2022

Disclosure under the CRR

ASSOCIATION OF VOLKSBANKS

1 General information on disclosure

This document serves to fulfil the requirements pursuant to Regulation (EU) No. 575/2013 (CRR) and Directive 2013/36/EU (CRD IV) for the association of credit institutions under Section 30a of the Austrian Banking Act (BWG) of the Volksbanks (Association of Volksbanks) by VOLKSBANK WIEN AG as central organisation (CO).

1.1. Disclosure obligations and procedures

CRR Art 431

The Association of Volksbanks fulfils the requirements pursuant to Regulation (EU) No. 575/2013 and Directive (EU) 2021/637 of the European Parliament and of the Council on the basis of the consolidated financial position of the group of credit institutions as at the reporting date 31 December 2022. All quantitative data are in thousands of euros unless otherwise stated.

A formal procedure exists at VOLKSBANK WIEN AG to ensure the correct fulfilment of disclosure obligations. This procedure is set down in writing in a disclosure framework, which is reviewed at least annually for up-to-dateness and completeness and approved by the Managing Board.

The framework describes the required minimum quantitative and qualitative content for each disclosure requirement, defining the responsibilities for preparing the disclosure content and the required review steps. Before each disclosure date, each responsible person checks whether there is relevance for the disclosure of certain content (e.g. securitisations, internal models, foreign branches). This procedure ensures that the relevant disclosure content is made available to market participants in the disclosure report in a complete and comprehensible manner.

To ensure correct disclosure that is consistent with other reports, three-stage quality assurance is embedded in the disclosure process. Initial topic-specific quality assurance is performed by the organisational unit responsible for the respective disclosure topic. The second stage of quality assurance is carried out as part of the process of compiling the content in the disclosure report. The focus is on completeness and cross-topic consistency. The third and final stage is the final reconciliation between the disclosure report and the Annual Report.

The CFO approves the disclosure report for publication.

1.2. Non-essential information, business secrets or confidential information

CRR Art 432

The Association of Volksbanks generally publishes all information required under Part 8 CRR. Exceptions to this rule will be considered on a case-by-case basis, taking into account the guidelines published by the EBA.

1.3. Frequency of disclosure

CRR Art 433

The CRR II has clearly defined the principle of proportionality. The scope and reporting frequency of disclosure depend on the size and complexity of institutions and are described in Articles 433, 433a, 433b and 433c of the CRR.

As A-SRI, the Association of Volksbanks is classified as “other institution”; hence, the frequency and scope of disclosure are defined pursuant to CRR Art 433a.

The content to be disclosed annually as at the end of the year is published separately by qualitative content and standardised quantitative content in two separate documents. During the year, the scope is smaller and predominantly quantitative, so quantitative disclosure is in the form of Excel spreadsheets.

1.4. Means of disclosure

CRR Art 434

Disclosure in accordance with Chapter 8 of the CRR is made for the Association of Volksbanks on the website of VOLKSBANK WIEN AG as the central organisation (CO).

2 Risk management and governance

2.1 General information on risk management

CRR Art 435(1); EU OVA

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 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) of the Austrian Banking Act). The implementation of control within the Association of Volksbanks is effected through General, and, if necessary, Individual Instructions and corresponding working instructions in the affiliated banks.

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

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

Risk policy principles

The risk policy principles of the Association of Volksbanks comprise the standards for the management of risks that are applicable within the Association of Volksbanks and are defined by the CO Managing Board together with the risk appetite. A common set of rules and understanding of risk management across the Association is the basis for developing risk awareness and a risk culture within the company. The Association of Volksbanks carries 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.

Organisation of risk management

The Association of Volksbanks 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 function 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 sound risk management, the Risk Appetite Framework (RAF) for the Association of Volksbanks is continuously being developed, in order to define the risk appetite or the degree of risk tolerance that the Association of Volksbanks is prepared to accept to achieve its defined goals. The level of risk tolerance is reflected in the definition and validation of appropriate limits and controls. The framework is verified and developed with respect to regulatory requirements, changes of the market environment or the business model on a current basis. By way of this framework, the Association of Volksbanks aims to develop a disciplined and constructive control environment where all employees understand and live up to their roles and responsibilities.

Risks within the Association of Volksbanks are managed by four decision-making bodies in VBW: (i) Risk Committee (RICO), (ii) Asset Liability Committee (ALCO), (iii) Credit Committee (CC), and (iv) Sustainability Committee (NAKO). 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 at 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 and other provisions and waivers.

The NAKO is a body of the entire Managing Board and serves to advise on and monitor all sustainability-related issues, ensuring that decisions are in line with the sustainability strategy and sustainability goals.

Risk management across the Association

The Risk Control Function 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 instructions govern risk management in a binding and uniform manner. The risk strategy for the Association of Volksbanks 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 RMF Jour Fixe (expert committee) was set up. 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 Function of VBW as CO. Apart from regular remodelling, recalibration and validation of the risk models, the methods in the ICAAP & ILAAP are being improved continuously, with new regulatory requirements being monitored and implemented in a timely fashion.

Internal Capital Adequacy Assessment Process

To ensure a sustainable, risk-adequate capital base, VBW, in its capacity as CO of the Association of Volksbanks, has set up an Internal Capital Adequacy Assessment Process (ICAAP) as a revolving control cycle, in line with international best practices. The ICAAP starts by identifying the risks material for the Association of Volksbanks, 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 the item 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 the risk inventory and the determination of the risk strategy). All process steps 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. An expansion was implemented in 2021 based on the integration of ESG risks into the internal capital adequacy process by incorporating ESG risks into all elements of the internal capital adequacy process. ESG risks were not included as a separate risk type, but were mapped within the existing risk types. The methods, models and strategies used for ESG risks will be continuously developed over the next years and are meant to contribute to successively measuring inherent ESG risks more accurately.

Risk inventory

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

Additionally, ESG risks are analysed and assessed annually 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 of the Association. 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 within the Association of Volksbanks at all times. The risk strategy is prepared in the course of business planning. The contents of the risk strategy and business planning of the Association of Volksbanks are linked up by incorporating the targets of the Risk Appetite Statement in the GI Controlling – Planning and Reporting.

The Association of Volksbanks is committed to a sustainable corporate culture and strives to establish ESG aspects in all areas of the company. The risk strategy was expanded to include a separate sub-risk strategy for ESG risks. It maps the

ESG risks inherent in the existing risk types, which can be derived in particular from the ESG heat maps and the internal stress test.

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

Risk Appetite Statement (RAS) and limit system

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

The risk appetite, i.e. the indicators of the RAS, is derived from the business model, the current risk profile, the risk capacity and the 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 the Association of Volksbanks is ready to accept to achieve its strategic goals. 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 countermeasures can be initiated in a timely manner. The RAS set of indicators is essentially made up of the following strategic and more detailed RAS indicators:

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

Risk bearing capacity calculation

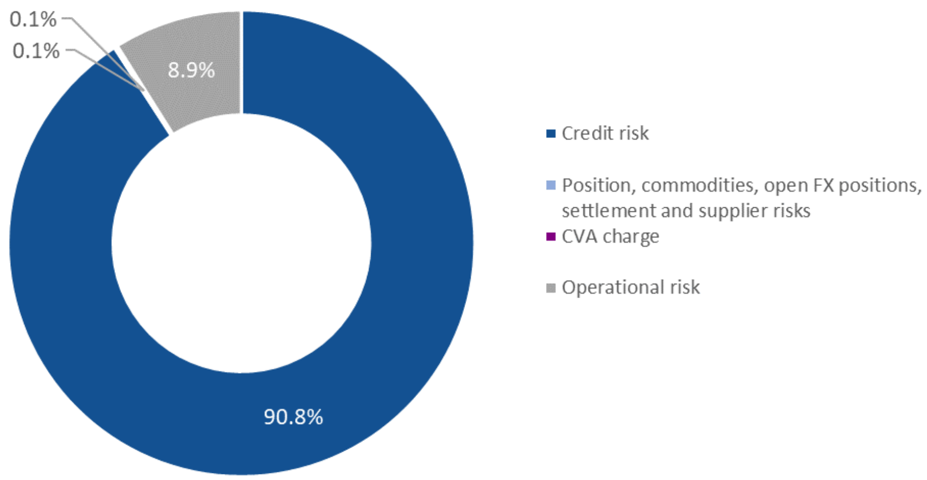
The risk bearing capacity calculation constitutes a central element within the implementation of the ICAAP. It is used to provide evidence of the fact that the risks assumed are sufficiently covered by adequate internal capital (risk covering potentials) at all times and to ensure such cover in the future. 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

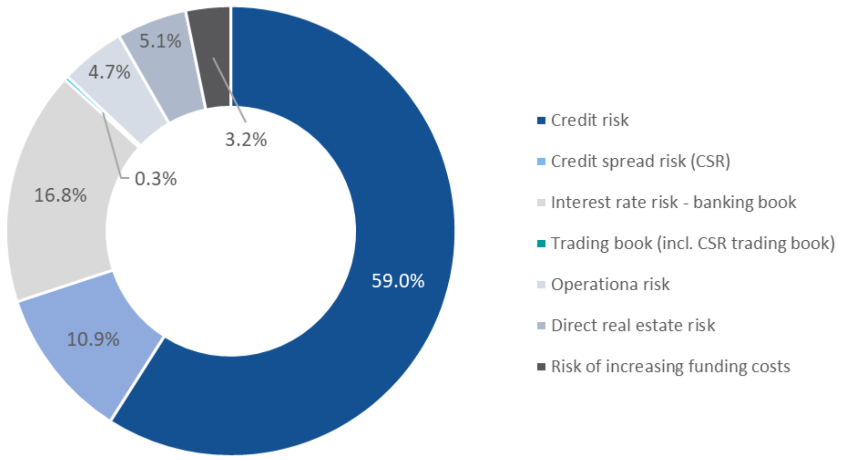
The regulatory Pillar 1 perspective compares the total risk exposure amount calculated in accordance with applicable legal provisions with regulatory own funds. Ensuring regulatory risk bearing capacity is stipulated under the law and constitutes a minimum requirement. The composition of the regulatory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

The distribution of risks from a regulatory perspective is the following as at 31 December 2022:



The economic perspective contributes to ensuring the continued existence of the Association of Volksbanks 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 hence may negatively affect the adequacy of capital resources under an economic perspective. During quantification of 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 the own funds available for loss absorption under a going-concern perspective are recognised as internal capital. The aggregate bank risk limit is set at 95 % of 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 distribution of risks from an economic perspective is the following as at 31 December 2022:



The normative perspective ensures that the Association of Volksbanks 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.

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, 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 changed risk parameters for the individual risk categories and areas of business derived therefrom. Apart from the risk aspect, the effects of crisis scenarios on regulatory own funds and the internal capital under the economic perspective are determined as well. 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 if necessary.

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.

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. This recovery plan is updated at least once a year and takes into account changes in the bank's business activities as well as changes in regulatory requirements.

2.2 Information on risk management objectives and policies by risk category

Credit risk

CRR Art 435(1), EU CRA

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

Credit risk management organisation

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

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.
- Loan commitments take account of the economic performance of borrowers, of financing requirements and investment volumes. The borrower's repayment ability is a prerequisite for granting a loan. Financing requirements and investment volume are reconciled in advance. Loan maturities must not exceed the useful lives of the assets financed. Attention is paid to the inclusion of reasonable own funds.
- Loan transactions with private customers are subject to the regulations and information requirements of the Austrian Consumer Credit Act (VKrG) and those of the Austrian Mortgage and Real Estate Credit Act (HIKrG), which apply independently of each other.
- The provisions pursuant to the Credit Institutions Real Estate Financing Measures Ordinance (KIM-VO) of the Austrian Financial Market Authority (FMA) for newly agreed private real estate financing are complied with and have been monitored separately since their entry into force.
- The topic of sustainability/ESG factors as well as potential climate-related transitory and physical risks are considered in the lending process.

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

Monitoring of exposures and collaterals

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

Limits

The monitoring, control and limitation of the risk of individual exposures and of risk clusters is 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, limits for the industrial sectors as well as separate limits for the real estate sector are being defined at present. These limits are relevant for the lending process and are monitored at monthly intervals by Risk Control.

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

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

Intensified credit risk management

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

Early identification (EWS)

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

Dunning procedure

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

Forbearance

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

Default identification

The process of default identification serves to recognise defaults in time. A customer is deemed defaulted if there is a default of performance pursuant to the CRR of more than 90 days, 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 workout (defaulted customers not eligible for restructuring)

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

Quantitative credit risk management

Measurement and control of credit risk

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

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

Rating systems

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

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

Credit Value at Risk

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

Concentrations

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

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.

Credit risk reporting

Credit risk reporting takes place monthly (truncated version) and quarterly (detailed version) 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 the Association, for key units of the Association, and for the 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 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

In addition to reporting as part of the aggregate bank risk report, a Fast Close Risk Report is prepared at Association level on a monthly basis immediately after year-end based on daily raw data from the core banking system. The report provides an initial indication of the current development of the customer portfolio, of crisis indicators, and of inflows and outflows in the NPL (non-performing loans) and forbearance portfolio. It also includes a brief overview of the development of risk provisions and the portfolio affected by COVID-19 measures within the Association, in order to track developments on an ongoing basis and implement measures promptly.

Counterparty credit risk

CRR Art 435(1) and Art 439 (a) to (d), EU CCRA

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 has concluded standardised ISDA framework agreements for bilateral netting and a corresponding Credit Support Annex (CSA) with all financial counterparties. Derivatives according to Regulation (EU) No. 648/2012 must be cleared via a CCP (Central Counterparty). VBW is not directly connected to a CCP, but is connected via a clearing broker. The netted fair values of the derivative transactions are reconciled daily with the relevant counterparties. 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.

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 credit 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 credit risk.

CRR Art 439 (a)

In the treasury business, credit risk should generally be minimised. The basis for this is an independent credit rating and a line system derived from it, as well as the ongoing monitoring process.

The maximum amount of the total bank lines granted per respective economic unit is determined by

- the credit rating (internal rating) and
- own funds.

Offsetting of the counterparty risk of derivatives for credit risk purposes is based on the Standardised Approach for Counterparty Credit Risk (SA-CCR) in accordance with CRR II (Regulation (EU) 2019/876) Part 3 Title II Chapter 6 Section 3.

For limit monitoring purposes, the counterparty risk of derivatives is accounted for on the basis of the Current Exposure Method (CEM; fair value, if positive, + AddOn).

The add-ons, which depend on the residual term of the transaction, represent a premium intended to cover future fluctuations in fair value.

CRR Art 439 (b)

Risk-reducing measures (netting and collaterals received) are based on bilateral agreements (e.g. ISDA Agreement – Credit Support Annex, Rahmenvertrag für Finanztermingeschäfte – Besicherungsanhang, Global Master Repurchase Agreement, Rahmenvertrag für Echte Pensionsgeschäfte, Global Master Securities Lending Agreement, Rahmenvertrag für Wertpapierleihe). If the sum of the fair values of a counterparty’s OTC derivatives is positive, there is a replacement risk. A daily valuation of the derivatives is performed. The adjustment of the collaterals to the current fair values is coordinated and performed together with the contractual partners on a daily basis. Only cash collaterals in EUR and USD are accepted as collaterals for OTC derivatives. Based on “legal opinions” for the respective legal system of the individual counterparties, the realisability of the deposited collaterals and their further use are ensured in the event of bankruptcy of the contracting party. Cash and government bonds of issuers with high credit ratings are accepted as collaterals for repo and lending transactions. The reciprocal margin call on a daily basis ensures full collateralisation, and therefore no further reserves are created. The counterparty risk for fair values from unsecured derivatives is taken into account by way of credit value adjustments (CVA). The expected future exposure (EFE) is determined by means of the Monte Carlo method.

CRR Art 439 (c)

No correlation risks are calculated with regard to counterparty credit risk.

CRR Art 439 (e)

The existing collateral agreements do not include any rating dependency for the independent amount, threshold or minimum transfer amount. Therefore, in the event of a rating downgrade, there is no additional call liability.

Market risk

CRR Art 435(1), EU MRA

Market risk is defined as the risk of loss due to adverse developments in market risk factors, e.g. interest rates, credit spreads, foreign exchange rates and volatilities. The Association of Volksbanks distinguishes the following types of market risk:

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

No material market risks or concentration risks exist beyond that. Monitoring of the market risk is carried out in the market and liquidity risk control department of the Risk Control division, which is separate, in organisational terms, from the Treasury division at the level of the Managing Board.

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. In the process, the portfolio is divided into 21 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. These risk clusters are reported in the ALCO.

Market risk in the trading book

The market risk in the trading book of the Association of Volksbanks is of minor importance. The trading book is kept centrally at the CO. The affiliated banks do not keep a trading book. The main function of the trading book is that of a transformer, where smaller batches from retail banking are collected and dynamically hedged in the market. Additionally, Treasury takes market risks within the scope of the limits approved, in order to produce corresponding income. The trading book volume is permanently below the regulatory threshold of euro 500 million (Art. 325a 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 within the Association is relatively low and mainly arises from euro interest rate positions.

The regulatory capital adequacy requirements of the trading book are calculated by means of the standardised approach – the Association of Volksbanks 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 within the Association of Volksbanks. It arises due to changes of the value of outstanding receivables and liabilities in foreign currencies through exchange rate fluctuations. It is minimised by Treasury as part of liquidity management.

