07 (2020: euro 3,751,313 thousand).

The capital ratios are calculated as follows:
a) the CET1 capital ratio derives from the CET1 capital of the bank, expressed as a percentage of the total risk exposure amount; accordingly, the CET1 capital ratio of VBW amounts to 16.85 % (31.12.2020: 15.24 %).
b) the Tier 1 capital ratio derives from the Tier 1 capital of the bank, expressed as a percentage of the total risk exposure amount; accordingly, the Tier 1 capital ratio of VBW amounts to 22.84 % (31.12.2020: 21.10 %), and
c) the total capital ratio derives from the own funds of the bank, expressed as a percentage of the total risk exposure amount; accordingly, the total capital ratio of VBW amounts to 34.22 % (31.12.2020: 32.27 %).

As at 31 December 2021, the eligible own funds of VBW pursuant to Part 2 of Regulation (EU) No. 575/2013 (CRR) amount to euro 1,256,472,446.11 (31.12.2020: euro 1,210,482 thousand) and break down as follows:

	31 Dec 2020 Euro	31 Dec 2019 Euro thousand
Core capital (Tier 1)		
CET1 capital (Common Equity Tier 1)		
Share capital	137,546,531.25	137,547
Open reserves	496,620,234.74	452,160
Eligible profit carried forward	293,273.09	3,793
	634,460,039.08	593,500
less:		
Deduction items		
Value adjustment (Art. 35 and Art. 105 CRR)	-252,083.00	-302
Intangible assets (Art. 36 (1) lit b CRR)	-1,040,413.68	-1,637
under Article 3 CRR	-18,892,000.00	-18,892
Cross-shareholdings	-968,357.41	-982
	-21,152,854.09	-21,813
Shortfall non-performing loans	-563,472.35	0
IFRS transitional provisions	6,026,172.98	0
	-15,690,153.46	0
CET1 capital	618,769,885.62	571,687
Additional Tier 1 capital	220,000,000.00	220,000
Supplementary capital (Tier 2)		
Supplementary capital	404,600,000.00	408,600
General credit risk adjustment (hidden reserves section 57 (1) Austrian Banking Act)	17,870,754.88	17,871
	422,470,754.88	426,471
less:		
Correction for ineligible equity	-4,768,194.39	-7,676
	-4,768,194.39	-7,676
	417,702,560.49	418,795
Eligible own funds pursuant to Part 2 CRR	1,256,472,446.11	1,210,482

The eligible profit carried forward includes the profit carried forward in the amount of euro 293,273.09 (2020: euro 3,380 thousand) and the profit for the financial year in the amount of euro 0.00 (2020: euro 414 thousand).

As regards the breakdown of consolidated eligible own funds, please refer to the consolidated financial statements of VBW.

The CET1 demand, as determined for the Association of Volksbanks, amounts to 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 0.5 %, buffer for systemically important institutions of 0.5 %, and Pillar 2 Guidance of 1.25 %. Any AT1/Tier2 shortfall will increase the CET1 requirement accordingly.

The Tier 1 capital requirement amounts to 11.38 % (Pillar 1 requirement of 6.0 %, Pillar 2 requirement of 1.88 %, capital conservation buffer of 2.5 %, systemic risk buffer of 0.5 %, buffer for systemically important institutions of 0.5 %).

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 0.5 %, buffer for systemically important institutions of 0.5 %).

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.

Disclosures regarding transactions with related parties

Expenses for severance payments and pensions amount to euro 460,282.25 (2020: euro 263 thousand) for both active and former members of the Managing Board. Expenses for severance payments and pensions amount to euro 3,608,862.78 (2020: euro 1,963 thousand).

The total remuneration for the Supervisory Board members active in the business year amount to euro 288,000.00 (2020: euro 288 thousand). The total remuneration of the Managing Board (without incidental wage costs) amounted to euro 1,792,400.17 (2020: euro 1,686 thousand). The total remuneration of former Managing Board members and their surviving dependants amounted to euro 382,528.52 (2020: euro 381 thousand) in the business year.

As at 31 December 2021, there are loans and utilised credit lines to members of the Managing Board in the amount of euro 6,605.60 (2020: euro 0 thousand).

As at 31 December 2021, the loans granted to members of the Supervisory Board, as well credit lines utilied by them, amount to euro 337,727.15 (2020: euro 372 thousand). In the 2021 business year, euro 34,072.26 (2020: euro 32 thousand) were repaid.

All transactions with related parties were carried out on arm's length terms exclusively in the business year.

Subsequent events

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 %. 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.

Appropriation of net income

The recommendation is for the net profit for the year in the amount of euro 3,793,273.09 to be appropriated as follows: euro 3,500,000.00 will be distributed to the shareholders as a dividend. The remaining amount of euro 293,273.09 will be carried forward to new account.

Boards

Managing Board:

Gerald Fleischmann
Chairman of the Managing Board

Rainer Borns
Deputy Chairman of the Managing Board

Thomas Uher
Deputy Chairman of the Managing Board

Supervisory Board:

Heribert Donnerbauer
Donnerbauer & Hübner Rechtsanwälte GmbH
Chairman

Franz Gartner
Municipality of Traiskirchen
1st Deputy Chairman

Robert Oelinger
Certified public accountant/tax consultant
2nd Deputy Chairman

Susanne Althaler
Member

Anton Fuchs
Member

Helmut Hegen
HOSP, HEGEN partnership of lawyers
Member

Eva Schütz
Law firm of Hieblinger-Schütz
Member

Christian Lind
Member

Harald Nograsek
Member

Monika Wildner
Self-employed attorney-at-law
Member

Works Council delegates:

Christian Rudorfer
Chairman of the Works Council

Hermann Ehinger
Elisabeth Sölkner
Bettina Wicha
Manfred Worschischek

State Commissioners:

Christian Friessnegg
State commissioner

Katharina Schwaha
Deputy state commissioner

The Managing Board

Vienna, 25 February 2022

Gerald Fleischmann
Chairman of the Managing Board

Rainer Borns
Deputy Chairman of the Managing Board

Thomas Uher
Deputy Chairman of the Managing Board

Disclosure pursuant to Article 431 CRR is effected on the Internet on the website of VBW at www.volksbankwien.at

Movement in non-current assets 2021 (section 226 (1) Austrian Business Code (UGB) in conjunction with section 43 (1) Austrian Banking Act (BWG); all figures are in euro)