Other valuation risks (IFRS fair value change)

Positions designated as fair value exist to a minor extent in the bond portfolio, in relation to securities issues, swaps and the guarantee for pension schemes. Moreover, valuation risks arise through customer exposure that does not meet the SPPI criteria and must accordingly be designated as fair value through P&L and is 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.

Interest rate risk from positions not included in the trading book

CRR Art 435 (1) a) – d) and CRR Art 448 (1) and (2)

The interest rate risk in the banking book within the Association of Volksbanks mainly results from retail business. It comprises all interest-bearing transactions reported and not reported in the balance sheet, except for transactions in the trading book. In addition, other interest rate-sensitive items are taken into account, such as pension provisions. The interest rate risk position associated with the retail business of the Association of Volksbanks mainly arises from index-linked loans and loans with fixed interest rates, and from non-maturing deposits in the form of sight and savings deposits, as well as from implicit floors, in both the assets side and the liabilities side retail business. Other decisive factors are bond positions of the bank's own portfolio, own issues and the interest-rate swaps used to manage the interest rate position.

The Association of Volksbanks pursues a strategy of positive term transformation, which represents a source of income in the form of the structural contribution within net interest income, as the fixed interest period of the assets is longer on average and hence the interest rate is higher than that of the liabilities. The fixed interest position is built up mainly by means of retail business in the form of fixed interest loans. The strategy is aimed at gradually developing a rolling fixed-interest position over several years. In the event that the build-up of the fixed-interest position leads to the violation of limits, layer hedges can be used for fixed-interest loan portfolios.

The Association of Volksbanks consistently shows a positive interest term transformation in 2022 in line with the strategy for interest rate risk in the banking book. In 2022, the present-value interest rate risk, measured using the OeNB interest rate risk coefficient (according to VERA reporting), ranged between 1 % and 5 %, 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 3 % and 7 %, hence equally well below the reportable threshold of 15 %, in 2022. The EBA coefficient represents the bottleneck factor in the control system and is accordingly defined as the strategic RAS indicator. Volatility in terms of the coefficient mainly arises from fluctuations in interest rates and from regular payment and fixing effects. In 2022, the EBA coefficient initially declined until into the third quarter, moderately increasing again until the end of 2022. The declining trend until into the third quarter of 2022 was mainly due to the sharp increase in interest rates. This meant, among others, that the risk contribution from the option portfolio decreased significantly and that the additional present-value risk was more than compensated through continued growth in fixed-interest loans. Towards the end of the year, outflows from customer deposits and reallocations from checking/savings deposits to time deposits induced by the interest rate increase led to a risk-increasing reduction on the liabilities side. The interest income risk (NII risk) consists in falling interest rates, especially short-term interest rates. It is defined as a decline of interest income in contrast to a scenario of constant interest rates. The interest income risk is based on decreasing interest rates and increased significantly in 2022 due to the increase in interest rates. In the current interest rate environment, major causes for this increase are the regulatory interest rate scenario floor as well as embedded interest rate floors in retail business, in particular for deposits. In the regulatory scenario, these interest rate floors for deposits applicable in Austria have a risk-increasing effect as the full effect of interest rate cuts is only visible on the assets side. The simulated decrease in interest expenses for deposits, on the other hand, is limited by the embedded interest rate floors.

The following table shows the effects of the interest rate scenarios defined by the EBA for the cut-off dates 31 December 2022 compared to 31 December 2021 for present-value risk and 31 January 2022 for interest income risk. No 2021 comparative value is available for interest income risk in a 200 bp scenario, as the definition of the scenario was not finally determined by the regulatory authority before 2022. The effects of six scenarios are reported for present-value risk, and the effects of two scenarios for interest income risk. At the end of 2022, the highest negative change in present value amounts to euro 99 million in the parallel up scenario, which corresponds to an EBA coefficient of 4.6 %. Interest income risk at the end of 2022 amounts to euro 151 million in the parallel down scenario.

	Supervisory shock scenarios	a	b	c	d
		Changes in economic value of equity (euro million)		Changes in net interest income (euro million)	
		Current period	Previous period	Current period	Previous period
1	Parallel up	-98.9	-117.5	126.2	105.4
2	Parallel down	83.2	53.1	-151.1	-60.3
3	Steepener	-66.6	-152.8		
4	Flattener	29.9	90.7		
5	Short rates up	7.3	41.0		
6	Short rates down	-18.0	-36.8		

Figure: supervisory interest rate shock scenarios under Article 98(5) of Directive 2013/36/EU (reporting form EUR IRRBB1)

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.). Modelling aims to describe the development of customer interest rates depending on market interest rates. The position is divided into a “core” and a “non-core” portion, with an overnight fixed interest rate being assigned to the non-core portion. The core portion is divided into a money market-linked portion and a capital market-linked portion. The capital market portion is modelled by a rolling portfolio of up to ten-year investments. In the model, the average interest rate period of non-maturing deposits amounts to 2.4 years, that of the receivables to 2.3 years (as at December 2022). In addition, an interest rate floor is modelled for the core portion of savings deposits and sight deposits using an option price model, as these cannot bear negative interest rates in Austria. The entire model is based on minimising the volatility of the margin, i.e. the difference between the observed customer interest rate and the replicate interest rate, and is statistically calibrated. For loans, a prepayment rate is modelled. This describes the average annual additional repayment made over and above the contractual repayment. It is statistically calibrated on the basis of sub-portfolios. Embedded interest rate floors for loans are also included in the interest rate risk position using the option price model. After the significant increase in interest rates in 2022, the interest rate floors in retail business, at current interest rate levels, no longer constitute any material contribution to interest rate risk – in contrast to the previous low/negative interest rate period. Replication assumptions and prepayment rates are used consistently in both present value modelling and interest income simulation.

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 Control 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, the implicit floors in retail banking are also taken into account in both perspectives, although their contribution to risk has gradually decreased in the course of 2022.

Present-value risk measurement and limitation are mainly effected on the basis of regulatory interest rate scenarios (6 EBA scenarios) by means of the EBA coefficient, the “open” fixed interest volume within the scope of balance sheet structure management, the interest rate gap (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, two risk scenarios defined in regulatory terms (200 bp parallel up, 200 bp parallel down) are calculated in terms of their effects on net interest income for the next 12 months, based on the assumption of an immediate interest rate change compared to the result for constant interest rates. The results of the net interest income simulation and the interest rate book VaR are taken into account in the ICAAP also quarterly within the scope of the risk bearing capacity calculation. Moreover, additional scenarios are calculated as part of the semi-annual stress testing in order to calculate even more extreme interest rate movements. Furthermore, the models for replication assumptions and prepayments are stressed to simulate the impact of changing customer behaviour. Moreover, changing option volatilities are calculated as part of the stress test. Limiting is mainly carried out at the level of the Association. Limits also exist at the level of the affiliated banks.

In addition to the six EBA scenarios (200 bp parallel up, 200 bp parallel down, steepener, flattener, short rates up, short rates down), further interest rate scenarios are calculated as part of the stress test to simulate the impact of extreme interest rate changes. These include – with a view to the resulting changes in present value – an extreme parallel shift of the yield curve by +500 basis points and a very sharp rise in interest rates between +200 and +400 basis points, and – with a view to negative NII changes – a parallel shift of the yield curve downward by -200 basis points (without scenario floor).

Hedging transactions are carried out for bond positions, issues and retail business and can be taken into account in hedge accounting. Layer hedges for fixed-interest loan portfolios and cash flow hedges for index-linked loan portfolios may be used. Micro hedges for securities positions, issues and individual loans may also be used.

Apart from the monthly reporting in ALCO, the quarterly risk bearing capacity calculation and the half-yearly stress testing, an abbreviated operational reporting is prepared for Treasury in the middle of the month. Focussing on the Association and on VBW, it includes changes in present value for the six EBA scenarios as well as PVBPs and serves the purpose of early detection of any change in the risk level.

Liquidity risk

CRR Art 435(1) as well as CRR Art 451a, EU LIQA, EU LIQ1, EU LIQB

The most important source of funding of the Association of Volksbanks consists of highly diversified customer deposits, which have proven to be a stable source of funding in the past. Obviously, this accounts for the major part of liquidity risk. 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 capital market offers opportunities for refinancing through securities issues, mainly covered bonds, to VBW as CO of the Association of Volksbanks. The dependence of the Association of Volksbanks on capital market funding remains low, at around 10 % of total assets. VBW is the only institution in the Association of Volksbanks that has access to the ECB/OeNB and can therefore also refinance itself via central bank funds.

As a result of the retail business model of the Association of Volksbanks with many small-volume checking/savings deposits from private customers and SMEs, the funding is broadly diversified and the concentration risk on the liabilities side is not material. The diversification of funding sources is taken into account on a current basis in the liquidity and funding strategy, which is prepared annually in the course of business planning and updated as required during the year. 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 in the ALCO.

On the capital market side, there are hardly any dependencies on institutional customers or professional market participants. The Association of Volksbanks does not participate in the unsecured interbank market and only participates in the secured interbank market on an ad hoc basis. Treasury's issuance planning aims to spread the maturities of the few large-volume capital market issues.

At VBW, the Market and Liquidity Risk Control department is responsible for liquidity risk control throughout the Association. In organisational terms, the department is assigned to the Risk Control division with a direct reporting line to the responsible divisional board member (CRO). The responsibilities of the department are defined in General Instructions and working instructions for liquidity risk and are demarcated from the responsibilities of Treasury within VBW and the affiliated banks. The tasks of liquidity risk control are largely bundled in the department, thus taking account of the high degree of centralisation within the Association. The focus of the department is on risk control of the Association's exposure.

The department is responsible for identifying, modelling, measuring, limiting, and monitoring as well as reporting of all material liquidity risks as well as the related data management throughout the Association. In this function, Liquidity Risk Control is responsible for defining, reconciling, implementing, monitoring and reporting the RAS indicators relevant to liquidity risk. Liquidity Risk Control is also responsible for the design, parameterisation, calculation and reporting of liquidity stress test requirements. Moreover, the department is responsible for determining the method for defining the components of the internal liquidity buffer. Another key function is the ongoing preparation of liquidity reports (e.g. LCR, NSFR, ALMM, SREP data collection) for the Association and for VBW to meet regulatory reporting requirements. The department regularly prepares liquidity risk reports for the affiliated banks and makes them available to the local banks.

A local Risk Management Function has been set up at the level of the affiliated banks which, among other things, performs liquidity risk control tasks and acts as the local contact for the Market and Liquidity Risk Control department. It performs limited liquidity risk control tasks on the basis of uniform requirements throughout the Association. This includes, among other things, the analysis of the local liquidity risk position and risk reporting in the local ALCO. The affiliated banks are not obliged to calculate, report and comply with regulatory liquidity risk indicators such as LCR, NSFR and AER.

The Liquidity Management department of the Association in the Treasury division is responsible for operational liquidity management. The department is the central unit within the Association of Volksbanks for the management of liquidity, the pricing of liquidity (transfer pricing), the central management of collaterals throughout the Association, the disposition of available liquid funds, and the implementation of the medium- to long-term funding strategy. The Capital Markets department is responsible for carrying out capital market issues, for issuance planning and underlying stock management.

Liquidity management in the Association of Volksbanks is highly centralised. VBW, as CO of the Association of Volksbanks, has far-reaching management and control rights for the entire Association of Volksbanks. These include central funding/liquidity management and liquidity risk management, including the right to issue both general and individual instructions to the affiliated credit institutions. Consequently, VBW is responsible for liquidity management throughout the Association and for liquidity balancing within the Association. The affiliated banks cover their refinancing needs via VBW, investing their surplus liquidity. The affiliated banks are required to maintain liquidity reserves at VBW to the extent defined by law. There is no horizontal liquidity equalisation between the affiliated banks. VBW is the only institution within the Association that has access to the money and capital markets as well as to central bank funds.

In order to take account of the high degree of centralisation in liquidity risk, VBW has defined a centralised ILAAP (Internal Liquidity Adequacy Assessment Process) at Association level. The ILAAP is defined as the totality of all internal procedures, methods and processes to ensure adequate liquidity within the Association of Volksbanks at present and in the future – even under stress conditions – and to meet all supervisory and regulatory requirements for liquidity risk. In particular, the ILAAP comprises the definition of strategies (liquidity and funding strategy as well as liquidity risk strategy), liquidity/funding planning, liquidity cost allocation, operational liquidity management, liquidity buffer management, emergency liquidity management and liquidity risk control. In accordance with the central nature of the ILAAP, these activities are performed centrally at VBW and affect the entire Association.

The risk reporting and measurement system takes into account the high degree of centralisation of the Association of Volksbanks and focuses primarily on the liquidity risk position of the Association and secondarily on that of VBW. The focus is on the indicators defined in the Risk Appetite Statement (RAS). These include the LCR, the NSFR, the survival period and asset encumbrance. In addition to the LCR, the survival period aims to quantify illiquidity risk, defined as the risk of not being able to service payment obligations when they fall due. To derive the survival period, selected liquidity risk stress scenarios defined for the entire Association are calculated on a monthly basis.

The Market and Liquidity Risk Control department prepares a monthly liquidity risk report for the Managing Board, which is presented and discussed in the monthly ALCO of the Association. Key contents are liquidity balance sheet, the RAS indicators mentioned above, liquidity buffer presentation, liquidity and LCR forecast over a 12-month time horizon, the top 15 depositors. The RAS indicators are additionally reported to the Managing Board as part of the aggregate bank risk report. In addition, a limit monitoring report (e.g. LCR, FX liquidity risk) and a liquidity buffer presentation are prepared for the weekly Li-JF with Treasury.

The funding risk across the Association, defined as the risk of an unexpected increase in refinancing costs, is quantified on a scenario basis, taking into account general planning uncertainties and adverse general conditions. The calculation is performed quarterly as part of the ICAAP risk bearing capacity calculation and semi-annually as part of the internal overall bank stress testing. The results are reported to the Risk Committee. The responsibility for determining the methods of approaching and modelling this risk lies with the Market and Liquidity Risk Control department.

The LCR, NSFR and AMM are reported externally to the supervisory authority on a monthly basis, and the asset encumbrance is reported on a quarterly basis, in each case for the Association and for VBW (solo and Group). In addition, extensive information is regularly provided to the competent supervisory authority (ECB) as part of the annual Li-SREP and ad hoc upon request.

A liquidity risk report is prepared monthly for each affiliated bank and made available to the affiliated banks for local risk analysis and for risk reporting in the local ALCO. The report includes the local liquidity balance, the contribution to the LCR of the Association, and the top 15 local depositors.

The management of liquidity risk within the Association of Volksbanks is based on Section 30a of the Austrian Banking Act and Article 10 of the CRR, the Association Agreement and the cooperation agreement. The Association of Volksbanks is characterised by a strong cohesion of closely linked members. The central organisation (CO) of the Association of Volksbanks forms a joint liability system with the other members of the Association. This obliges the banks of the Association to jointly support distressed members.

The general conditions for managing the liquidity position of the Association of Volksbanks and of VBW are specified by the Asset Liability Committee (ALCO). The ALCO is conducted on a monthly basis and is the central body for liquidity risk management. Reporting within ALCO is taken care of by the Market and Liquidity Risk Control department in the sphere of risk, and by the department Liquidity Management/Association in the Treasury sphere. In addition to the ALCO, the monthly Risk Committee, the weekly liquidity jour fixe and (restricted to liquidity emergencies) the liquidity emergency committee of the Association are also relevant for liquidity risk management.

The Liquidity Management department controls refinancing transactions and investments as well as the permissible extent of liquidity term transformation within the Association of Volksbanks by means of the principles of liquidity management, which are binding throughout the Association, and other guidelines. The annual funding plan makes the future liquidity requirements resulting from the multi-year plan transparent and is actively managed by the Liquidity Management department.

The liquidity position for the Association of Volksbanks is managed within the framework of limits that are approved by the Managing Board of VBW and defined and monitored by Liquidity Risk Control. The addressee of the limits is the department Liquidity Management/Association. In the case of limits for illiquidity risk, a distinction is made between RAS indicators (LCR, NSFR and survival period) and other operational limits. The operational limits are aimed in particular at avoiding funding-side concentrations in euro and material foreign currencies (CHF). Limit utilisation is monitored and reported by Liquidity Risk Control on a weekly or monthly basis. The funding risk is limited and monitored as part of the risk bearing capacity calculation for the ICAAP. The liquidity position of the individual affiliated banks is managed as required by Liquidity Management/Association based on maturity-dependent GAP targets.

Another key management measure is the liquidity transfer pricing system, which is used to allocate liquidity costs and liquidity risk costs to the units that consume and provide liquidity. The liquidity contingency plan defines the processes and responsibilities in the event of a liquidity emergency and defines the measures that can be implemented in a liquidity emergency to overcome the liquidity crisis. In addition, a set of emergency early warning indicators has been defined both for VBW and for the individual affiliated banks that is monitored and reported on daily for each bank by the liquidity management function of VBW. The liquidity early warning and emergency measures are differentiated into measures with liquidity gains and measures designed to prevent further outflows. The measures are regularly evaluated by VBW and the affiliated banks in terms of liquidity potential and likelihood of implementation. In addition, a liquidity emergency test is carried out annually at each Volksbank and at Association level, assuming a stress scenario.

Liquidity risk stress testing is part of the RAS set of indicators in the form of the survival period. The survival period is the period during which, under a defined 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 an idiosyncratic 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 limiting the survival period. For the Association of Volksbanks, consisting of individual retail banks, this is typically the idiosyncratic Volksbank crisis assuming a “bank run”. This occurs when, due to a loss of confidence, customers withdraw large deposit volumes within a short period of time and at the same time alternative funding sources are not accessible to the Association (any more). Conversely, the Association is less affected by market stress scenarios due to its comparatively low capital market orientation.

The survival period is defined as a RAS indicator and limited accordingly, with a trigger value of 60 days and a limit of 45 days. Compliance with the survival period limit is monitored on an ongoing basis by Liquidity Risk Control and reported to the Managing Board on a monthly basis in the ALCO and the Risk Committee. Adverse changes in the survival period will trigger internal risk analysis processes and, if necessary, risk management measures by Treasury. For survival period trigger/limit violations, the RAS escalation process is applied. The number of stress scenarios calculated and the underlying scenario assumptions are reviewed annually for appropriateness by Liquidity Risk Control in conjunction with Treasury and the validation unit and adjusted if necessary. Findings from the liquidity risk early warning/emergency system are taken into account on an ongoing basis. In addition, the validation unit regularly reviews the liquidity risk stress testing in the context of model risk, performs independent analyses and defines further optimisation measures as required, which are summarised in validation reports.

As part of the annual Li-SREP (Supervisory Review and Evaluation Process), the Managing Board of VBW submits the “Liquidity Adequacy Statement” (LAS) to the supervisory authority, which contains statements on the adequacy of liquidity risk management, the implementation of the ILAAP and the liquidity situation within the Association of Volksbanks. The current LAS assesses the liquidity risk management as solid and robust and the liquidity position of the Association of Volksbanks as adequate. The comfortable liquidity situation is reflected in the corresponding indicators. The liquidity buffer as at 31 December 2022 was euro 7.4 billion, which corresponds to a comfortable survival horizon of 9 months in the most serious stress scenario. The liquidity buffer eligible for the LCR (High Quality Liquid Assets) amounted to around euro 5.1 billion. The LCR was 165 %, the NSFR 134 %. Hence, both indicators were well above the regulatory and internal limits.

Operational risk

CRR Art 435(1) and Art 446, EU ORA

The Association of Volksbanks defines operational risk as the risk of losses due to the inadequacy or failure of internal procedures (processes), people, systems or to external operational risk 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 the Association of Volksbanks, 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. Co-operation across departments (in particular with Compliance, Internal Audit, as well as Security & Outsourcing Governance) 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 indicators defined for operational risk are exceeded, the defined escalation process is applied. This process provides for a detailed analysis of causes and subsequently initiation of adequate measures.

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

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

2.3 Information on corporate governance arrangements

CRR Art 435(2) a), EU OVB

The members of the Managing Board and of the Supervisory Board of VOLKSBANK WIEN AG and of the banks affiliated to the Association of Volksbanks held the following number of management and supervisory positions as at 31 December 2022.

Activities in a management function or as a member of a supervisory board in organisations which do not predominantly pursue commercial objectives within the meaning of Sections 5(1)(9a) and 28(5)(5) of the Austrian Banking Act are taken into account.

CRR Art 435(2) a) -> *1 applying the group/participation privilege/privilege for representatives of the Republic of Austria

	Volksbank Wien AG		Supervisory functions		Management functions	
Bank	**Name**	**Function at the bank**	**Supervisory Board, effective**	***1 Supervisory Board privilege**	**Manager, effective**	***1 Manager privilege**
Volksbank Wien AG	Gerald Fleischmann	Managing Board	5	2	3	1
Volksbank Wien AG	Rainer Borns	Managing Board	7	1	3	1
Volksbank Wien AG	Thomas Uher	Managing Board	4	1	3	1
Volksbank Wien AG	Anton Fuchs	Supervisory Board	1	1	1	0
Volksbank Wien AG	Christian Lind	Supervisory Board	1	1	2	1
Volksbank Wien AG	Eva Schütz	Supervisory Board	2	1	5	3
Volksbank Wien AG	Franz Gartner	Supervisory Board	2	2	7	0
Volksbank Wien AG	Helmut Hegen	Supervisory Board	1	1	2	1
Volksbank Wien AG	Heribert Donnerbauer	Supervisory Board	3	0	4	1
Volksbank Wien AG	Monika Wildner	Supervisory Board	2	1	1	0
Volksbank Wien AG	Robert Oelinger	Supervisory Board	3	1	0	0
Volksbank Wien AG	Susanne Althaler	Supervisory Board	3	2	0	0
Volksbank Wien AG	Bettina Wicha	Supervisory Board (WC)	2	1	1	0
Volksbank Wien AG	Christian Rudorfer	Supervisory Board (WC)	1	1	0	0
Volksbank Wien AG	Christiane Spiegl	Supervisory Board (WC)	1	1	0	0
Volksbank Wien AG	Hermann Ehinger	Supervisory Board (WC)	1	1	0	0
Volksbank Wien AG	Andrea Baier	Supervisory Board (WC)	1	1	0	0

	Volksbank Salzburg eG		Supervisory functions		Management functions	
Bank	**Name**	**Function at the bank**	**Supervisory Board, effective**	***1 Supervisory Board privilege**	**Manager, effective**	***1 Manager privilege**
Volksbank Salzburg eG	Andreas Hirsch	Managing Board	1	1	1	1
Volksbank Salzburg eG	Andreas Höll	Managing Board	4	1	3	1
Volksbank Salzburg eG	Anton Fischer	Supervisory Board	1	1	3	1

Volksbank Salzburg eG	Christina Spatzenegger	Supervisory Board	1	1	2	2
Volksbank Salzburg eG	Alois Grill	Supervisory Board	1	1	3	1
Volksbank Salzburg eG	Martin Winner	Supervisory Board	1	1	9	2
Volksbank Salzburg eG	Roland Reichl	Supervisory Board	1	1	0	0
Volksbank Salzburg eG	Josef Christian Lugstein	Supervisory Board	1	1	2	1
Volksbank Salzburg eG	Stefan Lirk	Supervisory Board	2	2	6	1
Volksbank Salzburg eG	Anita Weinberger	Supervisory Board (WC)	1	1	0	0
Volksbank Salzburg eG	Gerald Rautner	Supervisory Board (WC)	1	1	0	0
Volksbank Salzburg eG	Bettina Wintersteller	Supervisory Board (WC)	1	1	0	0
Volksbank Salzburg eG	Gerhard Mayr	Supervisory Board (WC)	1	1	0	0

	Österreichische Ärzte- und Apothekerbank AG		Supervisory functions		Management functions	
Bank	**Name**	**Function at the bank**	**Supervisory Board, effective**	***1 Supervisory Board privilege**	**Manager, effective**	***1 Manager privilege**
Österreichische Ärzte- und Apothekerbank AG	Helmut Kneissl	Managing Board	0	0	1	1
Österreichische Ärzte- und Apothekerbank AG	Anton Pauschenwein	Managing Board	5	2	2	1
Österreichische Ärzte- und Apothekerbank AG	Alexander Gratzl	Supervisory Board	1	1	0	0
Österreichische Ärzte- und Apothekerbank AG	Gerhard Schobesberger	Supervisory Board	2	2	3	1
Österreichische Ärzte- und Apothekerbank AG	Irina Schwabegger-Wager	Supervisory Board	2	1	2	0
Österreichische Ärzte- und Apothekerbank AG	Philipp Saiko	Supervisory Board	3	2	4	1
Österreichische Ärzte- und Apothekerbank AG	Gottfried Bahr	Supervisory Board	3	1	2	2
Österreichische Ärzte- und Apothekerbank AG	Herwig Lindner	Supervisory Board	1	1	1	0
Österreichische Ärzte- und Apothekerbank AG	Johann Steindl	Supervisory Board	1	1	1	0
Österreichische Ärzte- und Apothekerbank AG	Jörg Krainhöfner	Supervisory Board	1	1	0	0
Österreichische Ärzte- und Apothekerbank AG	Leopold Schmudermaier	Supervisory Board	2	1	3	1
Österreichische Ärzte- und Apothekerbank AG	Rainer Borns	Supervisory Board	7	1	3	1
Österreichische Ärzte- und Apothekerbank AG	Suzana Madzarevic	Supervisory Board	1	1	1	1
Österreichische Ärzte- und Apothekerbank AG	Walter Ebm	Supervisory Board	1	1	13	4
Österreichische Ärzte- und Apothekerbank AG	Christiane Hörhager	Supervisory Board (WC)	1	1	0	0
Österreichische Ärzte- und Apothekerbank AG	Stefanie Hochegger	Supervisory Board (WC)	1	1	0	0
Österreichische Ärzte- und Apothekerbank AG	Elisabeth Rigl	Supervisory Board (WC)	1	1	0	0

Österreichische Ärzte- und Apothekerbank AG	Helmut Grüssinger	Supervisory Board (WC)	1	1	0	0
Österreichische Ärzte- und Apothekerbank AG	Petra Fuchs	Supervisory Board (WC)	1	1	0	0

	Volksbank Kärnten eG		Supervisory functions		Management functions	
Bank	**Name**	**Function at the bank**	**Supervisory Board, effective**	***1 Supervisory Board privilege**	**Manager, effective**	***1 Manager privilege**
Volksbank Kärnten eG	Johannes Jelenik	Managing Board	6	1	2	1
Volksbank Kärnten eG	Alfred Holzer	Managing Board	1	1	4	1
Volksbank Kärnten eG	Anton Wrann	Supervisory Board	2	2	0	0
Volksbank Kärnten eG	Michaela Schliefni	Supervisory Board	1	1	3	2
Volksbank Kärnten eG	Gerald Fleischmann	Supervisory Board	5	2	3	1
Volksbank Kärnten eG	Gerald Rainer-Harbach	Supervisory Board	1	1	2	1
Volksbank Kärnten eG	Ingrid Taferner	Supervisory Board	1	1	4	2
Volksbank Kärnten eG	Lorenz Plasch	Supervisory Board	1	1	0	0
Volksbank Kärnten eG	Marco Egger	Supervisory Board	2	2	14	2
Volksbank Kärnten eG	Martin Laggner	Supervisory Board	1	1	1	1
Volksbank Kärnten eG	Wilfried Aichinger	Supervisory Board	1	1	3	2
Volksbank Kärnten eG	Andreas Kröll	Supervisory Board (WC)	1	1	0	0
Volksbank Kärnten eG	Christian Buchleitner	Supervisory Board (WC)	1	1	0	0
Volksbank Kärnten eG	Florian Mikula	Supervisory Board (WC)	1	1	3	2
Volksbank Kärnten eG	Konrad Müller	Supervisory Board (WC)	1	1	0	0
Volksbank Kärnten eG	Wolfgang Rutter	Supervisory Board (WC)	1	1	1	1

	Volksbank Niederösterreich AG		Supervisory functions		Management functions	
Bank	**Name**	**Function at the bank**	**Supervisory Board, effective**	***1 Supervisory Board privilege**	**Manager, effective**	***1 Manager privilege**
Volksbank Niederösterreich AG	Rainer Kuhnle	Managing Board	3	1	6	1
Volksbank Niederösterreich AG	Helmut Emminger	Managing Board	1	0	4	1
Volksbank Niederösterreich AG	Andreas Chocholka	Supervisory Board	3	2	0	0
Volksbank Niederösterreich AG	Andreas Pum	Supervisory Board	2	1	2	2

Volksbank Niederösterreich AG	Andreas Welser	Supervisory Board	3	1	5	3
Volksbank Niederösterreich AG	Christian Kainz	Supervisory Board	2	1	2	2
Volksbank Niederösterreich AG	Claudia Unterberger	Supervisory Board	2	1	2	1
Volksbank Niederösterreich AG	Doris Prachner	Supervisory Board	3	2	4	3
Volksbank Niederösterreich AG	Erwin Poinstingl	Supervisory Board	2	1	0	0
Volksbank Niederösterreich AG	Herbert Gugerell	Supervisory Board	2	1	1	1
Volksbank Niederösterreich AG	Heribert Donnerbauer	Supervisory Board	3	0	4	1
Volksbank Niederösterreich AG	Frank E. Riel	Supervisory Board	3	2	1	0
Volksbank Niederösterreich AG	Dietmar Gindl	Supervisory Board	1	1	3	2
Volksbank Niederösterreich AG	Karl Gerstl	Supervisory Board	2	1	1	0
Volksbank Niederösterreich AG	Walter Übelacker	Supervisory Board	2	1	1	1
Volksbank Niederösterreich AG	Andreas Köhler	Supervisory Board (WC)	1	1	1	0
Volksbank Niederösterreich AG	Eduard Hammerl	Supervisory Board (WC)	1	1	0	0
Volksbank Niederösterreich AG	Herbert Stangl	Supervisory Board (WC)	1	1	0	0
Volksbank Niederösterreich AG	Martina Gräven	Supervisory Board (WC)	1	1	0	0
Volksbank Niederösterreich AG	Peter Hubmayer	Supervisory Board (WC)	1	1	0	0
Volksbank Niederösterreich AG	Tamara Anglmayer	Supervisory Board (WC)	1	1	0	0
Volksbank Niederösterreich AG	Thomas Hofbauer	Supervisory Board (WC)	1	1	0	0

	Volksbank Oberösterreich AG		Supervisory functions		Management functions	
Bank	**Name**	**Function at the bank**	**Supervisory Board, effective**	***1 Supervisory Board privilege**	**Manager, effective**	***1 Manager privilege**
Volksbank Oberösterreich AG	Richard Ecker	Managing Board	6	2	4	1
Volksbank Oberösterreich AG	Andreas Pirkelbauer	Managing Board	4	2	2	1
Volksbank Oberösterreich AG	Christiana Sommer	Supervisory Board	2	1	2	2
Volksbank Oberösterreich AG	Franz-Xaver Berger	Supervisory Board	1	1	3	3
Volksbank Oberösterreich AG	Gerhard Buchroithner	Supervisory Board	1	1	2	1
Volksbank Oberösterreich AG	Gerhard Schuster	Supervisory Board	1	1	1	1
Volksbank Oberösterreich AG	Johann Bruckner	Supervisory Board	1	1	0	0
Volksbank Oberösterreich AG	Thomas Uher	Supervisory Board	4	1	3	1

Volksbank Oberösterreich AG	Ludwig Reisecker	Supervisory Board	1	1	0	0
Volksbank Oberösterreich AG	Manfred Oberbauer	Supervisory Board	1	1	1	1
Volksbank Oberösterreich AG	Martin Braun	Supervisory Board	1	1	2	1
Volksbank Oberösterreich AG	Thomas Dim	Supervisory Board	2	1	1	0
Volksbank Oberösterreich AG	Wolfdieter Holzhey	Supervisory Board	2	1	8	1
Volksbank Oberösterreich AG	Doris Schwarz	Supervisory Board (WC)	1	1	0	0
Volksbank Oberösterreich AG	Johann Enser	Supervisory Board (WC)	1	1	0	0
Volksbank Oberösterreich AG	Klemens Palser	Supervisory Board (WC)	1	1	1	1
Volksbank Oberösterreich AG	Michael Wahlmüller	Supervisory Board (WC)	2	1	0	0
Volksbank Oberösterreich AG	Ralf Wiedenhofer	Supervisory Board (WC)	1	1	0	0

	Volksbank Steiermark AG		Supervisory functions		Management functions	
Bank	**Name**	**Function at the bank**	**Supervisory Board, effective**	***1 Supervisory Board privilege**	**Manager, effective**	***1 Manager privilege**
Volksbank Steiermark AG	Hannes ZWANZGER	Managing Board	1	0	2	1
Volksbank Steiermark AG	Monika Cisar-Leibetseder	Managing Board	1	0	3	1
Volksbank Steiermark AG	Annemarie Stipanitz-Schreiner	Supervisory Board	2	1	0	0
Volksbank Steiermark AG	Gerald Fleischmann	Supervisory Board	5	2	3	1
Volksbank Steiermark AG	Gerald Pilz	Supervisory Board	3	2	6	5
Volksbank Steiermark AG	Günter Glatz	Supervisory Board	2	1	3	2
Volksbank Steiermark AG	Johannes Jelenik	Supervisory Board	6	1	2	1
Volksbank Steiermark AG	Josef Peißl	Supervisory Board	2	1	1	1
Volksbank Steiermark AG	Josef Schriebl	Supervisory Board	2	1	3	3
Volksbank Steiermark AG	Karl Schwaiger	Supervisory Board	2	1	0	0
Volksbank Steiermark AG	Claudia Hinterleitner	Supervisory Board (WC)	1	1	0	0
Volksbank Steiermark AG	Edith Veitschegger	Supervisory Board (WC)	1	1	0	0
Volksbank Steiermark AG	Reinhard Allmer	Supervisory Board (WC)	1	1	0	0
Volksbank Steiermark AG	Renate Friedl	Supervisory Board (WC)	2	1	0	0