		ACQUISITION				
Non-current assets		1 January 2021	Additions	Disposals	Transfers and currency conversions	31 December 2021
Securities						
2,	Debt instruments issued by public bodies and similar securities	859,274,692.30	18,171,333.69	126,745,506.14	0.00	750,700,519.85
3,	Loans and advances to credit institutions (securities)	5,636,742.50	0.00	265,748.17	0.00	5,370,994.33
4,	Loans and advances to customers (securities)	21,832,094.31	234,534.90	21,066,994.75	0.00	999,634.46
5,	Bonds and other fixed-income securities	998,989,778.59	185,207,547.65	52,899,684.18	848,658.51	1,132,146,300.57
6,	Shares and other variable-yield securities	32,860,971.85	0.01	32,136,016.57	0.00	724,955.29
Total		**1,918,594,279.55**	**203,613,416.25**	**233,113,949.81**	**848,658.51**	**1,889,942,404.50**
Participations						
7,	Participations	200,510,333.97	9,233,980.69	950,000.00	0.00	208,794,314.66
Total		**200,510,333.97**	**9,233,980.69**	**950,000.00**	**0.00**	**208,794,314.66**
Investments in affiliates						
8,	Investments in affiliates	180,356,226.87	71,386,558.20	200,648.25	0.00	251,542,136.82
Total		**180,356,226.87**	**71,386,558.20**	**200,648.25**	**0.00**	**251,542,136.82**
Intangible fixed assets						
9,	Intangible fixed assets	10,374,850.48	4,285.72	5,725,343.03	0.00	4,653,793.17
10,	Fixed assets	157,962,521.01	3,849,718.93	7,927,385.89	0.00	153,884,854.05
Total		**168,337,371.49**	**3,854,004.65**	**13,652,728.92**	**0.00**	**158,538,647.22**
Total		**2,467,798,211.88**	**288,087,959.79**	**247,917,326.98**	**848,658.51**	**2,508,817,503.20**

1) The transfer of cumulative depreciation in the amount of euro 17.9 million results from the allocation to provisions for future corporate actions for VB RZG, which was effected in previous years and reported in "Expenses from the valuation of participations and shares in affiliates" with effect on expenses in previous years.

DEPRECIATION						CARRYING AMOUNT	
Cumulated depreciation 1 January 2021	Depreciation in fiscal year	Appreciation	Disposals	Transfers	Cumulated depreciation 31 December 2021	31 December 2021	2020 thousand Euro
978,381.87	1,701.00	0.00	384,000.00	0.00	596,082.87	750,104,436.98	858,296
0.00	0.00	0.00	0.00	0.00	0.00	5,370,994.33	5,637
0.00	0.00	0.00	0.00	0.00	0.00	999,634.46	21,832
27,264.51	0.00	0.00	25,711.03	0.00	1,553.48	1,132,144,747.09	998,963
1,731,588.47	807,793.66	0.00	2,539,344.12	0.00	38.01	724,917.28	31,129
2,737,234.85	**809,494.66**	**0.00**	**2,949,055.15**	**0.00**	**597,674.36**	**1,889,344,730.14**	**1,915,857**
134,805,801.22	74,027.24	2,500,197.50	790,000.00	0.00	131,589,630.96	77,204,683.70	65,705
134,805,801.22	**74,027.24**	**2,500,197.50**	**790,000.00**	**0.00**	**131,589,630.96**	**77,204,683.70**	**65,705**
160,547,491.26	54,537,728.51	0.00	0.00	17,931,754.38[1)]	233,016,974.15	18,525,162.67	19,809
160,547,491.26	**54,537,728.51**	**0.00**	**0.00**	**17,931,754.38**	**233,016,974.15**	**18,525,162.67**	**19,809**
8,738,122.84	600,599.56	0.00	5,725,342.91	0.00	3,613,379.49	1,040,413.68	1,637
99,743,227.01	5,419,111.41	0.00	5,584,260.80	0.00	99,578,077.62	54,306,776.43	58,219
108,481,349.85	**6,019,710.97**	**0.00**	**11,309,603.71**	**0.00**	**103,191,457.11**	**55,347,190.11**	**59,856**
406,571,877.18	61,440,961.38	2,500,197.50	15,048,658.86	17,931,754.38	468,395,736.58	2,040,421,766.62	2,061,226

MANAGEMENT REPORT

MANAGEMENT REPORT

1 Report on the business development and economic situation

1.1 Business development

1.1.1 Business development

VOLKSBANK WIEN AG (VBW) can look back on a year that was marked by the coronavirus pandemic, but which was economically successful overall. Due in particular to the extremely positive securities business, VBW achieved an excellent net fee and commission income of euro 62.4 million (2020: euro 60.2 million).

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 "impossible" 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. Sustainability is a significant asset for the Association of Volksbanks and for VB Wien in its capacity as a retail bank and the central organisation of the Association 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.

VBW participated in the June 2021 tranche of the TLTRO III programme with another euro 2 billion (2020: euro 1.5 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 to enable an improvement in the liquidity structure within the Association. In addition, special bonuses in the amount of euro 16.8 million were earned for the financial year 2021 due to the achievement of targets.

Income from shares in affiliates declined by euro 30.1 million to euro 7.7 million, which is mainly due to a profit distribution in 2020 in relation to the sale of the former headquarters.

The valuation result from risk provisions for credit risk was positive at euro 17.7 million (2020: negative valuation result of euro 28.0 million). Please refer to the comprehensive disclosures in the notes to the annual financial statements and the risk report in this management report for information on the calculation of credit risk provisions in connection with the COVID-19 pandemic.

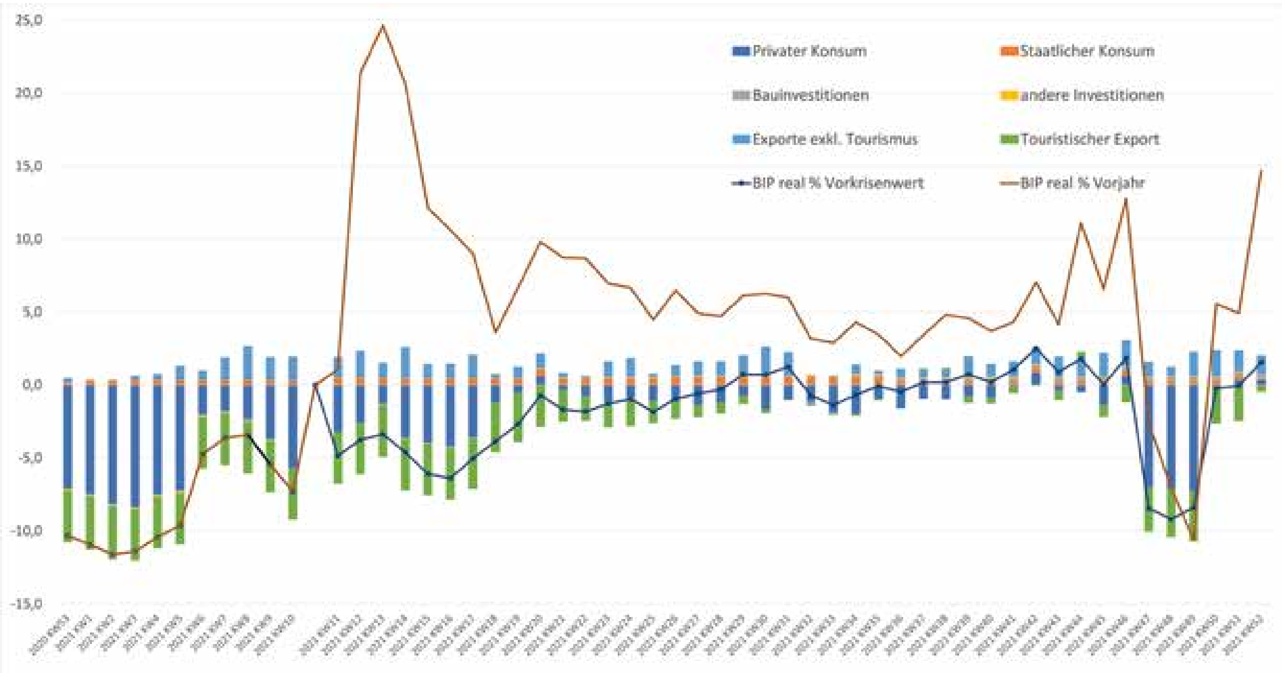
The positive development of earnings and equity enabled the Association of Volksbanks to make repayments to the Republic of Austria from the RZG-Bundesgenussrecht (federal government's participation right) in the amount of a further euro 124 million via the subsidiary VB Rückzahlungsgesellschaft mbH ("RZG") as planned in the past financial year. Taking into account payments made to RZG by the banks of the Association as well as provisions already recognised for impairments on the participation in RZG, this resulted in a negative valuation result of euro 64.4 million.