	Volksbank Tirol AG		Supervisory functions		Management functions	
Bank	**Name**	**Function at the bank**	**Supervisory Board, effective**	***1 Supervisory Board privilege**	**Manager, effective**	***1 Manager privilege**
Volksbank Tirol AG	Martin Holzer	Managing Board	1	0	2	1
Volksbank Tirol AG	Markus Hörmann	Managing Board	2	1	5	1
Volksbank Tirol AG	Claus Huter	Supervisory Board	2	1	4	2
Volksbank Tirol AG	Johannes Roilo	Supervisory Board	1	1	1	0
Volksbank Tirol AG	Martin Singer	Supervisory Board	2	2	1	1
Volksbank Tirol AG	Maximilian Ellinger	Supervisory Board	2	1	1	0
Volksbank Tirol AG	Robert Oelinger	Supervisory Board	3	1	0	0
Volksbank Tirol AG	Thomas Kneringer	Supervisory Board	2	1	3	1
Volksbank Tirol AG	Walter Gaim	Supervisory Board	2	1	0	0
Volksbank Tirol AG	Walter Oberhollenzer	Supervisory Board	2	1	0	0
Volksbank Tirol AG	Andrea Ager	Supervisory Board (WC)	1	1	0	0
Volksbank Tirol AG	Anni Reiter	Supervisory Board (WC)	1	1	0	0
Volksbank Tirol AG	Christoph Nöbl	Supervisory Board (WC)	1	1	0	0
Volksbank Tirol AG	Harald Stock	Supervisory Board (WC)	1	1	0	0

	Volksbank Vorarlberg e. Gen.		Supervisory functions		Management functions	
Bank	**Name**	**Function at the bank**	**Supervisory Board, effective**	***1 Supervisory Board privilege**	**Manager, effective**	***1 Manager privilege**
Volksbank Vorarlberg e. Gen.	Gerhard Hamel	Managing Board	5	1	6	1
Volksbank Vorarlberg e. Gen.	Helmut Winkler	Managing Board	0	0	6	1
Volksbank Vorarlberg e. Gen.	Christa Kramer	Supervisory Board	1	1	1	0
Volksbank Vorarlberg e. Gen.	Dietmar Längle	Supervisory Board	1	1	5	4
Volksbank Vorarlberg e. Gen.	Heinz Egle	Supervisory Board	1	1	0	0
Volksbank Vorarlberg e. Gen.	Herbert Loos	Supervisory Board	1	1	2	1
Volksbank Vorarlberg e. Gen.	Sabine Loacker	Supervisory Board	1	1	2	2

Strategy for the selection of members of the management body and their actual knowledge and skills

CRR Art 435(2) b and c

The strategy of the Association and the corresponding Fit & Proper Policies of the central organisation of the Association of Volksbanks and of the affiliated banks constitute the basis for the selection, strategic succession planning, and the suitability assessment of the members of the management bodies and are in line with the professional values and long-term interests of the Association of Volksbanks.

Additionally, the principles and processes for selecting members of the Managing Board and for the required strategic succession planning as well as for ensuring the individual and collective knowledge and skills – taking into account Fit & Proper criteria – are regulated within the framework of the “General Instruction on the Appointment of Managers” (cf. Section 30a of the Austrian Banking Act and the Association Agreement of the Volksbanks).

In addition to Fit & Proper criteria, the decisive selection criterion is an understanding of how to take into account the interests and strategy of the Association of Volksbanks and to ensure the highest possible efficiency in performing the duties of the management body.

With the “Guidelines on the assessment of the suitability of members of the management body and key function holders” (EBA/GL/2021/06, “Fit & Proper Guidelines”) – published for the first time on 22 November 2012 and updated on 2 July 2021 – uniform minimum requirements for the assessment of the personal reliability, professional suitability and experience of persons in management and control functions, including their collective suitability, in credit institutions were defined throughout Europe. Every Austrian credit institution must comply with the guidelines, taking into account the type, scope and complexity of the transactions as well as the risk structure, hence also taking account of the Fit & Proper guidelines. This obligation is met by the credit institutions’ “Fit & Proper Policies” coordinated across the Association, in particular the obligation to implement internal guidelines for the selection, assessment and safeguarding of the suitability of managing directors, supervisory board members and key function holders.

In the General Instruction “Appointment of Managers”, criteria for the appointment, independence, assessment of individual and collective suitability were defined and the required documents and the (succession) process to ensure suitability as well as ad hoc re-evaluation were documented.

Members of the management body are subject to specific requirements in relation to their professional and personal competences, their impartiality and independence by virtue of their responsibility for the management and supervision of the institution. The required knowledge, skills and experience of each individual in relation to the collective requirements for the composition of the relevant boards ensure that well-informed competent decisions are made based on a good understanding of the business, the risks and governance structure of the Association of Volksbanks [and on] the relevant persons’ knowledge of the regulatory framework.

The respective requirements depend on the type, structure, size and complexity of the business activity of the institution and of the Association as well as on the respective functions to be filled. In addition to professional competence, the persons concerned must also meet the required personal qualifications. All members must be personally reliable and in good standing.

The positive evaluation of the suitability assessment must be carried out as part of the initial appointment and must be evaluated regularly. Ongoing suitability is ensured through regular training and continuing education measures and related policies. Therefore, measures (in particular (on-the-job) training or organisational measures) must be taken, in particular in the event of changes in external circumstances (e.g. changes in business activities or new regulatory requirements in the organisational structure) which might influence the suitability of individual or several members of the Managing Board or Supervisory Board.

Diversity strategy for the selection of members of the management body, objectives and relevant targets of the strategy, degree of achievement of objectives

CRR Art 435(2) c)

The Association has set itself the strategic goal, pursued for substantial reasons, to generally qualify women for management positions, thus increasing the share of women in all management positions, also within the Managing Board.

This increase is supported by a great number of measures, processes and programmes. Moreover, if the contract is awarded to an external partner, the latter must take care to also nominate female candidates in the course of the appointment procedure for Managing Board positions under all circumstances. These measures provide the basis for a succession process where vacant management positions (including on the Managing Board) can be filled with both internal and external female candidates.

The success of these measures is measurable. In 2022, the share of female executives was increased to 25 %, in spite of the fact that the absolute number of executives has decreased.

If they had to set up a nomination committee in accordance with Section 29 of the Austrian Banking Act, the banks of the Association must set target quotas for the underrepresented gender on the Managing Board and Supervisory Board. Appropriate target quotas (20-30 %) were defined and are achieved.

The requirements of the act on equal opportunities for women and men on supervisory boards (GFMA-G) are met.

Information on the risk committee

CRR Art 435(2) d) – The following institutions have formed a risk committee:

Volksbank	Number of meetings held in 2022	Number of meetings held in 2021	Number of meetings held in 2020
VOLKSBANK WIEN AG *5	4	4	4
Österreichische Ärzte- und Apothekerbank AG	3	3	3
Volksbank Oberösterreich AG	4	4	3
Volksbank Kärnten eG *2	4	4	1
Volksbank Niederösterreich AG *6	0	1	1
Volksbank Salzburg eG *1	4	3	0
Volksbank Steiermark AG *3	0	0	0
Volksbank Tirol AG	4	5	4
VOLKSBANK VORARLBERG e. Gen. *4	1	1	1

*1 The Risk Committee of VB Salzburg eG was re-established as a separate committee in FY 2020.

*2 The Risk Committee was reintroduced by Supervisory Board resolution dated 16 September 2020 and meets as a combined Credit and Risk Committee

*3 The Risk Committee of VB Steiermark was dissolved with effect from 31 May 2019.

*4 The Risk Committee of VB Vorarlberg was re-established as a separate committee in FY 2020.

*5 VOLKSBANK WIEN AG has formed a risk committee in accordance with Section 39d of the Austrian Banking Act, which is referred to as the Working and Risk Committee.

*6 VB Kärnten eG dissolved the committee under the by-laws in 2022.

Information flow to the management body

CRR Art 435(2) e)

The reporting framework implemented within the Association of Volksbanks 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 – 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 CO Managing Board with management-related information on a monthly basis and is sent to the Supervisory Board of VBW quarterly. In addition to the aggregate bank risk report, various risk-specific reports (e.g. analyses within credit risk regarding the development of individual sub-portfolios) complement the reporting framework.

Compliance with BaSAG indicators is reported in the Risk Committee to the CO Managing Board.

Risk reporting takes place in the appropriate committees (i) Risk Committee, (ii) Asset Liability Committee, (iii) Credit Committee. For details, please refer to the section entitled “General information on risk management”.

3 Remuneration

3.1 Determination of the remuneration policy

CRR Art 450(1) (a), EU REMA

VOLKSBANK WIEN AG as the central organisation of the Association of Volksbanks

The Supervisory Board of VOLKSBANK WIEN AG has formed a Remuneration Committee which, among other things, is responsible for the remuneration agendas under Section 39c of the Austrian Banking Act.

The Remuneration Committee comprises members of the Supervisory Board, delegated state commissioners and representatives of the works council. Helmut Hegen acts as the remuneration expert. The Remuneration Committee discusses the principles of the remuneration policy at least once a year. The tasks of the Remuneration Committee include the approval, monitoring and implementation of the remuneration policy, remuneration practices and remuneration-related incentive structures, in each case in connection with the management, monitoring and limitation of risks in accordance with Section 39 (2b)(1)-(10) of the Austrian Banking Act, available own funds and liquidity, whereby the long-term interests of shareholders, investors and employees of the entire association of credit institutions must also be taken into account. The Remuneration Committee has decision-making authority within its assigned area of competence. The Remuneration Committee met twice in 2022.

All companies covered by the scope of the General Instruction Remuneration Policy are explicitly listed in the Association's working instruction on remuneration policy.

The remuneration policy of the Association of Volksbanks is consistent with sound and effective risk management, supporting the same, and does not encourage risk-taking beyond what has been defined by the central organisation in the risk strategy of the Association. The remuneration policy is designed to align the personal objectives of employees with the long-term interests of the bank.

The remuneration policy of the Association of Volksbanks provides for reasonable, market-compliant and gender-neutral remuneration.

Identification of key risk takers within the Association of Volksbanks

The categories of employees whose professional activities have a significant impact on the risk profile of the respective Volksbanks (risk takers) comply with the requirements of EBA/RTS/2020/05. The identification of key risk takers follows a structured and formalised assessment process at both Association and credit institution level on the basis of the guidelines laid down by the central organisation, involving the Risk Control and Compliance function, in order to guarantee a common standardised approach at Association level.

For the recognition of identified employees with a significant impact on the risk profile of the relevant Volksbank, the role, decision-making authority with regard to management responsibility, and the total annual remuneration are taken into account.

The respective Volksbank is required to conduct an annual self-assessment in the first quarter of each calendar year for the previous year in order to identify all employees whose professional activities have or may have a significant impact on the risk profile of the institution. The self-assessment is based on the qualitative and quantitative criteria set out in EBA/RTS/2020/05. The Volksbank concerned must also update the risk analysis during the year at least with regard to the qualitative criteria of EBA/RTS/2020/05 to ensure that all employees to whom any of the qualitative criteria may apply for at least three months of the financial year are identified as key risk takers. This is particularly the case with new hires or transfers involving the assumption of new functions or responsibilities, or changes in business strategy.

Based on the *qualitative criteria*, the following key risk takers are identified:

1) Supervisory Board members;
2) Managing Board members / managers;
3) senior management[1], including all employees reporting directly to the Managing Board (Managing Board – level 1: managing directors of consolidated companies, subsidiaries, area managers / executive department heads);
4) senior employees in Sales (Managing Board – level 1) who report directly to the Managing Board;
5) senior employees in control functions, including senior positions in Compliance, Risk Control, Risk Management as part of the second line of defense, and Internal Audit;
6) voting members of the Risk Committee, Asset Liability Committee (ALCO), Credit Committee;
7) employees who manage a division that is responsible for legal matters, finance incl. taxes and budgeting, human resources, remuneration policy, information technology, economic analysis, money laundering and the financing of terrorism, accounting, information security, and outsourcing;
8) senior employees authorised to decide on, to approve or prohibit any relevant risk, or who are voting members of a committee authorised to take the aforementioned decisions;
9) senior employees authorised to decide on the approval or rejection of the launch of new products.

Based on the *quantitative criteria*, the following employees are identified:

a. Employees whose remuneration amounted to at least euro 500,000 and corresponded to at least the average remuneration of the members of the Supervisory Board (excl. works council members participating without remuneration), of the Managing Board and of the senior management of the institution;
b. employees whose remuneration amounted to at least euro 750,000 in the previous financial year (including the employees explicitly mentioned in item a));
c. employees counting among the 0.3 % of employees who received the highest amount of total remuneration in the previous or current financial year (relevant for credit institutions with a staff of more than 1,000 individually – this criterion is only relevant for VOLKSBANK WIEN AG).

[1] Employees taking care of management tasks or exercising senior functions who report and are accountable to the Managing Board (cf. Section 2 (1b) Austrian Banking Act).

Primary banks of the Association of Volksbanks

The Supervisory Board and the Remuneration Committee of the respective Volksbank are responsible, among other things, for preparing and passing resolutions on the subject of remuneration, as well as for monitoring remuneration policy, remuneration practices and remuneration-related incentive structures. The implementation of the remuneration policy is reviewed annually by the Supervisory Board or the Remuneration Committee of the respective Volksbank.

3.2 The link between remuneration and success

CRR Art 450(1) (b) to (f), EU REMA

VOLKSBANK WIEN AG as the central organisation of the Association of Volksbanks

The General Instruction on Remuneration Policy was adapted as of December 2022.

Features of the remuneration system

A guiding principle of the VOLKSBANK WIEN AG remuneration system is that the fixed remuneration is in line with the market with reference to the external market (competitors in the banking and financial services sector on the Austrian labour market). Criteria for assessing market conformity are the function, the professional and personal qualifications, (relevant) experience and also the results of internal comparisons in salary studies. In these comparisons, the fixed remuneration of employees must be aligned with the market median including the variable salary components of the salary studies.

Actual application of this approach is verified by the remuneration benchmarks which are carried out on a regular basis.

Design and structure of the remuneration system for employees with specific functions within the Association of Volksbanks

- *Remuneration of identified employees*

All identified employees receive a fixed remuneration. The gender-neutral fixed remuneration reflects the professional experience and organisational responsibility of the identified employees, taking account of their level of education, their seniority (function-relevant professional experience), technical knowledge, competencies, and the relevant area of business.

- *Remuneration of members of the Managing Board*

The total remuneration of the members of the Managing Board consists of a fixed basic salary and other remuneration components (e.g. remuneration in kind). The Managing Board members do not receive any success- or performance-based remuneration. External comparisons are equally used to assess the appropriateness and marketability of the remuneration of Managing Board members.

- *Remuneration of members of the Supervisory Board*

The members of the Supervisory Board exclusively receive a gender-neutral fixed remuneration, which is approved by the general meeting pursuant to Section 98 of the Austrian Stock Companies Act. The reasonableness of the remuneration and its compliance with regulatory requirements are reviewed by HR management and the Compliance function of the central organisation on the occasion of each new adjustment. Incentive mechanisms based on the performance of the credit institution are excluded. The remuneration is in accordance with the economic situation of the company.

- *Remuneration of control functions*

Employees with control functions receive gender-neutral and exclusively fixed remuneration. The remuneration of senior management in Risk Control, Compliance and Internal Audit is reviewed directly by the Remuneration Committee of VOLKSBANK WIEN AG in accordance with No. 6 of the Annex to Section 39b of the Austrian Banking Act.

Variable remuneration for the 2022 financial year within the Association of Volksbanks

Variable remuneration is not envisaged, particularly in view of the federal profit participation right in the association of credit institutions. For this reason, no variable remuneration may be paid within the association of credit institutions until the General Instruction on remuneration policy has been expressly amended in this respect. Consequently, only remuneration that meets the requirements for classification as fixed remuneration may be paid to employees.

The same applies mutatis mutandis to the following special remuneration components:

- Allowances that do not meet the criteria for fixed remuneration (e.g. performance-related allowances);
- Variable remuneration based on future performance;
- Guaranteed variable remuneration (“welcome bonus”, “sign on bonus”, “minimum bonus”, etc.);
- Voluntary performance-based retirement benefits;
- Compensation or severance payments for prior employment.
- Retention bonuses.

An exception to this principle are those payments or benefits which are made or granted in connection with the restructuring of the association of credit institutions, such as agreements of a kind similar to social plans which do not reward failure. Such payments must be transparently justified and documented.

Another exception to the principle is the payment of an inflation premium. In 2022, Austria was subject to inflation the extent of which was not foreseen, and which caused an additional financial burden on our employees. Recognising this additional financial burden, the company paid a one-time inflation premium to all employees, except for members of the Managing Board / management.

3.3 Summarised quantitative information on remuneration

CRR Art 450(1) (g) to (i), EU REM1, EU REM2, EU REM3, EU REM4, EU REM5

This quantitative information is disclosed in tabular form in the document “Offenlegung_Verbund_2022-12-31.xlsx”.

4 Group structure and scope

4.1 Scope

CRR Art 436 (a), (f) to (h), EU LIB

VOLKSBANK WIEN AG (VBW), with its registered office at Dietrichgasse 25, 1030 Vienna, is the central organisation (CO) of the Association of Volksbanks. VBW has concluded an association agreement with the primary banks (Volksbanks, VB) in accordance with Section 30a of the Austrian Banking Act. The purpose of this association agreement is, on the one hand, the formation of a cross-guarantee system between the institutions of the primary sector and, on the other hand, the supervision and fulfilment of the regulatory standards at Association level. Pursuant to Section 30a (10) of the Austrian Banking Act, in order to meet the requirements for an association, the CO must have the right to issue instructions to the affiliated banks.

The financial statements of the Association are basically prepared in accordance with all IFRS/IAS published by the International Accounting Standards Board (IASB) that are 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 in the course of the Endorsement procedure, and with the additional requirements of Sections 245a of the Austrian Business Code as well as 59a of the Austrian Banking Act.

The regulatory provisions of Parts 2 to 8 of Regulation (EU) No. 575/2013 as well as Section 39a Austrian Banking Act must be met by the Association of Volksbanks on the basis of the consolidated financial situation (Section 30a (7) of the Austrian Banking Act). By letter dated 29 June 2016, the ECB granted unlimited approval of the Association of Volksbanks without further requirements.

Section 30a (7) of the Austrian Banking Act obliges the CO to prepare consolidated financial statements in accordance with Sections 59 and 59a of the Austrian Banking Act for the Association of Volksbanks. The financial statements of the Association are prepared in accordance with a set of rules based on the International Financial Reporting Standards (IFRS). For the purposes of full consolidation, Section 30a (8) of the Austrian Banking Act stipulates that the CO is to be treated as a superordinate institution and each affiliated institution and, under certain conditions, each contributing legal entity as a subordinate institution.

Full consolidation in accordance with IFRS is only possible if an entity has decision-making power over the investee, i.e. the ability to affect returns through its control over the investee (IFRS 10.6). Since the CO can issue instructions but does not receive any return flows from the affiliated banks, the CO does not exercise control within the meaning of IFRS 10. In the absence of an ultimate controlling parent company, a consolidated presentation can only be prepared in the sense of a group of equals, despite the CO’s extensive powers to issue instructions. It was therefore necessary to define a set of rules for the preparation of the financial statements of the Association.

In the 2022 financial year, there were no substantive, practical or legal impediments to the transfer of own funds or the redemption of liabilities between the superordinate institution and its subordinate institutions.

4.2 Differences between accounting and supervisory purposes

CRR Art 436 (b) – (d), EU LI1 – EU LI3

This quantitative information is disclosed in tabular form in the document “Offenlegung_Verbund_2022-12-31.xlsx”.

4.3 Risk from equity exposures not included in the trading book

CRR Art 436 (e)

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

Companies on which a material influence is exerted are measured according to the equity method. All other participations are reported at fair value, except if their acquisition costs are less than euro 50,000 and if the related equity share does not exceed the carrying amount by more than euro 100,000. As these participations are not listed at a stock exchange and no market prices are available on an active market, the participations are measured by means of valuation methods and input factors some of which are not observable. Valuations are effected according to the discounted cash flow method and the peer group approach. Various calculation models are applied. The income approach is used if companies included in the financial statements of the Association control the company or exercise any management function, and budgets are available accordingly. If the company is not controlled, the fair value calculation is performed on the basis of the dividend paid as well as the annual results of the last five years. In case of companies whose object does not permit any regular income or the result of which is controlled by the parent company through settlements, the net assets are used as valuation criterion. In case of participations in co-operatives, the share capital is used as the fair value, provided the subscription of new shares and the cancellation of existing shares are possible at any time. If valuation reports are prepared by external valuators, they will be used for current valuation.

To the extent that the discounted cash flow method is applied, the discount rates used are based on the respective current recommendations of the professional committee of the Austrian Chamber of Public Accountants and Tax Advisors (Fachsenat der österreichischen Kammer der Wirtschaftstreuhänder) as well as of international financial data service providers and, in the 2022 financial year, range between 9.2 and 12.9 % (2021: 7.0 to 10.1 %). The market risk premium used for the calculation is 8.1 % (2021: 8.3 %), the beta values used range between 0.9 and 1.3 (2021: 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 participations.

Changes in value are reflected in the fair value reserve. If the ground for impairment lapses, the reversal 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.

Shares and participations

Euro thousand	31 Dec. 2022	31 Dec. 2021
Shares in affiliated, unconsolidated companies	14,398	16,060
Shares in participating interests	5,808	5,276
Other participations	106,691	109,252
Participations	**126,898**	**130,588**

A list of affiliated non-consolidated companies is shown in Note 54). In the financial year, participations with a carrying amount of euro 262 thousand were sold (2021: euro 1,518 thousand). The most significant participations in the item Other participations are Volksbanken Holding eGen with a carrying amount of euro 83,837 thousand (2021: euro 83,837 thousand), Oesterreichische Kontrollbank Aktiengesellschaft with a carrying amount of euro 3,750 thousand (2021: euro 4,394 thousand), and PSA Payment Services Austria GmbH with a carrying amount of euro 3,845 thousand (2021: euro 5,274 thousand). Income from participations is included in the income statement in the item Result from financial instruments and investment properties. This income from participations includes dividends of euro 1,567 thousand from participations measured at fair value through OCI (2021: euro 4,590 thousand). Dividends from participations measured at fair value through OCI that were derecognised in the 2022 financial year amounted to euro 0 thousand (2021: euro 545 thousand). Due to immateriality, participations with a carrying amount of euro 304 thousand (2021: euro 318 thousand) were measured at amortised cost.

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

Sensitivity analysis

Participations valued using the DCF method

Euro thousand			Interest rate	
31 Dec. 2021		**-0.50 %**	**ACTUAL**	**0.50 %**
	-10.00 %	12,773	12,183	11,646
Income component	**ACTUAL**	14,192	**13,613**	12,940
	10.00 %	15,612	14,891	14,234
31 Dec. 2020				
	-10.00 %	15,328	14,440	13,652
Income component	**ACTUAL**	17,031	**16,045**	15,168
	10.00 %	18,735	17,649	16,685

Participations valued at net assets

Euro thousand		Proportionate fair value	
31 Dec. 2022	**Decrease of assumption**	**ACTUAL**	**Increase of assumption**
Net assets (10 % change)	17,925	**19,916**	21,908
31 Dec. 2021			
Net assets (10 % change)	15,656	**17,199**	19,135

Participations valued on the basis of external appraisals

Euro thousand		Proportionate fair value	
31 Dec. 2022	**Lower range**	**ACTUAL**	**Upper range**
Proportionate fair value	77,984	**86,650**	95,313
31 Dec. 2021			
Proportionate fair value	77,980	**86,644**	95,308

5 Own funds

5.1 Adjustment of own funds, deductions and adjustment items, and limitation on application

CRR Art 437 (a), (d), (e), EU CC1, EU CC2

This quantitative information is disclosed in tabular form in the document “Offenlegung_Verbund_2022-12-31.xlsx”.

5.2 Main features and conditions of Common Equity Tier 1, additional Tier 1 and supplementary capital instruments

CRR Art 437 (b) and (c), EU CCA

This quantitative information is disclosed in tabular form in the document “Offenlegung_Verbund_2022-12-31.xlsx”.

5.3 Consideration of own funds components determined on a different basis

CRR Art 437 (f)

The relevant regulation is not applicable to the Association of Volksbanks as at 31 December 2022.

6 Own funds requirements

6.1 Approach used to assess the adequacy of internal capital

CRR Art 438 (a) and (b), EU OVC

The implementation of regulatory requirements in the Association of Volksbanks is as follows:

Pillar 1: Minimum own funds requirements

Within the scope of Pillar 1, compliance with the minimum regulatory requirements is ensured. With respect to both credit risk and market risk, and also operational risk, the respective regulatory standard approaches for determining the minimum own funds requirements apply.

Pillar 2: Internal Capital & Liquidity Adequacy Assessment

Through its internal liquidity and capital adequacy process, the Association of Volksbanks takes all necessary measures to ensure that all risks arising from current and planned business activities of the Association of Volksbanks are matched by adequate liquidity and capital resources 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 rules pursuant to Regulation (EU) No. 575/2013 (CRR) and Directive 2013/36/EU (CRD IV), as well as the applicable Regulation (EU) No. 2019/876 (CRR II) and Directive No. 2019/878 (CRD V) on the bank's own website under *www.volksbank.at/volksbanken-verbund/verbund-offenlegung*.

The ICAAP implemented is based on the business strategy, the strategic planning, risk profile and risk strategy of the Association of Volksbanks. 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 the risk inventory and the determination of the risk strategy). All process steps 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.

By identifying the main risks in the risk inventory process, by quantifying and aggregating risks, by determining the risk bearing capacity, by setting limits and carrying out stress tests, it is possible to demonstrate that the risks assumed are sufficiently covered by adequate internal capital (risk covering potentials) at all times, and to ensure such cover also in future. Thus, all measures are taken to meet the regulatory requirements for comprehensive risk management.

The respective risk management procedures are up to date and are continuously improved and developed. They are appropriate to the risk profile and strategy of the Association of Volksbanks.

As part of the annual SREP (Supervisory Review and Evaluation Process), the Managing Board of VBW submits the "Capital Adequacy Statement" (CAS) to the supervisory authority, which contains statements on the capital adequacy of the Association of Volksbanks. In the Capital Adequacy Statement, the capital resources of the Association of Volksbanks are assessed as adequate and the risk management as solid and robust. The adequacy of capital resources is determined in particular by the level of the CET1 ratio. The CET1 ratio of the Association of Volksbanks as at 31 December 2022 was

14.24 %. The total capital ratio as at 31 December 2022 was 18.66 %. After full application of all regulatory requirements, the CET1 capital ratio as at 31 December 2022 is 13.98 % and the total capital ratio is 18.41 %.

The Association of Volksbanks again submitted to the annual SREP (Supervisory Review and Evaluation Process) within the scope of the Single Supervisory Mechanism (SSM) of the ECB. This has resulted in a Pillar 2 Requirement (P2R) of 2.50 % at the consolidated level as at 31 December 2022.

The result of the Supervisory Review and Evaluation Process (SREP) also considered the ECB's SSM stress test conducted in 2021 with a Pillar 2 Guidance (P2G) of 1.25 %.

The CET 1 Demand increased by 0.25 percentage points year-on-year (P2G increase 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 Pillar 2 Guidance must be met entirely with Common Equity Tier 1 (CET1) and has no impact on the maximum distributable amount (MDA).

Based on the SREP decision of February 2022 and taking into account the changed composition of the additional own funds requirement (P2R) under CRD V, the capital requirements and capital recommendations for the Association of Volksbanks as at 31 December 2022 are as shown in the table. Any shortfall in AT1/Tier 2 will increase the CET1 requirement accordingly.

Capital requirements and capital buffers	Dec. 21	Dec. 22
Pillar 1		
CET1 minimum requirement	4,50%	4,50%
Tier1 minimum requirement	6,00%	6,00%
Total minimum requirement for own funds	8,00%	8,00%
Combined buffer requirement	**3,50%**	**3,50%**
Capital conservation buffer	2,50%	2,50%
Systemic risk buffer	0,50%	0,50%
Buffer for other systemically important institutions	0,50%	0,50%
Countercyclical capital buffer (CCyB)	0,00%	0,00%
Pillar 2	**2,50%**	**2,50%**
CET1 minimum requirement	1,41%	1,41%
Tier1 minimum requirement	1,88%	1,88%
Total minimum requirement for own funds	2,50%	2,50%
Total CET1 requirement	**9,41%**	**9,41%**
Total Tier1 requirement	**11,38%**	**11,38%**
Total capital requirement	**14,00%**	**14,00%**
Pillar 2 Guidance	1,00%	1,25%
CET1 minimum guidance	10,41%	10,66%
Tier1 minimum guidance	12,38%	12,63%
Total own funds guidance	15,00%	15,25%

During the 2022 financial year, the Association of Volksbanks complied with the minimum capital requirements and/or capital recommendations resulting from the SREP.

The result of the 2022 Supervisory Review and Evaluation Process (SREP) was forwarded to VBW as the central organisation of the Association of Volksbanks in the official SREP decision from December 2022. The SREP requirement and SREP guidance (P2R and P2G) valid from 01.01.2023 remain unchanged compared to the reporting year. Upon the Capital

Buffer Regulation entering into force, the buffer for systemically important institutions (O-SIIB) at the consolidated level will increase from 0.50 % to 0.75 % in 2023 and to 0.90 % in 2024.

As at 31 December 2022, 47.95 % of available risk covering potentials in the economic perspective were utilised.

The capital situation was stable throughout 2022. The rating agency Fitch has upgraded the rating of the Association of Volksbanks from BBB to BBB+. The rating outlook is now considered stable by Fitch.

6.2 Own funds requirement

CRR Art 438 (d), (e), (h), EU OV1

This quantitative information is disclosed in tabular form in the document “Offenlegung_Verbund_2022-12-31.xlsx”.

6.3 Participations of insurance undertakings that were not deducted

CRR Art 438 (f), EU INS1

The relevant regulation is not applicable to the Association of Volksbanks as at 31 December 2022.

6.4 IFRS transitional provisions

EBA GL 2020/12

The adjustment amount of the IFRS transitional provisions is calculated from the sum of the increase in risk provisions upon first-time application of IFRS 9 and the increases in risk provisions in Stage 1 and Stage 2 between first-time application and 31 December 2019 as well as the increase from 31 December 2019 until the current balance sheet date. In the event of a negative increase, the corresponding summand is limited by 0. Post-model adjustments are included in the respective levels of risk provisions. Deferred taxes are deducted from these totals, and the values calculated in this way are scaled using time-dependent factors specified in the CRR. The adjustment amount thus calculated is added to the Tier 1 capital and, on the other hand, added to the total exposure in accordance with paragraph 7a multiplied by the adjustment amount with a uniform risk weight.

7 Macroprudential supervision

7.1 Countercyclical capital buffer

CRR Art 440, EU CCyB1, CCyB2

This quantitative information is disclosed in tabular form in the document “Offenlegung_Verbund_2022-12-31.xlsx”.

7.2 Indicators of global systemic relevance

CRR Art 441

The Association of Volksbanks is classified as a non-global systemically important group.

8 Information on credit risk and credit risk mitigation

8.1 General qualitative information on credit risks

EU CRB

Definition of “overdue” and “non-performing”

CRR Art 442 a)

Loans are considered overdue if payments on interest and/or principal have been outstanding for at least one day or if the committed credit limits have been exceeded for at least one day. All loans classified in credit rating class 5 are considered to be defaulted (non-performing).

Methods for determining specific and general credit risk adjustments

CRR Art 442 b)

An impairment is calculated and recognised for the following financial instruments:

- For financial assets at amortised cost (AC), lease receivables in accordance with IAS 17 and active contract items in accordance with IFRS 15, impairment is recognised by way of a risk provision.
- In case of purchased or originated credit-impaired financial assets (POCI), the impairment is taken into account in the credit risk-adjusted effective interest rate[2]. If the amount of estimated loss has changed since the time of addition, this is reported as a risk provision.
- Impairments of irrevocable loan commitments and financial guarantees are reported as provisions in liabilities.
- For debt instruments classified as fair value through other comprehensive income (FVTOCI) in accordance with IFRS 9, the impairment is recognised through other comprehensive income (OCI).

The impairment does not have to be calculated and reported separately for the following financial instruments:

- The impairment rules do not apply to financial instruments carried at fair value through profit or loss (FVTPL), as the fair value already takes the impairment into account.
- As equity instruments must always be accounted for at fair value under IFRS 9, the impairment rules generally do not apply to them.

Under IFRS 9, the amount of the impairment is determined by a dual approach, which results in an impairment of either the 12-month expected credit loss or the lifetime expected credit loss. The loss estimates differ primarily in terms of the time horizon for which the probability of default is considered.

12-month expected credit loss (Stage 1) if:

- the credit risk has not increased significantly since addition, or

[2] Within the Association, POCI is defined as all financial instruments that were already included in rating class 5 at the time of addition

- the credit risk of the financial instrument is low on the reporting date (low credit risk exemption)

Lifetime expected credit loss (Stage 2 and 3) if:

- the credit risk has increased significantly since addition, or
- the financial instrument is “credit impaired” at the reporting date, or
- the financial instrument was “credit impaired” at the time of acquisition (Purchased/Originated Credit Impaired Assets)

The impairment or risk provisions are subsequently determined either at individual transaction level or at portfolio level. To determine the impairment at individual transaction level, the expected cash flows are compared with the contractual cash flows of the respective transactions (ECF method). When determining the impairment at portfolio level, the calculation is also carried out individually for each transaction, but the parameters used for this purpose (PD, LGD, transfer thresholds) are derived from portfolios/groups with the same risk characteristics.

Portfolio loan loss provision: For positions classified in Stage 1 or Stage 2, the calculation of the expected loss is generally performed at portfolio level (portfolio analysis in Stage 1 and Stage 2).

For loan exposures in rating class 5 (Stage 3), the impairment is determined on the basis of the significance of the customer of the Association:

- Individual analysis in Stage 3: Exposure amount of the customer of the Association at least euro 750 thousand
- Portfolio analysis in Stage 3: Exposure amount of the customer of the Association less than euro 750 thousand

If unexpected (redemption) payments are received, the risk provision in the balance sheet will be reduced accordingly.