In addition, the sale of Italian government bonds (the "Italian Sovereign Exposure") had a negative impact of euro 15.1 million on the valuation result for the past financial year.

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 %.

1.1.2 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 03.02.2022	4.1/ Q4: 5.4[1)]	2.8	6.1[1)] (nat. method: 8.0[1)])

With the rise in commodity 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 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 price increase, 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 exists 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.

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.

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

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 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.

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, which is scheduled to end in March 2022. 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

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

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 %.

1.1.3 Explanatory notes regarding the income statement

Net interest income in the business year amounts to euro 80.0 million (2020: euro 80.4 million). Interest and similar income in the amount of euro 142.2 million (2020: euro 127.2 million) include interest on loans and receivables to customers and on deposits bearing negative interest rates amounting to euro 94.1 million (2020: euro 101.4 million), interest on loans and receivables to credit institutions and negative interest on amounts owed to credit institutions of euro 41.7 million (2020: euro 14.7 million), fees and commissions equivalent to interest in the amount of euro 3.4 million (2020: euro 4.0 million), interest on bonds and other fixed-income securities in the amount of euro 0.9 million (2020: euro 3.2 million), and interest on other assets in the amount of euro 2.2 million (2020: euro 3.9 million). Interest income from other assets consists of interest payments from interest rate swaps and cross-currency swaps to hedge receivables and liabilities in euro and foreign currencies. The negative interest from credit institutions recognised in profit or loss includes deferred interest income from participation in the ECB's TLTRO III programme amounting to euro 29.7 million (2020: euro 4.0 million), 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.

By comparison with the previous year, interest and similar expenses increased from euro 46.8 million by euro 15.4 million to euro 62.2 million. Interest on amounts owed to credit institutions and negative interest on loans and receivables to credit institutions amounting to euro 23.1 million (2020: euro 9.2 million) includes negative interest on the credit balance with OeNB in the amount of approx. euro 19.6 million. At euro 3.2 million, interest expense for amounts owed to customers declined slightly by comparison with the previous year (2020: euro 3.4 million). The interest expense for debts evidenced by certificates in the amount of euro 32.7 million (2020: euro 30.6 million) is mainly composed of interest on the AT1 issue in April 2019 and interest on Tier 2 capital. Impairment on loans and receivables to customers due to market-induced contract modifications amounted to euro 3.1 million in the financial year (2020: euro 3.6 million).

Income from equities, other share rights and variable-yield securities amounted to euro 0.3 million in the financial year (2020: euro 0.0 million). Income from participations increased by euro 1.3 million to euro 2.4 million due to higher distributions compared with the previous year (2020: euro 1.1 million). Income from shares in affiliates amounted to euro 7.7 million in the financial year (2020: euro 30.1 million). The significantly higher prior-year figure was mainly due to the profit distribution of 3V-Immobilien Errichtung-GmbH in the amount of euro 28.9 million, which was recognised in the balance sheet in the same period, following the sale of the former headquarters in the 2020 financial year.

By comparison with the previous year, net fee and commission income increased from euro 60.2 million to euro 62.4 million. Fee and commission income amounts to euro 85.1 million (2020: euro 81.9 million). In payment transactions, income of euro 32.7 million (2020: euro 32.8 million) has remained constant. While income in the securities business increased significantly from euro 29.4 million to euro 33.6 million, income in lending business was down to euro 7.7 million (2020: euro 9.5 million), having declined due to the first-time accrual of processing fees in the consumer lending business in the amount of euro 2.2 million. In the services business, which mainly includes brokerage fees, income of euro 11.0 million (2020: euro 10.1 million) has increased slightly.

Fee and commission expenses amount to euro 22.7 million (2020: euro 21.7 million). In the securities business, expenses in the financial year were higher than in the previous year at euro 7.4 million (2020: euro 6.1 million). In payment transactions, fee and commission expenses of euro 4.5 million were lower than the previous year's figure of euro 4.9 million. In lending business, fee and commission expenses remained more or less constant at euro 10.8 million (2020: euro 10.7 million).

By comparison with the previous year, the result from financial transactions decreased from euro 2.8 million to euro 2.3 million. The decrease is almost exclusively due to the lower valuation result from foreign notes and coins and precious metals business compared to the previous year, which decreased from euro 1.5 million in financial year 2020 to euro 0.1 million in financial year 2021.

Other operating income increased against the previous year by euro 9.5 million from euro euro 113.2 million to euro 122.7 million, mainly consisting of expenses of VBW, in its capacity as central organisation of the Association of Volksbanks, that were charged out to the banks of the Association (charged-out "CO costs"). In the previous year, lower CO costs were charged out by the central organisation due to a non-recurring effect in the form of a profit distribution – attributable to the central organisation – of a subsidiary that was accounted for in the same period, reduced by the distribution-related depreciation of the shares in this affiliated company. Other operating income includes reversals of provisions in the amount of euro 4.1 million. (2020: euro 8.3 million). A breakdown of other operating income is presented in the notes under item "3. Explanatory notes regarding the income statement".

The general administrative expenses in the amount of euro 195.5 million essentially include staff expenses and other administrative expenses and decreased by euro 1.3 million in the financial year compared to the previous year. While staff expenses increased slightly from euro 93.8 million in the previous year to euro 94.4 million in the financial year due to special effects, other administrative expenses decreased from euro 103.0 million in the previous year to euro 101.1 million in the financial year, in particular due to lower IT and project costs. At euro 35.3 million, the largest position in administrative expenses in the financial year is accounted for by data processing expenses (2020: euro 38.5 million), followed by general administrative expenses of euro 27.1 million (2020: euro 24.6 million) and legal, auditing and consultancy expenses of euro 12.4 million (2020: euro 13.4 million). General administrative expenses include regulatory costs of euro 18.0 million. (2020: euro 13.7 million). Of this amount, euro 11.0 million (2020: euro 6.7 million) is attributable to contributions to the Austrian Deposit Guarantee Fund ("ESA"), which increased not least due to the withdrawal of the Raiffeisen Group.

Impairments on the assets included in items 9 and 10 included scheduled depreciations of tangible assets and decreased from euro 6.8 million to euro 5.5 million in the financial year.