Changes in the estimate of the amount or timing of the expected cash flows (e.g. by accepting additional collaterals) lead to a recalculation of the impairment; the original effective interest rate continues to be decisive for discounting. The impairment is adjusted to the recalculated requirement through profit or loss. If the reason for the impairment no longer applies, the impairment is reversed in full through profit or loss. The upper limit is the notional amortised cost of the receivable as it would have been without any impairment at the current reporting date.

Risk provisions relating to COVID-19

Default rates within the Association and macroeconomic indicators decoupled in 2020 and 2021. Despite a marked decline in economic output, significantly reduced default rates were observed during this period. However, at the end of 2021, the serious consequences of the COVID-19 pandemic for the general economic environment and the high degree of uncertainty in connection with the lockdowns resulted in a continuing need for post-model adjustments when determining expected credit losses. In the 2021 annual financial statements, post-model adjustments were recognised, primarily for customers in the industry sectors that were greatly affected by the pandemic. The development of default rates in these sectors during 2022 remained highly positive. The concerns about cliff or catch-up effects have not materialised. In the 2022 annual financial statements, no post-model adjustments relating to the COVID-19 crisis were formed.

Use of ECAI

CRR Art 444 (a) to (d), EU CRD

(lit a)

The Association of Volksbanks has appointed the rating agencies Standard & Poor’s and Moody’s irrespective of the class of exposures.

(lit b)

The credit ratings of the designated rating agencies Standard & Poor's and Moody's are not restricted to any classes of exposures.

(lit c)

The Association of Volksbanks applies external ratings in accordance with Article 139 CRR.

(lit d)

The Association of Volksbanks adheres to the standard classification published by the EBA.

Foreign currency loans and loans with repayment vehicles

FMA-FXTT-MS

The following indicators were used and reviewed within the Association of Volksbanks in accordance with margin no. 50 of the FMA Minimum Standards for the Risk Management and Granting of Foreign Currency Loans and Loans with Repayment Vehicles:

a. The foreign currency loan volume to borrowers not hedged as defined in margin no. 14 represents at least 10 % of an institution's total loan portfolio (total loan portfolio means total lending to non-banks pursuant to Section 2 no. 22 of the Austrian Banking Act excluding the government sector), or
b. significant legal or operational risks are to be expected due to foreign currency and repayment vehicle loans, or
c. the expected funding gap for repayment vehicle loans of the institution at aggregate level is at least 20 %.

The review of the indicators has shown that items a. and b. were not fulfilled as at 31 December 2022 and that no disclosure is required as a result; however, item c. is fulfilled, and therefore a disclosure of loans with repayment vehicles is made pursuant to margin no. (Rz) 51 of the FMA Minimum Standards on Risk Management and the Granting of Foreign Currency Loans and Loans with Repayment Vehicles:

ASSOCIATION

31.12.2022				
Volumes in thousand Euro	***Total exposure * RV loans***	***Funding gap Repayment vehicles, cumulative***	***RV gap in %***	***Share RV loans of total exposure***
Total	**545.505,13**	**130.511,21**	**23,9%**	**2,1%**
of which in CHF	367.008,14	107.973,24	29,4%	1,4%
of which in EUR	169.858,48	20.931,18	12,3%	0,6%
of which in JPY	8.231,10	1.502,60	18,3%	0,0%
of which in USD	407,40	104,19	25,6%	0,0%
of which others	-	-	0,0%	0,0%

** The total exposure is presented under the internal risk perspective and exclusively refers to loans and receivables to customers as well as credit risks and contingent liabilities to customers excluding internal transactions within the Association*

The projection of the repayment vehicles is made on the basis of the current redemption value, the periodic payments, the assumed return, the index adjustment (only for life insurance policies) and the residual term. The calculated final value(s) or benefit(s) at maturity is/are compared to the loan(s) at customer level, resulting in a gap or excess cover.

The parameters used (assumed interest rate and index development) are determined uniformly throughout the Association and revised annually in Q3. As of January 2022, the following annual net yields were used: traditional life insurance 2.37 %; unit-linked life insurance 2.62 %, unlinked repayment vehicles 1.96 %; and index adjustment for relevant life insurance policies 2.0 %.

8.2 Quantitative information on credit risks

CRR Art 442 c) – g)

The quantitative information presented in this chapter is based on the definitions and measures applicable to regulatory reporting under the CRR and the regulatory scope of consolidation of the Association of Volksbanks and may therefore differ from financial reporting under IFRS.

This quantitative information is disclosed in tabular form in the document “Offenlegung_Verbund_2022-12-31.xlsx”.

Content	**Reference**	**Template**
Disclosure on the amount and credit quality of exposures including risk provisions, impairments and collateralisation	CRR Art 442 c)	EU CQ1, EU CR1
Maturity structure of overdue exposures	CRR Art 442 d)	EU CQ3
Collaterals obtained by means of seizure and realisation	CRR 442 c)	EU CQ7
Presentation of exposures by geographical distribution, economic sectors and type of receivables	CRR 442 e)	EU CQ5
Changes in the portfolio of defaulted on-balance-sheet and off-balance-sheet exposures	CRR 442 f)	EU CR2
Breakdown of loans and bonds by residual term	CRR 442 g)	EU CR1-A
Exposures with measures related to COVID-19	EBA/GL/2020/07	COVID1, COVID2, COVID3

8.3 Information on credit risk mitigation

CRR Art 453 a) – e), EU CRC

Rules and procedures for on-balance sheet and off-balance sheet netting

Netting refers to the offsetting (of a total) of receivables and liabilities of the bank to a specific counterparty (borrower) to form a net receivable/net liability.

On-balance sheet netting:

According to the CRR, on-balance sheet netting is the netting of reciprocal receivables (loans and deposits) between the bank and a counterparty (borrower), which are subject to a netting agreement, to form a "net receivable" or net liability.

The net receivable remaining after netting is used to determine the minimum own funds requirement. Any mismatches in terms of currency and maturity between receivables and liabilities are accounted for by applying haircuts.

Qualitative requirements for on-balance sheet netting under the CRR:

The credit institution must have a sound legal basis for netting that is legally enforceable under applicable law even in the event of the customer's insolvency.

The credit institution must be able at all times to determine the receivables and liabilities covered by the netting agreement.

The credit institution must monitor and manage the risks associated with the termination of collateralisation.

The credit institution must monitor and manage the receivables concerned on a net basis.

Netting is only permitted for reciprocal cash receivables in the same currency between the credit institution and the counterparty (loans and deposits); cross-group netting on both the customer and the bank side is not admissible.

Receivables that may be subject to netting:

In accordance with the CRR, netting of receivables is only recognised as permissible to the extent that the receivables or liabilities subject to a netting agreement:

- are not subject to any restriction on disposal or earmarking that would prevent offsetting at any time
- are legally valid and enforceable in all relevant jurisdictions, even in the event of the borrower's insolvency
- are denominated in the same currency.

This requirement is met by sight deposits and current account facilities without a period of notice or by reciprocal receivables and liabilities relating to current accounts (debit and credit balances).

Where the bank and the borrower are not subject to the same jurisdiction, the above conditions must be met in each of the jurisdictions concerned.

Only the netting of existing balances is permissible, but not the offsetting of any credit lines granted.

If it is not possible to offset receivables and liabilities (mutual cash balances) at any time and in particular directly in the event of the insolvency of the borrower, any netting of the related transactions is not permitted. In such a case, corresponding deposits with the credit institution could be taken into account as financial collaterals (cash collaterals) when determining the minimum own funds requirement, provided the other requirements are met.

Netting within the meaning of the CRR is therefore generally limited within the Association of Volksbanks to the mutual offsetting of receivables and liabilities without earmarking and restrictions on disposal in the interbank and commercial lending business.

Rules and procedures for the valuation and management of collaterals

The rules and procedures for the valuation of collaterals are set out uniformly in collateral manuals, which classify the collaterals admissible across the Association, determining their loan-to-value ratios and regulating regulatory eligibility. Essentially, a distinction is made between the following types of collaterals:

- Financial collaterals
- Personal collaterals
- Physical collaterals: real estate
- Life insurance policies
- Netting

The regulatory eligibility of collaterals is determined by the right (title) to the collateral, the type of the relevant object, and the fair value. Discounts resulting from applicable statutory regulations on credit risk mitigation techniques are applied to the fair value.

The most important types of collaterals within the Association of Volksbanks are real estate collaterals, followed by guarantee collaterals and financial collaterals (cash deposits). The most important types of guarantors are sovereigns or states and municipalities as well as banks, the eligibility of the guarantors results from the segment or the external minimum rating of the guarantors, the guarantees meet the requirements pursuant to CRR Articles 213, 214 and 215.

At present, the Association of Volksbanks does not have any credit derivatives that are used as collateral for loans.

Market and credit risk concentrations within credit risk mitigation

A major concentration in terms of credit risk mitigation exists in the mortgage collateralisation of Austrian residential real estate. There are no significant concentrations in foreign currencies and individual addresses.

8.4 Quantitative information on credit risk mitigation

CRR Art 453 f) to i) and Art 444 e)

This quantitative information is disclosed in tabular form in the document “Offenlegung_Verbund_2022-12-31.xlsx”.

Content	**Reference**	**Template**
Overview credit risk mitigation	CRR Art 453 f)	EU CR3
Credit risk mitigation by exposure class under the standardised approach	CRR Art 453 g) to i)	EU CR4
Credit risk mitigation by credit rating	CRR 444 e)	EU CR5

9 Counterparty credit risk

This quantitative information is disclosed in tabular form in the document “Offenlegung_Verbund_2022-12-31.xlsx”.

Content	Reference	Template
Exposures by approach	439 f,g	EU CCR1
Exposures subject to capital requirements for credit risk-related valuation adjustments	439 h	EU CCR2
Exposures by exposure classes and risk weighting	439 l	EU CCR3
Composition of collaterals	439 e	EU CCR5
Exposures to CCPs	439 i	EU CCR8
Credit derivative exposures (not relevant within the Association of Volksbanks)	439 j	
α-estimate (not relevant within the Association of Volksbanks)	439 k	

10 Market risk

CRR Art 445, EU MR1

Own funds requirements for market risk under the standardised approach

This quantitative information is disclosed in tabular form in the document “Offenlegung_Verbund_2022-12-31.xlsx”.

11 Risk from securitisation exposures

CRR Art 449

The Association of Volksbanks has no securitisation exposures.

12 Unencumbered assets

12.1 Quantitative information

CRR Art 443, EU AE1, EU AE2, EU AE3

This quantitative information is disclosed in tabular form in the document "Offenlegung_Verbund_2022-12-31.xlsx".

12.2 Qualitative information

CRR Art 443, EU AE4

The values in Charts A/B/C were calculated in accordance with the guidelines published by the EBA. The values calculated show the median of 4 reporting dates for asset encumbrance.

Of the encumbered assets shown in line 040 Chart A, of the repo transactions in the portfolio within the meaning of Delegated Regulation 2015/61 Article 8(4), approximately euro 21 million are longer-term positions for collateralised borrowing in the 2022 period under review. Compared to the previous period, short-term repo transactions (maturities of up to 2 months) were concluded with securities eligible for central bank borrowing in the past financial year. No securities eligible for the cover fund were allocated to the underlying stock for covered bank bonds, as of 8 July 2022 Pfandbriefgesetz. Within the Association, approximately 98 % of the reported values of the securities shown in Chart A are encumbered to cover deposits subject to collateralisation. The increase in the median of encumbered assets in line 040 Chart A, in particular debt securities eligible as HQLA, is due to the participation by the Association in the TLTRO III programme as a structural measure to secure liquidity. At the reporting date, the share of encumbered assets in the segment of HQLA-eligible debt instruments had decreased to approximately 1 %.

VB Wien AG, as the central organisation of the Association, provides a share of approximately 98 % of the encumbered debt securities eligible as HQLA. For details on HQLA development and the LCR, please refer to the Liquidity Risk section of the report. The values shown in the quantitative information on the LCR are the market values of the assets less the corresponding haircuts for the respective asset classes. The values shown in the median of the (E)HQLA in Chart A are determined from an accounting point of view, which is why a derivation is not possible due to the different valuation methods. The same scopes of consolidation are applied in both disclosure reports.

As at the reporting date, no securities were encumbered by repo transactions or securities lending transactions subject to collateralisation and designations of underlying stock for covered bank bonds and/or mortgage bonds (Pfandbriefe) under the Pfandbriefgesetz (Austrian mortgage bond act), except for the portfolio of long-term repo transactions in the amount of approximately euro 21 million. Compared to the previous period, the portfolio of long-term repo transactions remains unchanged.

Cash collaterals (including initial margin) for the hedging of fair values for foreign currency refinancing and interest rate derivatives (for the hedging of issues and long-term lending business), as well as promotional loans, account for approximately 1.5 % of the volume of encumbered assets in the item Other assets (line 120 Chart A). Compared to the previous period, the volume decreased by approximately 35 %. The change is partly due to changes in refinancing requirements for foreign currency loans and partly to changes in the fair value of interest rate derivatives. The central organisation's share of these sources of stress within the Association is 100 %.

The requirements for hedging fair value fluctuations for foreign currency refinancing have decreased compared to the previous period due to the further reduction of foreign currency loans.

No currency was classified as a significant currency in the period under review, within the meaning of Article 415 of the CRR. The Swiss franc (CHF) constitutes the major part of the requirement for FX refinancing, which is primarily effected via cross currency and FX swaps.

Of the unencumbered assets shown in Chart A, credit balances with central banks, balances with clearing partners account for around 27 % of the volume. These assets are used to service the operations and payment transactions as well as to hold minimum reserves and secure liquidity. Physical assets are unsuitable to be encumbered during “business as usual”, because of the fluctuations in volume. The reduction on the reporting date in the amount of 46 % in this segment ist due, among others, to the lower volume of the TLTRO III programme.

Of the other unencumbered assets shown in Chart A, line 120, approximately 57 % are mortgage backed loans, of which approximately 74 % qualify for the underlying stock based on internal criteria.

Volksbank Wien AG, as the central organisation of the association of credit institutions, is an issuer of covered bank bonds within the meaning of the act governing covered bank bonds (FBSchVG) and of covered bonds within the meaning of the mortgage bond act (Pfandbriefgesetz). The underlying stock for covered bank bonds of VBW entirely consists of mortgage-backed loans of the association of credit institutions, including of Volksbank Wien AG.

No bonds within the meaning of the aforementioned legal regulations were issued or redeemed in the reporting period. The surplus cover of the cover pool (underlying stock) has increased significantly due to the mobilisation of additional risk covering potentials. The quality of the cover pool was maintained during the period under review. The surplus cover amounted to approx. 100 % with cover assets of approx. euro 5.4 billion as at the reporting date.

Of the covered bank bonds outstanding on the reporting date with a face value of euro 2,663 billion, euro 2,616 billion have an Aaa rating from Moody’s. The share of covered bank bonds placed was approx. 50 % of the total issue volume on the reporting date. The remaining portfolio is deposited with the central bank as liquidity covering potential.

13 Debt

13.1 Quantitative information

CRR Art 451, EU LR1 (LR Sum), EU LR2 (LR Com), EU LR3 (LR Spl)

This quantitative information is disclosed in tabular form in the document "Offenlegung_Verbund_2022-12-31.xlsx".

13.2 Qualitative information

CRR Art 451 d) and e)

Procedures for monitoring the risk of excessive indebtedness

The leverage ratio is a simple, transparent and non-risk-based ratio. The Tier 1 capital (T1 capital) is compared with the (unweighted) on- and off-balance sheet asset items. The leverage ratio requirements are intended to limit the excessive build-up of debt in the banking system. The leverage ratio is currently introduced as a Pillar 2 ratio. Thus, it is taken into account in internal risk management and assessed as part of the supervisory review process.

The ratios contained in the Risk Appetite Statement (RAS) represent the most important guidelines for the operational implementation of the strategic objectives defined in the business strategy of the Association. The leverage ratio is part of the RAS set of indicators. Target, limit and trigger values have currently been set at the level of the Association.

In the EU, the leverage ratio is a binding minimum requirement from June 2021 as a result of applicable CRR II provisions.

Current reporting

The leverage ratio is reported to the CO Managing Board as part of the aggregate bank risk report. The leverage ratio is updated quarterly.

Procedures for responding to changes in the leverage ratio

A limit/trigger violation will be reported directly to the Managing Board of the CO within the framework of the Risk Committee. The Managing Board of the CO will define appropriate measures as required and monitor their implementation on an ongoing basis.

Introduction of measures

If the relevant figure falls below the limit, a plan will be worked out to return to the green zone. Measures to strengthen capital include, for example, an increase in share capital by third parties or the use of hidden reserves. Reductions in lending and the sale of assets, for example, may be used to optimise the balance sheet structure.

Factors that had an impact on the leverage ratio during the reporting period

As at 31 December 2022, the **leverage ratio** of the Association of Volksbanks has increased by 0.77 percentage points to 7.39 % compared to 2021.