Other operating expenses have remained almost constant at euro 18.8 million (2020: euro 18.6 million). Allocations to provisions for negative fair values of derivatives of euro 1.0 million (2020: euro 0.0 million) and expenses for fund liabilities of euro 1.7 million (2020: euro 0.6 million) led to an increase in expenses. The major part of other operating expenses, at euro 13.5 million (2020: euro 13.9 million), is accounted for by expenses charged out to the members of the Association of Volksbanks. These expenses mainly include costs for joint advertising and regulatory costs. A breakdown of other operating expenses is presented in the notes under item "3. Explanatory notes regarding the income statement".

The operating result decreased from euro 65.5 million to euro 58.0 million, mainly due to the non-recurring effect of a profit distribution in the 2020 financial year described above, which could not be fully offset by the special bonus from the TLTRO III programme and the positive effects from operations in 2021.

The overall result from valuations and disposals shows a negative balance/expense of euro 57.9 million (2020: euro 37.2 million) in the financial year. The significant negative valuation effects in 2021 result from the expenses to be recognised in the balance sheet in the amount of euro 64.4 million in connection with the servicing of the RZG participation right of the federal government. Via the subsidiary RZG, a total of euro 124 million of the state aid ("RZG-Bundesgenussrecht") was repaid on time in 2021.

The measurement balance from allocations and reversals for impairments and provisions for the lending business and from securities serving as liquidity reserve had a positive effect in the amount of euro 17.7 million (2020: expenses of euro 28.0 million). The year-on-year improvement in VB Wien's risk provisioning result as at 31 December 2021 is mainly due to the change in post-model adjustments and the improved performance in financial year 2021. More than 80 % of the post-model adjustments of around euro 12.9 million added in the 2020 financial year were reversed in the 2021 financial year, as the risks anticipated as a result of the COVID-19 development only materialised to a minor extent. In addition, the development of risk provisions improved with regard to new defaults and stage transfers. The sale of Italian government bonds to reduce credit risk burdened the result in the amount of euro 15.1 million, while reversals of impairments on participations increased the result from valuations and disposals by euro 2.5 million.

For further details and a breakdown, please refer to the breakdown of the result from valuations and disposals in the notes to the annual financial statements.

The composition and development of income tax expenses and of expenses from other taxes are shown in the notes in item "3. Explanatory notes concerning the income statement".

1.1.4 Explanatory notes on the balance sheet and own funds

Total assets increased by approx. euro 1.6 billion to around euro 16.6 billion compared to the previous year. This increase is essentially due to making use of a refinancing transaction effected within the scope of the TLTRO III programme of the European Central Bank in the amount of euro 2.0 billion. As at 31 December 2021, VB Wien participated in the TLTRO III programme with a total of euro 3.5 billion. This has essentially contributed to increasing the credit balance with OeNB by euro 2.9 billion. In the financial year 2021, the presentation of securities classified as financial assets that had not previously been put into circulation was changed. Further explanations are provided in the notes under item "1. Accounting and valuation principles".

Loans and receivables to credit institutions primarily include the refinancing volume of the banks of the Association and decreased by euro 0.1 billion to euro 2.2 billion compared to the previous year.

Loans and receivables to customers remained stable during the financial year at euro 5.4 billion (2020: EUR 5.4 billion).

Debt instruments issued by public authorities exclusively consist of securities denominated in euro and amount to euro 0.8 billion (2020: euro 0.9 billion) at the end of the business year.

Other assets amounted to euro 122.7 million (2020: euro 198.0 million) at the end of the year, and accordingly have decreased by euro 75.2 million against the previous year. This position mostly includes the positive fair values and deferred interest from interest hedging transactions in the trading book (interest rate swaps) in the amount of euro 81.1 million (2020: euro 124.1 million). A breakdown of other assets is shown in the Notes in item "2.1 Explanatory notes on assets".

For the major part, amounts owed to customers consist of overnight deposits denominated in euro, recording an increase from euro 6.8 billion to euro 7.0 billion in the course of business.

Amounts owed to credit institutions increased from euro 4.2 billion to euro 6.2 billion, mainly due to another tranche of the participation in the European Central Bank's TLTRO III programme in the amount of euro 2.0 billion. Apart from that, the amounts owed to credit institutions mainly consist of deposits of credit institutions of the Association of Volksbanks.

Debts evidenced by certificates include covered bond issues in the amount of euro 1.3 billion (2020: euro 2.5 billion). At the end of the financial year, debts evidenced by certificates amount to euro 1.9 billion (2020: euro 2.6 billion). The decrease against the previous year is due in particular to the change in the presentation of securities not put into circulation.

Other liabilities in the amount of euro 164.3 million (2020: euro 160.5 million) primarily consist of negative fair values and deferred interest from interest rate hedging transactions (interest rate swaps) in the trading book in the amount of euro 81.1 million (2020: euro 127.3 million). A breakdown of other liabilities is shown in the notes in item "2.2 Explanatory notes on liabilities".

The unappropriated capital reserve increased by euro 44.5 million due to the "grandmother subsidies" paid directly to RZG by the members of the Association of Volksbanks in 2021. Of the total of euro 53.4 million allocated to the unappropriated capital reserve under the grandmother subsidies, euro 8.9 million was released during the financial year, resulting in a profit for the financial year of euro 0 being recognised in the income statement for the past financial year after changes in reserves.

Pursuant to Art 92 CRR, VBW as a single institution must meet the following own funds requirements at all times:
a) a CET1 capital ratio of 4.5 %,
b) a Tier 1 capital ratio of 6 % and
c) a total capital ratio of 8.0 %.

The assessment base for own funds requirements is the total risk exposure amount, which is euro 3.7 billion at year end (31.12.2020: euro 3.8 billion). The minimum requirements for VBW in absolute amounts are a CET1 capital of euro 165.2 million, Tier 1 capital of euro 220.3 million, and total capital of euro 293.8 million. The actual CET1 capital ratio amounts to 16.9 %, meaning that the own funds requirements were overaccomplished by euro 453.5 million at the reporting date. The Tier 1 capital ratio amounts to 22.8 % and was overaccomplished by euro 618.5 million. The total capital ratio is 34.2 %. Accordingly, at the reporting date, the statutory own funds requirements were overaccomplished by euro 962.7 million.

For information on the capital requirements/capital ratios of the Association of Volksbanks, please refer to section "2.2.1 Current developments" of this management report.

1.2 Report on branch establishments

VBW does not have any branch establishments.

1.3 Financial performance indicators

VBW's own funds under banking law amount to euro 1,256.5 million as at 31 December 2021 (31.12.2020: euro 1,210.5 million). At the end of 2021, the risk-weighted assets amounted to euro 3.7 billion, having decreased compared to the end of 2020 (euro 3.8 billion) by euro 0.1 billion.

Available own funds exceed the regulatory requirement by euro 962.7 million.
- The CET1 capital ratio in relation to total risk amounts to 16.9 % (31.12.2020: 15.2 %).
- The Tier 1 capital ratio in relation to total risk amounts to 22.8 % (31.12.2020: 21.1 %).
- The total capital ratio is 34.2 % (31.12.2020: 32.3 %)

Due to the function as central organisation performed by VBW for the Association of Volksbanks, the following indicators are only comparable to those of other retail banks with certain limitations.

In the reporting year, the loan-to-deposit ratio I amounts to 322.6 % (2020: 297.2 %). The loan-to-deposit ratio I is calculated as the quotient between loans and receivables to customers and savings deposits.