The change in Tier 1 is essentially due to the result of the Association in the amount of euro 114.8 million less planned distributions in the amount of euro 25 million (of which AT1 distribution euro 17.1 million). Positive effects under the IFRS 9 transitional provisions in the amount of euro +7.4 million, the fair value reserve in the amount of euro +15.0 million add to this. This is opposed by the deduction of deferred taxes on losses carried forward in the amount of euro -24.4 million. Apart from the expiry of transitional provisions for CET1 in the amount of euro -3.3 million, the deduction increased for participations, in particular, in the amount of -37.6 million.

The decrease of the assessment basis and of total assets is essentially due to the early partial repayment of a refinancing transaction effected within the scope of the TLTRO III programme of the ECB in the amount of euro 2.2 billion, and to the decrease in customer deposits (euro 640 million).

14 Liquidity requirements

14.1 Quantitative information

CRR Art 451a (2) and (3), EU LIQ1, EU LIQ2

This quantitative information is disclosed in tabular form in the document “Offenlegung_Verbund_2022-12-31.xlsx”.

14.2 Qualitative information

CRR Art. 451a (2), EU LIQB

Explanations of the main drivers of LCR results and development of the contribution of inputs to the calculation of the LCR over time

The outflows in the LCR calculation are mainly due to the high share of retail deposits in the balance sheet, which receive low LCR outflow factors of 5 % for the major part. The average volume of deposits remained more or less stable in the period under review (30 April 2021 until 31 December 2022), which is reflected in constant weighted outflows in the LCR calculation. Short-term fluctuations mainly arise from effects of payment transactions.

The weighted cash inflows in the LCR calculation also arise predominantly from retail business. They are comparatively low and stable, amounting to less than 5 % of the weighted outflows.

The liquidity buffer (HQLA) is composed of OeNB credit balances and HQLA securities. Following record highs in the 1st quarter of 2022, the weighted liquidity buffer has declined, but still indicates a comfortable liquidity position. The early TLTRO III repayment in November 2022 was the main driver for the decrease in the average LCR to a still comfortable 196 % as at the disclosure date of 31 December 2022.

Explanations of changes in the LCR over time

Until the end of 2021, LCR-increasing factors mainly were the participation in ECB tender transactions, one capital market issue in the 1st quarter of 2021, and the continuous inflow of customer deposits in the course of the coronavirus pandemic spread throughout the year.

Participation in two TLTRO III transactions of the ECB in 2020 and 2021 resulted in a sharp increase of the LCR. A total volume of euro 3.5 billion was raised. The major part of this amount was paid back early in November 2022, so that only euro 1.3 billion of the tender volume are included in the portfolio as at 31 December 2022.

The liabilities are strongly characterised by the customer deposit business, a stable and highly diversified source of funding with relatively constant and low LCR outflows. Large-volume corporate deposits at VBW at the end of each calendar year increase the LCR – these volumes flow out again as planned in the course of the following calendar year.

In 2022, a decline of the OeNB credit balance was reported, which was due to dynamic credit growth with a simultaneous moderate decline in deposits, as well as the early TLTRO III partial repayment in the amount of euro 2.2 billion. Moreover, the fair values of HQLA securities decreased due to significantly increased market interest rates. However, due to the low share of securities not hedged against interest rate fluctuations, this had hardly any effect on the HQLA portfolio. Fair value gains of the securities hedges caused the release of cash collaterals provided as well as a corresponding increase in the OeNB credit balance. The aforementioned developments led to a reduction of the average LCR of the last 12 months – however, at approximately 196 % as at 31 December 2022, the ratio remained at a high level.

Explanations on the actual concentration of funding sources

Due to diversified funding with customer deposits, the Association of Volksbanks is not exposed to any material concentration risk.

In line with the business model, the most important source of funding is small-volume retail deposits (giro and savings, including SME deposits) with a volume of around euro 16 billion, which corresponds to more than 50 % of total assets. Of this amount, around euro 13 billion are classified as stable deposits. By their very nature, small-volume customer deposits are highly diversified.

Unsecured deposits from large customers are of comparatively minor importance, with an unweighted LCR of around euro 5 billion. Here, too, no relevant concentrations have arisen. In the Association of Volksbanks, the top 15 depositors account for only around 4 % of total assets. Individual depositors are usually less than 1 %. There are only a few temporary exceptions with a few major accounts for implementing payment transactions or balancing liquidity peaks.

The Association's dependence on capital market financing remains low, at less than 10 % of total assets. Volksbank Wien is the only institution within the Association that has access to a central bank and can therefore refinance itself via central bank funds. The TLTRO III volume of euro 1.3 billion, still included in the portfolio as at 31 December 2022, corresponds to around 4 % of total assets and has a maturity until mid-2024.

As the central organisation of the Association, Volksbank Wien is also responsible for the latter's liquidity management. On the liabilities side, the liquidity reserves to be provided by the individual Volksbanks with a total volume of around euro 2 billion are therefore also relevant from the perspective of VBW as a single institution.

Overarching description of the composition of the institution's liquidity buffer

As at 31 December 2022, around 60 % of the Association's LCR liquidity buffer consist of credit balances with the OeNB and of cash, the remainder being free HQLA securities. These are mainly Level 1 securities, primarily in the form of government bonds and mortgage bonds, with only a small part (< 5 % of HQLA) being classified as Level 2.

Derivative exposures and potential collateral requirements

The derivative exposure for which collateral must be provided mainly consists of interest rate swaps and EUR-CHF FX derivatives in the Association of Volksbanks. For this exposure, around euro 24 million in cash collateral are currently being provided. In accordance with regulatory requirements, these need not be backed in the LCR.

Potential future collateral requirements, derived from the maximum monthly change in collateral margin requirements over a historical 2-year period, are LCR-relevant. This change averages about euro 35 million for the current quarter, and thus only about 1 % of the weighted net outflows.

Currency mismatch in the LCR

The LCR currency mismatch in the Association of Volksbanks is immaterial. Relevant foreign currency positions exist only in CHF. Other currencies are present in the portfolio, but are of minor importance.

Within the Association of Volksbanks, the loan portfolio in CHF has been steadily maturing for years and currently still accounts for around 2 % of total assets. The inflows from this loan portfolio are offset by outflows from largely maturity-matched FX derivatives that refinance this portfolio. The collateral for the FX derivatives is issued exclusively in euros. The volume of CHF deposits is immaterial. Securities denominated in CHF are not held.

Other positions in the LCR calculation that are not captured in the LCR disclosure reporting form but that the institution considers relevant to its liquidity profile

There are no other positions relevant to the liquidity profile.

15 Key Metrics

CRR Art 447 a) – g), 438 b), EU KM1

This quantitative information is disclosed in tabular form in the document “Offenlegung_Verbund_2022-12-31.xlsx”.

16 Return on equity

CRD IV Art 90

The return on total capital employed for the 2022 financial year is 0.39 % (2021: 0.68 %) and is calculated as the ratio between result after taxes and total assets at the balance sheet date.

The decrease is due to two main factors: in 2021, the reversal of impairments in the amount of euro 89 million (provisions formed in view of the COVID pandemic in 2020 were released) made a positive contribution to the annual result; in 2022, impairments in the net amount of euro 31 million were recognised. Additionally, in 2022, the final settlement of the federal government's participation right in the amount of euro 83 million is included in Other operating result as an expense.

17 Qualitative information on environmental, social and governance risks (ESG risks)

In this chapter, the subheadings preceded by letters refer to the qualitative information contained in “ANNEX XXXIX – Prudential disclosures on ESG risks (Article 449a CRR)” to the EBA/ITS/2022/01 (Tables 1-3). The relevant context is provided, on the one hand, by the three risk categories of environmental risks, social risks and governance risks and, on the other hand, by the more detailed division per risk category contained in the annex by business strategy and processes, governance and risk management.

17.1 Business strategy and processes

CRR Art 449a in conjunction with Art 435

Qualitative information on environmental risks

Sustainability and regionality have been part of the business model of the Association of Volksbanks for more than 170 years. The Association operates in line with cooperative principles and has been built up successfully and sustainably over many generations of members. Our cooperative identity and the sustainability values we go by are distinguishing features of Volksbank. Our focus is on customers, partners and employees. The principles of Volksbank are set down in a Code of Conduct and honoured by all employees within the scope of our corporate activities.

The Association of Volksbanks is a purely Austrian association of credit institutions and operates almost exclusively within its catchment area: the Austrian market. The Association has no foreign major shareholders, but a democratic cooperative decision-making and control structure. Austrian special interest groups are the owners of Österreichische Ärzte- und Apothekerbank. The main objective of the cooperatives is the development mission that determines the purpose of any cooperative, industrial and provident society. Right from the beginning, this purpose has always been to maintain and strengthen the legal and economic independence of the members and of the cooperative facilities, resources and services, instead of profit maximisation. Ever since their formation, the Volksbanks have been representing the values of trust, regionality and customer focus. In the 21st century, these sustainable values are as important as ever. They still are the solid foundation of the marketing concept of the Association of Volksbanks.

The company’s business strategy is based on a combination of regional customer service know-how, on the one hand, and on the settlement and control services of a modern association of independent banks, on the other hand. This means that decisions relevant to customers are taken quickly and directly on the spot where the customers are. The independent primary banks are self-reliant in terms of sales management and accordingly able to act quickly and without red tape. The handling of administrative activities as well as control and management in compliance with banking law are mostly performed in centralised units of the Association. This cooperative division of labour enables the primary banks to focus on their marketing activities, while bundling activities that are not directly associated with retail business within centrally organised units. In this way, costs can be reduced, which in turn benefits our customers.

The Association takes care of the core services of a retail bank itself: loans, deposits and payment transactions. Other products and services are offered by competent partners. Therefore, cooperation agreements were concluded with reliable product partners. Our product partners also pursue sustainable business policies – which is of essential importance to the Association. Through considerable streamlining and standardisation of the product range, transparency is increased for our customers due to a neat array of products. The core business with the highest impact on performance is the retail lending business. There are currently no SME customers subject to the NFRD and – at present – only few customers subject to the CSRD within the bank’s customer portfolio (status Sustainability Report FY 2022 – see Art. 8 Taxonomy).

The core of the Association of Volksbanks is the Austrian network of retail branches. The Volksbanks within the Association operate almost exclusively in their catchment area or on the Austrian market (a maximum of 5 % of the customer exposure may exist in neighbouring countries). The focus of the Volksbanks is on being the relationship bank for customers in the region. Accordingly, business activities have focussed on Austria in previous years, resulting in streamlined logistics and a comparatively lower burden on the environment than that of a global player.

This business model, in combination with the focus on Austria, minimises the risk of negative effects on human rights and the environment, as well as any associated reputational risk for the Association of Volksbanks (legal framework applicable in Austria).

The Association of Volksbanks has taken extensive steps to integrate sustainability aspects into its core business and to further expand its sustainability management. The material topics forming the basis for Volksbank's sustainability management were worked out together with stakeholders. The topics were selected considering the ecological and social impact of the sustainability topics identified, as well as their relevance to stakeholders. The identification and impact assessment of sustainability topics are continuously monitored in workshops with employees and the managing board members of the Volksbanks. In 2021, a stakeholder survey was conducted for the first time, not only for VOLKSBANK WIEN AG but also for the entire Association of Volksbanks, followed by a materiality analysis.

A comprehensive "Sustainability Project" was launched in 2020 and completed as scheduled in mid-2022 following the successful integration of sustainability into the core business and processes. The structure of the project was aligned with the ESG factors. In addition to the further development into a sustainable company, legal requirements were worked through, the ecological footprint of the bank itself was reduced, Volksbank was strengthened as an attractive employer, and products and services were expanded to include sustainability aspects. Moreover, ESG factors were integrated into the lending process. For this purpose, ESG aspects are considered in the course of the loan decision and their impact on customers' ability to repay the loan was taken into account (see chapter 17.3 "Risk management"). Another essential aspect was the communication with stakeholders and the training of employees, which are also covered by the project. A communication platform was set up on the intranet for the entire Association, where all information relating to sustainability is available.

As a result of the project, a decision-making committee of the entire Managing Board on sustainability was established within VOLKSBANK WIEN AG early in 2022: the Sustainability Committee (NAKO). This Committee decides on, reports on and manages sustainability-related topics. Steering and control activities by the Managing Board are based on sustainability goals, which also include the monitoring of ESG risks. The primary banks, too, are managed and controlled on the basis of these sustainability goals. Sustainability Officers (SO) have been appointed at the primary banks, who serve as multipliers and contribute ideas from the banks. They are responsible for ESG topics in the primary banks and support the managing boards of the primary banks in their efforts to manage the banks based on the sustainability goals. All divisions of VOLKSBANK WIEN AG (as the central organisation) are involved in implementation measures and have each appointed sustainability ambassadors to accompany internal communication on the topic of sustainability and to support the process of achieving their sustainability goals with forward-looking ideas. The Sustainability Report contains all measures and goals implemented in 2022 as well as an outlook on further plans with regard to the material topics of the Association of Volksbanks.

The Managing Board of VOLKSBANK WIEN AG (as the central organisation) has nominated a Sustainability Officer for the Association of Volksbanks whose task, in addition to managing, organising and determining the contents of the NAKO, is to prepare the sustainability strategy in coordination with the Managing Board and to prepare the sustainability reports for VOLKSBANK WIEN AG and the Association of Volksbanks.

a) *Business strategy of the credit institution with a view to integrating environmental factors and risks, taking account of the impact of environmental factors and risks on the business environment, the business model, the strategy and the financial planning of the institution*

The Association of Volksbanks has established ESG aspects in all areas of the company and has formulated a sustainability strategy applicable across the Association. By defining sustainability principles, the sustainability strategy creates consistent framework conditions for a uniform approach to environmental, social and corporate governance issues. It is part of the business strategy and describes, among other things, how the Association of Volksbanks integrates ESG criteria into the organisation and the core business, how it takes ESG risks into account and exploits development potentials in connection with sustainability.

Ever since 2022, steps have been taken to survey and improve the carbon footprint of Volksbank's portfolio (Scope 3.15). In the process, the Association of Volksbanks followed the calculation standard of the "Partnership for Carbon Accounting Financials" (PCAF). In addition, steps were taken with external support to establish a climate strategy and specific climate targets in the areas of financing and treasury, which will be further refined in the coming year and integrated into Volksbank's overall climate strategy. The ambitions in the area of carbon footprint calculation as well as climate target setting are to be complemented next year by examining the possibility of joining initiatives. Specifically, it is being evaluated whether joining PCAF or the Science Based Target Initiative (SBTi) will be able to further support the climate ambitions of the Association of Volksbanks.

Biodiversity is the basis for life and enables adaptation to changing environmental conditions, such as the climate crisis. Nature provides us humans with food, medication, building materials and helps to improve our well-being, health and the economy. Therefore, the Association of Volksbanks incorporates the topics of loss of biodiversity and preservation of species into its processes. For regulatory reasons, the main focus of integration is still on the topic of climate. In 2022, a scoring system was developed for the assessment of credit risks associated with ESG factors. By assessing soft facts, the account managers evaluate risks of their customers within the scope of an ESG score. These soft facts also include the topics of biodiversity and preservation of species. Moreover, ESG risks are analysed and reassessed as part of the risk inventory using ESG heat maps on a regular basis. In the ESG heat map, various risk events, such as loss of biodiversity and preservation of species, are described and evaluated.

b) Goals, requirements and upper limits for the short-, medium- and long-term assessment and management of environmental risks, as well as the measurement of performance based on these goals, requirements and upper limits, including the consideration of forward-looking information on shaping the company's business strategy and processes

The sustainability strategy formulates concrete measures and targets for the Association of Volksbanks in the sphere of the environment, of social affairs and corporate governance. The Managing Board is fully involved in the strategy process and is responsible for approving the sustainability strategy. Opportunity and risk analyses were carried out to develop the sustainability strategy, and the findings were incorporated into the strategy. These analyses included, for example, a materiality analysis, a SWOT analysis, impacts of transition risks, and physical risks regarding the business model in the form of outside-in and inside-out risks. The sustainability strategy is constantly being developed and adapted to the evolving regulatory environment, new findings and innovations.

As of 2022, in addition to the existing qualitative goals for the Association of Volksbanks, additional goals have been quantified and included in the planning for the individual areas. Within the Sustainability Committee, steering and control activities are carried out by the Managing Board based on sustainability goals, which also include the monitoring of ESG risks.

The primary banks are also managed and controlled on the basis of these sustainability goals. Sustainability Officers have been appointed in the affiliated banks, who are responsible for ESG topics in the primary banks and support the managing boards of the primary banks in their efforts to manage the banks based on the sustainability goals. All divisions of VOLKSBANK WIEN AG (as the central organisation) are involved in implementation measures regarding sustainability goals and have each appointed sustainability ambassadors to support the process of achieving their sustainability goals. The Sustainability Report contains all measures and goals implemented as well as an outlook on further plans with regard to the material topics of the Association of Volksbanks. In 2020, the implementation of the ESG measures defined in the investment strategy was started. The main content is the simultaneous pursuit of an active and a passive strategy.

c) *Current investment activities and (future) investment requirements with a view to environmental goals and EU taxonomy-compliant activities*

VOLKSBANK WIEN AG is the only bank within the Association of Volksbanks that is subject to the NFRD. With a view to implementing the Taxonomy Regulation, companies subject to the NFRD must report their eligibility for taxonomy. In the course of this disclosure for the 2022 financial year, VOLKSBANK WIEN AG is still subject to a simplified disclosure obligation; the figures are presented for the Association of Volksbanks as well. The Sustainability Report contains a publication regarding Taxonomy Art. 8. A concept for the labelling of sustainable financing, including partial implementation of the Taxonomy Regulation, is already available and will be rolled out promptly in 2023.