In the reporting year, the loan-to-deposit ratio II amounts to 61.2 % (2020: 57.7 %). The loan-to-deposit ratio II is calculated as the quotient between loans and receivables to customers and the sum of amounts owed to customers and debts evidenced by certificates.

In the business year, the commission margin amounts to 0.4 % (2020: 0.4 %). The commission margin is calculated as the quotient between the balance of fee and commission income and fee and commission expenses, and total assets.

In the business year, the operating income margin amounts to 1.7 % (2020: 1.9 %). The operating income margin is calculated as the quotient between operating income and total assets.

In the business year, the operating expenses margin amounts to 1.3 % (2020: 1.5 %). The operating expenses margin is calculated as the quotient between operating expenses and total assets.

1.4 Sustainability

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

2 Report on the Company's future development and risks

2.1 Economic environment and future development of the Company

2.1.1 Economic environment

At the beginning of 2022, a new wave of infections (omicron) built up, with unprecedented case numbers associated with 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). Inflation reached a level in January (euro zone forecast: 5.1 %; Austria: 4.6 %) that indicates an upside risk for the current year, which is intensified by the shortage of skilled labour and the planned introduction of a statutory minimum wage of euro 12 per hour in Germany, but which is not the same in all regions of the euro zone. As regards commodity and energy prices, much will depend on what happens in the geopolitical trouble spots.

The medium-term horizon, which is crucial for monetary policy, has shifted upwards, so that the upward trend in interest rates and yields that was observed in the first weeks of trading might consolidate. The European Central Bank has already 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. A hike of key interest rates is meant to take place only after the end of bond purchases, provided that the achievement of the 2 % inflation target in the medium term appears sufficiently certain.

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 is 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. Risks arise primarily from geopolitical uncertainty, which has clearly intensified in February 2022, and may result in both lower growth and increased inflation. A combination of military conflicts, on the one hand, and financial sanctions, on the other hand, is associated with economic costs that may lead to energy supply bottlenecks, economic recession or stagflation in the worst case.

The incipient 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 a 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, the further course of the pandemic 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.

2.1.2 Expected development of the company

The regionally active Volksbanks look after their customers locally and are the mouthpiece of their interests and needs within the Association. In order to be able to respond even better to the needs of Austrians as their principal bank, the Volksbanks are consistently implementing the “relationship bank of the future” service concept within the Association. 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 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 11.41 %, a total capital ratio of at least 15.50 %, an NPL ratio (non-performing loans) of no more than 3.00 %, as well as a return on equity (RoE) of more than 5.5 %. In addition, the redemption of the federal government's participation right ("RZG-Bundesgenussrecht") 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.

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. To this end, further synergies within the Association were evaluated, among other things.

2.2 Significant risks and uncertainties

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

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

2.2.1 Current developments

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:

- CET 1 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 central organisation (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 01 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 CET 1 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 these ratios from 1.00 % to 0.50 % in 2021.

2.2.2 Risk policy principles

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

2.2.3 Organisation of risk management

VBW has taken all required organisational precautions to meet the requirements regarding modern risk management. There is a clear separation between front office and back office. A central, independent risk control has been established. At Managing Board level, the Chief Risk Officer (CRO) is the head of Risk Control. Within the 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 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 of solid risk management, the Risk Appetite Framework (RAF) for the Association of Volksbanks is continuously being developed also within VBW, in order to define risk appetite and/or the level of risk tolerance that VBW is prepared to accept to achieve its defined goals. The level of risk tolerance manifests itself in the definition and verification of appropriate limits and controls, in particular. The framework is verified and adjusted to regulatory requirements, changes of the market environment or the business model on an ongoing basis. By way of this framework, VBW 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 RICO serves to control all material risks, with a focus on portfolio level, ensuring that risk policy decisions are in compliance with risk appetite. The aim is to provide the Managing Board of VBW with a comprehensive view of all risks (aggregate bank risk report) and with a summary of regulatory and other risk-relevant topics.

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

The CC is the body responsible for credit decisions based on applicable definitions of responsibilities, for approving action plans for customers undergoing restructuring or workout, as well as for approving allocations to individual loan loss provisions, provisions and waivers.

2.2.4 Regulatory requirements
The implementation of regulatory requirements at VBW is as follows:

Pillar 1: Minimum capital requirements
Within the scope of Pillar 1, care is taken that the minimum regulatory requirements are met. With respect to both credit risk and market risk, and also for operational risk, the respective regulatory standard approaches for determining the minimum capital requirements are applied.

Pillar 2: Internal Capital & Liquidity Adequacy Assessment
By way of the Internal Capital & Liquidity Adequacy Assessment process, all measures are taken to ensure that all risks arising from current and proposed business activities are counterbalanced by an adequate liquidity and capital base at all times. The detailed design of the Internal Capital & Liquidity Adequacy Assessment process depends on the regulatory requirements and supervisory expectations of the ECB as well as on internal guidelines.

Pillar 3: Disclosure
The requirements of Pillar 3 are met by publishing the qualitative and quantitative disclosure regulations pursuant to Regulation (EU) no. 575 / 2013 (CRR) and Directive 2013/36/EU (CRD IV), 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 *www.volksbankwien.at/offenlegungen*.

2.2.5 Risk management across the Association
The Risk Control unit of VBW as CO is responsible for risk governance, methods and models for strategic risk management issues across the Association, as well as the regulations for control at portfolio level. For the purpose of performing its steering function, the CO has issued General Instructions (GI) for the affiliated banks. The GI RAF (Risk Appetite Framework), GI ICAAP, GI ILAAP, GI Principles of Credit Risk Management (GI PCRM) and the downstream manuals of the Association and the associated working practice guidelines govern risk management in a binding and uniform manner. The risk strategy is also issued in the form of a General Instruction (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 extremely important. In order to allow for professional exchange in a working context, an expert committee was set up for risk control. Each affiliated bank must dispose of its own Risk Management Function (RMF) that is responsible for the independent monitoring and communication of risks within the respective affiliated bank.

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

a) Internal Capital Adequacy Assessment Process

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

The individual elements of the cycle are performed at varying intervals (e.g. daily for market risk / trading book risk measurement, quarterly for preparing the risk-bearing capacity calculation, annually for risk inventory and determination of the risk strategy). All the activities described within the cycle are reviewed for up-to-dateness and adequacy at least annually, and adjusted to the respective current general conditions if necessary; they are approved by the Managing Board of the CO. The integration of ESG risks into the internal capital adequacy process started in 2021 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, evaluated for VBW 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 results 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 local risk strategy of VBW essentially builds on the risk strategy of the Association of Volksbanks and defines regional specifications and local specifics. 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.

VBW 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.

Risk Appetite Statement (RAS) and limit system

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

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

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

Risk-bearing capacity calculation

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

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

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

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

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

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

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

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

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

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

Recovery and resolution planning
As the Association of Volksbanks was classified as a significant institution in Austria, the Association must prepare a recovery plan and submit the same to the European Central Bank. VBW in its function as the CO of the Association of Volksbanks is responsible for drawing up the Group Recovery & Resolution Plan (GRP) for the Association. No separate recovery plan is being prepared for VBW and affiliated institutions. The GRP is updated at least once a year and takes into account changes in business activities as well as changes in regulatory requirements.

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

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

Operational credit risk management

Lending principles

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

Decision-making process

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

Monitoring of exposures and collaterals

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

Limits

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

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

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

Intensified credit risk management

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

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

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

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

Default identification: The process of default identification serves to recognise defaults in time. A customer is deemed defaulted if a default of performance of more than 90 days exists and/or if complete settlement of the debt is considered unlikely, in accordance with the CRR. The Association of Volksbanks has defined 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 further (checking) processes, such as the analysis of expected cash flows within regular or event-driven exposure checks, that may trigger classification to a default category.

Problem Loan Management

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

- under intensive supervision (negative change of risk assessment, but not defaulted yet)
- in the process of restructuring (imminent risk of default or defaulted already, but customer is eligible for restructuring), and
- subject to workout (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 began in early 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 new post-model adjustments.

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.

The EWS/PLM portfolio in VBW, which is high as a result of the COVID-19-related forbearance markings or rating downgrades, shows a slight improvement in the second half of 2021. The NPL (non-performing loan) ratio of VBW also shows a slight improvement; defaults on individual larger loan exposures were compensated for by reductions in the portfolio, mainly due to the realisation of collaterals and to debt conversions.

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 and/or their results also form the basis of portfolio management.

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

Rating systems

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

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

Credit Value at Risk

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

Concentrations

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

Counterparty default risk

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

Credit risk mitigation

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

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

Factors influencing the estimate of Expected Credit Losses (ECL) and for the purpose of determining impairments
Various influencing factors, assumptions and methods are used to measure any significant increase of credit risk.

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

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

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

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

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

Lifetime Probability of Default

Ratings provide essential input for determining the lifetime PD for ECL calculation. For the purpose of analysing lifetime PD, the portfolio of Volksbank is divided into the following segments:

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

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

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

Forward-looking information

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

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

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

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

Consideration of forward-looking information

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

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

Definition of stage transfer and default

A financial asset is considered to be in default (Stage 3) if:

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

The definition of default is fully in line with the default definition of the bank for capital adequacy purposes (CRR).

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

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

Further indicators for allocation to Stage 2 are:

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

The bank calibrates a bidirectional illustration of the changes of lifetime credit losses and the rating migration from initial recognition until the current balance sheet date, taking into account the respective current forward-looking information. Hence, the quantitative stage transfers are derived from significant downgrades of the customer's current rating compared to the credit risk upon initial recognition. Based on the Volksbank master scale with 20 (performing portfolio) rating levels, the number of rating category downgrades leading to Stage 2 is 1 to 5, depending on the original maturity and residual term of the respective financial instrument, on the initial rating, on the customer segment and on the current forward-looking information.

Measurement of Expected Credit Loss (ECL)

The bank determines ECL on the basis of the individual instrument, regardless of the materiality of the exposure.

Performing portfolio

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

The most important model parameters for ECL measurement are:

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

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

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

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

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

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

Portfolio	Main influencing factors for LGD
– Corporate including special financing – SME – Private customers	– Internal historical data of default events and recoveries, including date of default and date of conclusion/event status – Most important type of collateral (residential real estate, commercial real estate, insurance policies, others) taken into account
Banks	– Expert estimates – Regulatory benchmarks set down in the CRR
Others	– Expert estimates and scenario analyses

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

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

Defaulted receivables

For defaulted customers (Stage 3), the measurement depends on the significance of the receivable.

For defaulted customers with a total exposure of more than euro 750.000 and for a limited number of special cases, the ECL estimate will be performed without applying statistical model parameters. Instead, the bank will estimate the cash flows on the basis of the individual instruments in two scenarios:

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

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

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

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

Risk provisions in relation to COVID-19
With regard to the calculation of risk provisions taking into account the economic impact of the COVID-19 pandemic (adaptation of the standard methodology used by the system, use of post-model adjustments), we refer to the disclosures on the calculation of risk provisions/impairments in the Notes to the annual financial statements.

Sensitivity analyses of risk provisions in the course 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 adjustments, rating migrations and stage transfers were simulated, among other things. In order to illustrate the effects of estimation uncertainties in the underlying assumptions, the PMA from unidentified stage transfers and not yet updated ratings is compared with a hypothetical assignment of the total portfolio of loans and receivables to customers to Stage 2 or Stage 1.

In determining the lifetime PD parameters, the pessimistic scenario was weighted at 100 %. Current macroeconomic scenarios were published by the ECB in December 2021.

If the ECB's latest available macroeconomic forecast (baseline scenario) were applied, a reversal of risk provisions would follow. 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.

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

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

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

The following analyses are part of the monthly report:
- Portfolio distribution
- Development of new business
- Distribution of credit ratings
- Non-performing loans (NPL)
- Forbearance
- Credit risk concentrations
- Country group analysis
- Customer segments
- Distribution across industry sectors

For the COVID-19-induced portfolio, 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.

c) Market risk

Market risk is defined as the risk of loss due to adverse developments in market risk factors, e.g. interest, credit spreads, foreign exchange rates and volatilities. VBW distinguishes the following types of market risk:
- Interest rate risk in the banking book
- Credit spread risk
- Market risk in the trading book
- Foreign exchange risk (open FX positions)

Interest rate risk in the banking book

Interest rate risks emerge primarily through term transformation, which arises from different fixed interest rates between assets and liabilities. VBW pursues an association-wide 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 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 VBW 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.

VBW 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), 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 also 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.

Concentration risk

No concentration risks exist within interest rate risk.

Credit spread risk

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

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 to 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 bp. The calculation of the credit spread VaR is based on a historical simulation for a 99.9 % confidence level and a holding period of one year. In the process, the portfolio is divided into 25 risk clusters, depending on credit rating, branch of industry, type of product and seniority. The VaR is included in the ICAAP as part of the risk-bearing capacity calculation. Reporting takes place monthly within the ALCO and is part of the aggregate bank risk report.

Concentration risk

Concentration risks within credit spread risk can arise at the level of issuers or risk clusters in case of similar issuers. Within credit spread risk, risk clusters are monitored.

Market risk in the trading book

The market risk in the trading book of VBW is of subordinate importance. The trading book is kept centrally at the CO. The main function of the trading book is that of a transformer, where smaller batches from retail banking are collected and dynamically hedged in the market. Additionally, Treasury takes market risks within the scope of the limits approved, in order to produce corresponding income.

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 Treasury and Risk Control and monthly within the ALCO.

The trading book risk is relatively low and mainly arises from euro interest rate positions. The regulatory own funds requirements of the trading book are calculated by means of the standard approach – the Association of Volksbanks, and accordingly VBW, does not use any internal model for market risk in the trading book.

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

Foreign exchange risk (open FX positions)

The foreign exchange risk from open FX positions is immaterial at VBW. 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.

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 via VBW, investing their excess liquidity.

The most important source of refinancing of VBW consists of customer deposits, which have proven to be a stable source of funding in the past. Obviously, this is responsible for the major part of liquidity risk. The capital market provides VBW with additional opportunities for refinancing through securities issues, mainly covered bonds. The stability of customer deposits has become apparent again during the coronavirus crisis in 2020/2021, with the portfolio actually growing during that period. The coronavirus crisis had no negative impact on the liquidity position of the Association. From the perspective of the Association of Volksbanks, dependence 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 VBW, funding risk is defined as a negative income statement effect that occurs due to potential future increases of refinancing costs on the money and capital markets as well as in the retail sphere. This risk is taken into account in the risk-bearing capacity calculation within the scope of the ICAAP. Due to the funding structure at VBW, this risk is relatively low, as the company is hardly dependent on the capital market, and little price sensitivity is observed in the sphere of customer deposits.

The measurement and limitation of illiquidity risk is effected through the regulatory indicators LCR and NSFR, the survival period from internal liquidity stress testing, and through additional operating 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 transactions 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 as well as 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 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 of the CO is responsible for controlling the liquidity position of VBW within the scope of risk limits defined by Risk Control and approved by the Managing Board within ALCO. The ALCO 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.

Concentration risk

Due to diversified funding for 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 within operational liquidity management. Generally, they amount to less than 1 % of total assets. There are only a few temporary exceptions with a few major accounts for implementing payment transactions or balancing liquidity peaks. These deposits are regularly monitored and reported on within the scope of liquidity risk management.

Operational liquidity management

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

- Cash management (settlement of all transactions of the Association as well as disposition of the banking connections maintained by VBW)
- Collateral management: ECB-eligible collateral of the Association (bonds and credit claims)
- Issue planning
- Daily liquidity projection for the following 31 days, and weekly for the following 12 months
- Monitoring of refinancing positions of the Association of Volksbanks, and the control system put into effect by VBW as CO with the approval under Section 30a of the Austrian Banking Act, for the affiliated banks – a.o. liquidity reports, refinancing management, utilisation of collaterals, early warning system
- Compliance with minimum reserve regulations for the Association of Volksbanks
- Reporting to the CO Managing Board and to the ALCO
- Daily liquidity reporting/affiliated banks and ALCO reports
- Monitoring of Asset Encumbrance Ratio

e) Operational risk

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

Organisation
Within VBW, line management is responsible for the management of operational risks (OpRisk Management). It is supported in this function by centrally or decentrally based experts from the spheres 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. Moreover, close co-operation with the organisational units "compliance", "internal audit" and "security & outsourcing governance" enable an optimal, comprehensive control of operational risks.

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

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

f) Other risks
In terms of other risks, VBW faces strategic risk, equity risk, direct real estate risk, model risk and earnings risk.

Strategic risk is the risk of negative effects on capital and earnings due to business policy decisions or insufficient adjustment to changes of the economic environment.

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

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

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

Organisational and process-based measures, in particular, have been implemented to manage other risks. ESG risks are mapped within existing risk categories.

Investment risk is defined by the bank as the risk that an investment/participation will default or be impaired. As this risk is material for the bank, it is quantified and taken into account in the risk-bearing capacity calculation. For this purpose, investment risk is divided into the following types:
- Risk of loss of participations
- Risk of impairment of participations
- FX risk from participations

The risk of loss of participations is calculated using the credit Value-at-Risk model and reported within the scope of credit risk reporting as well as taken into account in the UGB-compliant financial statements, with not only participations in the classic sense being considered within this type of risk, but also loans to such participations that meet the definition of IAS 24 Related Parties.

The risk of impairment of participations is accounted for by way of discounts from the carrying amounts of the participations in the risk-bearing capacity calculation.

The FX risk from participations describes the risk of value changes of consolidated core capital components in currencies other than the euro, due to exchange rate fluctuations, and is calculated by means of Value at Risk via the internal market risk model.

As at 31 December 2021, the volume of participations at acquisition costs amounts to euro 460.3 million (2020: euro 380.9 million), of which euro 251.5 million (2020: euro 180.4 million) from affiliates and euro 208.8 million (2020: euro 200.5 million) from participations. The participations and shares in affiliates are primarily attributable to the financial service sector. As at 31 December 2021, cumulated impairments of shares in affiliates amount to euro 233.0 million (2020: euro 160.6 million) and to euro 131.6 million (2020: euro 134.8 million) for participations. Impairments of participations and of shares in affiliates were effected in the amount of euro 54.6 million (2020: euro 10.3 million) in 2021. In the business year, reversals of impairments were effected in the amount of euro 2.5 million (2020: euro 0.0 million).

Due to the persistently challenging economic development, especially also in banking environments, there is a risk of decreasing profits and dividend distributions. In future, this may lead to lower fair values.

Non-standard risks and/or non-financial risks (conduct risks, compliance risks, legal risks, model risks, as well as IT and system risks, outsourcing risks) are taken into account, among others, in the compliance framework and the framework for operational risks, and in the outsourcing framework.

Organisational and process-based measures, in particular, have been implemented to manage other risks.

2.3 Use of financial instruments

At VBW, interest rate- and currency-related as well as other derivative financial instruments are used. As regards the volumes (schedule of derivatives) and information on financial instruments pursuant to section 238 of the Austrian Business Code, please refer to the notes ("Additional disclosures") of the annual financial statements as at 31 December 2021. In the banking book, financial instruments are primarily used for hedging purposes, i.e. to hedge liquidity, foreign currency and interest rate risks.

The regulations of AFRAC statement "Derivatives and hedging instruments (Austrian Business Code)" of December 2020, on the accounting of derivatives and hedging instruments, are applied. Other risks and imminent losses from derivative financial instruments that have arisen in the 2021 business year were taken into account in the amount of the negative fair values through allocation to provisions. Effectivity measurements are performed for valuation units on a current basis. Appropriate risk provisions are set up for negative fair values from ineffective valuation units as well as for the ineffective portion of effective hedging relationships (negative market backlog of the derivative).

In the trading book, financial instruments are used for the purpose of controlling customer cash flows, and to capitalise on existing or expected differences between purchase and selling prices or market price fluctuations in the short term. Compliance with the limits, both in the trading book and in the banking book, is permanently monitored by a separate market risk department and is regulated in the market risk policy. For the purpose of market risk control in the trading book, backtesting calculations are performed to check the plausibility and reliability of risk indicators through reverse comparisons (backtesting) on a daily basis.

The counterparty risk for positive fair values from unsecured interest rate management derivatives of the trading book is taken into account by way of credit value adjustments (CVA) – as approximation function of the potential future loss associated with counterparty default risk. The CVA charge (adjustment of credit valuation) is the adjustment of a portfolio of transactions with a counterparty at the mean fair value. Said adjustment reflects the fair value of the counterparty's credit risk in relation to the bank, but not the fair value of the bank's credit risk in relation to the counterparty. For all unlisted derivatives of the trading book, the calculation is effected with respect to all business activities of a bank (incl. securities financing transactions, if the regulatory authority finds any significant CVA risk in this respect).

3 Report on research and development

VBW is not involved in any research and development activities.

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

The aim of the internal control system is to support the management in such a way that it is able to ensure effective internal controls with respect to accounting. The Managing Board is responsible for establishing and designing a suitable internal control and risk management system for the accounting process.

At VBW, an internal control system (ICS) has been installed according to the internationally recognised COSO standard. Detailed descriptions of ICS processes and control measures are available. The responsibilities and roles relating to the ICS are clearly defined. Regular reporting takes place for the ICS. Control activities are documented and reviewed, ICS-relevant risks are regularly evaluated and adjusted. Accordingly, a continuous optimisation process is ensured. Internal Audit verifies compliance with internal regulations independently and regularly, also in the sphere of accounting. As a staff function, Internal Audit is allocated to the Managing Board, and the head of the Internal Audit unit directly reports to the entire Managing Board and also to the Supervisory Board on a quarterly basis.

4.1 Control environment

Observance of all relevant legal provisions is the ultimate ambition of VBW within the scope of financial reporting. The Managing Board is responsible for establishing and organising an appropriate internal control and risk management system with respect to the accounting process and provides a framework for implementation applicable to the entire group in the ICS group policy. Within VBW, responsibility for implementation lies with the OPRISK and Risk Governance group. For entries in the general ledger, observance of the dual-control principle has been provided for. The employee posting the entry is electronically documented in the general ledger accounting system. Electronic accounting documents are released according to the dual-control principle in terms of system engineering.

4.2 Risk assessment

Risks relating to the accounting process are ascertained and monitored by process managers to ensure, in particular, complete and accurate recording of all transactions, timely transfer of invoices and correct calculation and timely payment of taxes. In the process, the focus is on risks that are to be considered significant.

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

4.3 Control measures

Control measures are applied within the current business process to ensure that potential errors are prevented and/or deviations in financial reporting are revealed and corrected. These control measures range from a review of the various results for the period by the management to reconciliation of specific accounts and items and analysis of ongoing accounting processes. A distinction is made between two types of control in the internal control system.

Operating controls include manual controls performed by employees according to specific tasks, automatic controls carried out by means of IT systems, preventive controls aimed at avoiding errors and risks in advance through separation of functions, competence rules and access authorisations.

Management controls serve to ensure, on a random sample basis, that operating controls are observed by executives. An internal control plan has been prepared in which the relevant manager (division manager, department manager, group manager) has determined how frequently checks are to be performed, depending on the level of risk. The spot checks must be documented in the control plan in a way that is verifiable by third parties. The results are reported to the immediate line manager at half-yearly intervals (management reporting).

The entire control documentation (operating controls and management controls) is effected by means of the BART software.

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

4.4 Information and communication

Guidelines and regulations regarding financial reporting are regularly updated by the heads of departments and divisions and communicated to all employees concerned.

Employees in accounting are also provided with ongoing training on accounting reforms, so that risks of unintentional false reporting can be identified at an early stage.

A management report, which is prepared at least quarterly, contains information on the completeness, transparency, active implementation and effectiveness of the control system with regard to the accounting process.

4.5 Monitoring

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

The results of monitoring activities in relation to accounting processes are reported within the management report. The report includes a qualitative risk assessment of the processes. Moreover, the report contains documentation as to how many controls were carried out in relation to the control requirements.

In addition, the "Internal Audit" staff unit performs a monitoring and supervisory function.

Vienna, 25 February 2022

The Managing Board

Gerald Fleischmann
Chairman of the Managing Board

Rainer Borns
Deputy Chairman of the Managing Board

Thomas Uher
Deputy Chairman of the Managing Board

AUDITOR'S REPORT

REPORT ON THE FINANCIAL STATEMENTS

Audit Opinion

We have audited the financial statements of

VOLKSBANK WIEN AG,
Vienna,

which comprise the Balance Sheet as at 31 December 2021, the Income Statement for the year then ended and the Notes to the Financial Statements.

In our opinion, the financial statements present fairly, in all material respects, the balance sheet of the Company as at 31 December 2021 and its financial performance for the year then ended, in accordance with Austrian Generally Accepted Accounting Principles of the Austrian Commercial Code and Austrian Banking Act.

Basis for our Opinion

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

Key Audit Matters

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

Valuation of receivables to customers

Risk for the financial statements

Receivables from customers amount to EUR 5,411,355,611.69 in the balance sheet. The Managing Board of VOLKSBANK WIEN AG describes the approach to determine loan loss provisions in the section "Accounting and valuation principles" of the Notes to the financial statements.

As part of monitoring receivables from customers, 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.

AUDITOR'S REPORT

For non-defaulted receivables from customers, a loan loss provision is recognized by the bank for the expected credit loss ("ECL"). The provision is calculated based on the method to determine loan loss provisions used for the consolidated financial statements of the company in accordance with IFRS 9 and in accordance with the recommendations of the AFRAC position paper "Gemeinsames Positionspapier des AFRAC und FMA–Fragen der Folgebewertung bei Kreditinstituten". 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 by the bank to the initial result for the first time in 2020 which was adjusted in 2021.

This results in the risk for the financial statements that after considering above named factors, such as the transfer between stages, the calculation of loan loss provisions taking the post model adjustment into account, is subject to significant estimation and assumptions, resulting in room for discretion as well as estimation uncertainty in respect of the amount of the loan loss provisions.

Our response

In testing the recoverability of receivables from customers we performed the following significant procedures:

- We analysed the process documentation and internal guidelines regarding the monitoring and recognition of loan loss provisions and evaluated whether they are suitable to identify events of default and to adequately determine the recoverability of these receivables from customers. We compiled the relevant key controls, assessed their design and implementation, and tested their effectiveness on a sample basis. 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 made by the bank were tested for conclusiveness, consistency as well as timing and amount of the expected repayments.
- For receivables from customers individually not significant and non-defaulted for which the loan loss provisions are calculated statistically, we analysed the bank's documentation of the applied method for consistency with the requirements of IFRS 9. Additionally, we evaluated, based on the bank's internal validation, the models and parameters used therein as to whether they are suitable to determine loan loss provisions in adequate amounts. 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 calclulated loan loss provisions for all receivables from customers subject to credit risk on a simplified basis. We performed these procedures in cooperation with our financial mathematicians as specialists.

Other Information

Management is responsible for other information. Other information is all information provided in the annual report, other than the financial statements, the management report and the auditor's report. We expect the annual report to be provided to us after the date of the auditor's report.

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

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

AUDITOR'S REPORT

Responsibilities of Management and the Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Austrian Generally Accepted Accounting Principles as well as other legal or regulatory requirements and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities

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

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

Moreover:

- We identify and assess the risks of material misstatements in the financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.

AUDITOR'S REPORT

– From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

Report on Other Legal Requirements

Management Report

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

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

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

Opinion

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

Statement

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

Additional Information in accordance with Article 10 AP Regulation

We were elected as auditors at the Annual General Meeting on 14 May 2020 and were appointed by the supervisory board on 26 May 2020 to audit the financial statements of Company for the financial year ending on 31 December 2021.

On 29 April 2021 we were elected for the year ending on 31 December 2022 and on 7 May 2021 the supervisory board appointed us as auditors.

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

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

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

Engagement Partner

The engagement partner is Mr Walter Reiffenstuhl.

Vienna, 25 February 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.

STATEMENT OF ALL LEGAL REPRESENTATIVES

VOLKSBANK WIEN AG
Statement of all Legal Representatives

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

Vienna, 25 February 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

OFFICERS AND ADRESSES

VOLKSBANK WIEN AG

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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.

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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.

1) In relation to total risk 2) End-of-period figure Austrian Business Code/unconsolidated 3) Staff at end-of-period based on full-time equivalent
As at 31 December 2021, VOLKSBANK WIEN AG including the function as central organisation