The business model of VOLKSBANK WIEN AG is to focus on the bank's core business and to enter into cooperations with strong product partners. In the area of investment funds, Union Investment is VOLKSBANK WIEN AG's product partner; it currently has 13 sustainable funds on its list of recommended funds for sale in Austria.

The Association of Volksbanks intends to intensify its activities on the green financial market. For VOLKSBANK WIEN AG as the central organisation of the Association of Volksbanks to be able to issue green, social and sustainability bonds, it has now published its Sustainability Bond Framework. This has created the basis for the Association of Volksbanks to finance ecological and/or socially sustainable investments on the capital market. The Framework was prepared taking account of the Green Bond Principles, the Social Bond Principles and the Sustainability Bond Guidelines of the International Capital Market Association (ICMA). Sustainalytics GmbH has reviewed the Framework of VOLKSBANK WIEN AG and has confirmed compliance with ICMA Principles and Guidelines. VOLKSBANK WIEN AG issued a green bond for the first time in March 2023.

d) *Strategies and processes for the direct and indirect cooperation with new or existing counterparties in relation to their strategies for mitigating and reducing environmental risks*

In 2022, a scoring system was developed for the assessment of credit risks associated with ESG factors. By assessing soft facts, the account managers evaluate risks of their customers within the scope of an ESG score. These soft facts also include the topics of biodiversity and preservation of species. Moreover, ESG risks are analysed and reassessed as part of the risk inventory using ESG heat maps on a regular basis. In the ESG heat map, various risk events, such as loss of biodiversity and preservation of species, are described and evaluated. See chapter 17.3 Risk management, *Qualitative information on environmental risks*, lit. l) and m).

See also chapter 17.1 *Qualitative information on social risks*, lit. c).

Qualitative information on social risks

For more than 170 years, the cooperative development mission in the region and the special aspect that customers of the Volksbanks are also owners of the bank have been distinguishing features of the credit cooperatives. Within the Association of Volksbanks, this participation option is partly guaranteed indirectly via the holding cooperatives ("Beteiligungsgenossenschaften"). Cooperatives are sustainable because they think and operate with a long-term perspective, with a mission to benefit their members without being driven by short-term shareholder value. They support the reasonable dimensions and the diversity of regional economic structures (as opposed to monopolies). They are built on proximity and personal contact and are usually deeply rooted in the region and among the people who live there. Hence, they strengthen regional economic cycles – for example, when Volksbank finances local SMEs. Regionality and sustainable action are therefore firmly anchored in Volksbank's DNA.

The cooperative connects a wide variety of stakeholders in the region. In addition to its role as sponsor and financier, the regional bank is a hub, an enabler and a networker. According to the terminology of the EU Commission and the OECD, "social economy" also includes cooperatives. The ÖGV is therefore explicitly mentioned in the EU Commission's Country Report as a driver of the social economy (https://beta.op.europa.eu/en/publication-detail/-/publication/b6f7a49d-67cd-11e9-9f05-01aa75ed71a1/language-en/format-PDF/ quote, page 56).

Sustainability from the cooperative's perspective:

- Ecological sustainability manifests itself, for instance, in energy cooperatives that contribute to the achievement of climate targets, and regional independence from the commercial energy suppliers and uncontrollable electricity price increases.
- Social sustainability means the preservation of communal identity and also overcoming poverty (e.g. cooperatives supporting regional building projects, 'assistance cooperatives').
- Economic sustainability means guaranteeing the livelihood of people in the region, providing for the sustainable existence of businesses, and enabling companies to have long-term business relationships.

a) *Modification of the business strategy of the credit institution with a view to integrating social factors and risks, taking account of the impact of social risks on the business environment, business model, strategy, and financial planning*

Code of Conduct: Actively exemplifying the values of VOLKSBANK WIEN AG and the commitment to modern compliance are the mandate of the Managing Board and part of the permanent management mission across all hierarchical levels. The issue of human rights also has a high priority at VOLKSBANK WIEN AG and is taken into account in all units involved in the company's core business. The Code of Conduct was established by the Supervisory Board and documents the values of VOLKSBANK WIEN AG in its internal and external relations (publication on the intranet and internet).

The Code of Conduct is the introduction to the working instruction "Compliance Manual" and is the responsibility of the Compliance department. With regard to responsible corporate behaviour with a focus on human rights, VOLKSBANK WIEN AG has two further guidelines, the Data Protection Manual and the Diversity Policy. All policies are subject to an approval process, regular updating and are approved by the Managing Board.

Respect for human rights: The Code of Conduct explicitly states that VOLKSBANK WIEN AG respects human rights and opposes child labour. Furthermore, the Code of Conduct states that any form of discrimination will not be tolerated. Volksbank values the dignity of human beings, their rights and their privacy. Therefore, VOLKSBANK WIEN AG has joined the UN Global Compact and supports its ten principles in the area of human rights, among others. To ensure compliance with human rights in the company's core business, for example, industries and business areas have been defined where the bank will not enter into business relationships. In addition, employee training events have been carried out, and care is taken to ensure that business partners comply with human rights.

Chapter 17.1 *Qualitative information on environmental risks* lit. a) applies to ESG aspects.

b) *Goals, requirements and upper limits for the short-, medium- and long-term assessment and management of social risks, as well as the measurement of performance based on these goals, requirements and upper limits, including the consideration of forward-looking information in shaping the company's business strategy and processes*

VOLKSBANK WIEN AG reserves the right not to enter into business relationships or financing with industries or in business areas that contradict the bank's fundamental values. This list of industries and business areas includes, among others, business relationships associated with violations against, for instance, forced labour or child labour, against the European Convention on Human Rights or against obligations under labour and social law.

Chapter 17.1 *Qualitative information on environmental risks* lit. (b) applies to ESG aspects.

c) Strategies and processes for the direct and indirect cooperation with new or existing counterparties in relation to their strategies for mitigating and reducing socially harmful activities

The majority of suppliers/procurement in VOLKSBANK WIEN AG's Facility Management is from Austria (75 %) and Germany. In general, it can be said that VOLKSBANK WIEN AG fulfils its cooperative mission in the region. As the central organisation of the Association of Volksbanks, VOLKSBANK WIEN AG, or more specifically, since November 2019, the newly established company VB Infrastruktur und Immobilien GmbH, is also in charge of central purchasing for all regional Volksbanks. In this context, the company sets great store by sustainable products, regional suppliers and, if possible, environmental certificates. Due to the fact that most suppliers are Austrian companies, the risk of human rights violations or other social issues is minimal. Framework conditions for sustainable procurement were entered into a matrix. A supplier's sustainability is evaluated by means of indicators (company headquarters located in Austria, sustainable concepts or certificates of the supplier available, location of production checked, etc.).

Outsourcing of organisation and IT: Based on the guideline on Risk Assessment of Outsourcing, all outsourcing activities of VOLKSBANK WIEN AG are reviewed using a defined standard process. A sustainability check is part of this process. The investigation by sustainability risks covers a wide range of questions (e.g. sustainability principles).

17.2 Corporate governance

CRR Art 449a in conjunction with Art 435

Qualitative information on environmental risks

e) Responsibilities of the management body with a view to defining the risk framework, the monitoring and control of target implementation, strategies and measures associated with environmental risk management in relation to relevant transmission channels

Based on the sustainability strategy, the Managing Board has overall responsibility for implementing ESG aspects in internal governance structures, in the risk management framework and in relevant guidelines of the Association of Volksbanks, which are subject to regular review. The entire Managing Board is responsible for defining roles and competencies for managing sustainability risks within the three lines of defence of the business organisation and to ensure a clear assignment of tasks and duties. In this context, reporting lines and the responsibilities of individual functions must be clearly defined and delimitated. The requirement of integrating sustainability topics into all areas falling within the sphere of competence of the CO under Section 30a of the Austrian Banking Act results in the necessity of control requirements being defined by the CO. As part of its monitoring of the entire Managing Board, the Supervisory Board of VOLKSBANK WIEN AG checks whether the latter takes comprehensive account of the principles of sustainability (ESG criteria) in managing the company. Topics from the NAKO are regularly reported to the Supervisory Board, and via the Sustainability Officers in the Volksbanks also to the supervisory boards of the primary banks.

The consideration of sustainability aspects was anchored in the rules of procedure of the Managing Board and the rules of procedure of the Supervisory Board. Members of the Supervisory Board and of the Managing Board regularly attend Fit&Proper training events that also deal with sustainability topics. A decision-making committee of the entire Managing Board on sustainability was established early in 2022: the Sustainability Committee (NAKO). This Committee decides on, reports on and manages sustainability-related topics, and rules of procedure have been drawn up. Steering and control activities by the Managing Board are based on sustainability goals, which also include the monitoring of ESG risks. The Managing Board of VOLKSBANK WIEN AG (as the central organisation) has nominated a Sustainability Officer for the Association of Volksbanks whose task, in addition to managing, organising and determining the contents of the NAKO, is to prepare the sustainability strategy in coordination with the Managing Board and to prepare the sustainability reports for VOLKSBANK WIEN AG and the Association of Volksbanks.

The primary banks are also managed and controlled on the basis of these sustainability goals. Sustainability Officers have been appointed at the primary banks, who serve as multipliers and contribute ideas from the banks. They are responsible for ESG topics in the primary banks and support the managing boards of the primary banks in their efforts to manage the banks based on the sustainability goals. All divisions of VOLKSBANK WIEN AG (as the central organisation) are involved in implementation measures regarding sustainability goals and have each appointed sustainability ambassadors to accompany internal communication on the topic of sustainability and to support the process of achieving their sustainability goals with forward-looking ideas.

The Sustainability Report contains all measures and goals implemented as well as an outlook on further plans with regard to the material topics of the Association of Volksbanks. The application of the GRI standards as a de facto standard for sustainability reporting ensures continuous and standardised reporting.

f) *Consideration of the short-, medium- and long-term effects of environmental factors and risks by the management body, organisational structure both within the divisions and within the internal control functions*

The Association of Volksbanks aims to make its sustainability strategy measurable and controllable and to take account of major sustainability risks by using divisional goals, KPIs and KRIs. The Association of Volksbanks has determined a set of KPIs that cover the three ESG aspects and are relevant for controlling the ESG goals of the group of credit institutions. These KPIs are being implemented at present and will then be reported on in the NAKO on a current basis; this committee is also responsible for steering these efforts.

Within the Association of Volksbanks, sustainability risks are not considered as a separate risk type, but are mapped within the existing risk types and accordingly are embedded in the existing organisational structure as an integral part of bank management and of the risk framework.

See also chapter 17.2 *Qualitative information on environmental risks*, lit. e).

g) *Integration of measures to manage environmental factors and risks into the internal governance rules, including the role of the committees, the allocation of tasks and responsibilities, and the feedback loop from Risk Management to the management body that covers the relevant transmission channels*

The steering, coordination and monitoring of key sustainability issues is carried out by the bi-monthly Sustainability Committee (NAKO), which was established in January 2022. The NAKO is a decision-making body of the entire Managing Board and serves to advise on and monitor all sustainability-related issues, ensuring that decisions are in line with the sustainability strategy and sustainability goals. The NAKO provides the Managing Board with a holistic view of sustainability-related issues for the Association of Volksbanks. The responsibilities include both subject areas of VOLKSBANK WIEN AG as a single institution and matters concerning the entire Association of Volksbanks. Members of the NAKO include, among others, the internal control functions Compliance and Risk Control.

See also chapter 17.2 *Qualitative information on environmental risks*, lit. e).

h) Reporting lines and frequency of reporting in relation to environmental risks

As ESG risks are mapped within existing risk types, reporting in connection with ESG risks takes place in the Risk Committee. For details regarding risk reporting, please refer to chapter 2 Risk management and governance.

See also the information on the NAKO and on internal reporting, chapter 17.2 *Qualitative information on environmental risks*, lit. e).

i) Alignment of the remuneration policy with the goals of the institution in connection with environmental risks

The remuneration policy of the Association of Volksbanks is in line with the risk strategy and provides for reasonable, market-compliant and gender-neutral remuneration. The remuneration policy does not create any incentives to take on excessively high risks, including environmental risks.

Qualitative information on social risks

d) Responsibilities of the management body with a view to defining the risk framework, the monitoring and control of target implementation, strategies and measures associated with the management of social risks in relation to the approaches of the counterparties in the following areas:

The information on responsibilities, goal setting, monitoring, administration, strategy, and risk management contained in chapters 17.1 and 17.2 *Qualitative information on environmental risks,* lit. e) applies to ESG aspects.

(i) Activities oriented towards society and the community

Assuming responsibility and making a contribution to the common welfare is an integral part of the vision of the Association of Volksbanks. The company considers it its mission to support social and arts facilities as well as sports associations in a spirit of partnership. The focus here is on long-term, integral concepts and mutual learning from each other. The basic criteria for determining whether a cooperation is suitable and relevant for the Association of Volksbanks are precisely defined and were laid down in guidelines for regional and sustainable sponsorships. One essential aspect of the sustainability policy of the Association of Volksbanks is to support sports, cultural and social/charitable activities, thus making an important contribution to society at large. Sports and athletics play an extremely important role within society. The Association of Volksbanks focuses on providing children and young people with opportunities to do sports. The targeted promotion of Austrian sports activities and the associated enhanced presence of such activities in the population may lead to increased sports enthusiasm and hence improved physical and mental fitness in the long run. In 2021, the Association of Volksbanks established guidelines on the topic of sustainable sponsorships, which describe sponsorhip and promotion principles across the Association to support the regional approach.

(ii) Employer/employee relations and labour standards

The Association of Volksbanks builds on a relationship based on trust – because when it comes to banking, mutual trust has been a bond with customers for many years. The same is also very important to the Association of Volksbanks as an employer in the relationship with its employees. That is why the Association relies on mutual trust through partnership.

As a central element of the HR strategy, a promise to employees was formulated by the managing boards of the banks of the Association in 2022, which is supported by the employer values and the strategic HR guiding principles, addressing the challenges and opportunities arising from the current environment: “As a modern and customer-oriented regional bank, we promise you performance-based remuneration with flexible working models in a corporate culture based on trust. Within the scope of our sustainable business model, we offer meaningful work that we support through top-level training and development opportunities."

Employees are represented by the authentic employer values of the Association of Volksbanks – encounters at eye level, the courage to get involved, and making the company 'fit for the future through flexibility' – encouraging them to work together. Behind all three employer values is a value commitment that the individual affiliated banks make vis-à-vis their employees. This value commitment has become an integral part of the value framework practiced within the Association of Volksbanks, helping the affiliated banks to improve as employers. As part of the organisation's positioning as an attractive employer, great importance is attached to training and education, flexible working hours, equal rights, recognition, innovation and self-fulfilment. The Association of Volksbanks is building on this, because this is how Volksbank will remain fit for the future and sustainably successful.

For years, the Association of Volksbanks has been committed to a fair and positive working environment for all employees, with a strong focus on diversity and inclusion. First and foremost, all employees are valued and treated equally. The aim of "living diversity" is to create an organisational culture where no one is disadvantaged and everyone is able to develop and unfold their potentials. This increases productivity, motivation and social skills and brings sustainable success to the company and all employees. In the Code of Conduct, to which all employees are bound, the Association of Volksbanks states that it expressly respects human rights and rejects any form of discrimination.

For the Association of Volksbanks, further training is an essential component of HR development and employee retention in order to ensure and develop the knowledge and skills of the employees required to implement the "relationship bank of the future" strategy throughout the Association. In this context, the services of Volksbank's own academy (Volksbank Akademie) are used, which provides needs-based training courses with optimal coordination between executives, technical experts and HR management.

The Association of Volksbanks relies on mutual trust through partnership. This includes listening to, and systematically using, employee feedback to develop the organisation and executives. This is operationalised in the form of employee surveys and appraisal interviews.

The Association of Volksbanks is proud of its executives and employees, who bring with them a high degree of professionalism as well as technical, interdisciplinary and social skills. In order to be able to guarantee and develop these resources in the long term, an annual appraisal interview is held between supervisors and employees. The aim is to look back on the past period, to reflect on the joint successes, learnings and areas of development and to define and plan further joint goals.

In order to ensure equal rights, the Association of Volksbanks primarily implements measures for the advancement of women with a view to equal opportunities. The overriding goal of cross-company measures for the advancement of women is to reduce or prevent the underrepresentation of women in senior positions. The proportion of women in managerial positions is meant to increase steadily in order to achieve equal participation in decision-making and responsibility.

The Association of Volksbanks is convinced that the compatibility of professional and private life is decisive for the quality of life and health of its employees. HR management sets itself the strategic goal of making this possible. A healthy and successful work-life balance is meant to be facilitated by flexible working hours and workplace models.

Within the framework of operational safety, a working instruction has been drawn up that contains the main tasks and obligations arising from the Austrian Industrial Safety Act (ArbeitnehmerInnenschutzgesetz; ASchG) for the Association of Volksbanks. According to the ASchG, employers are obliged to ensure the safety and health of employees with regard to all work-related aspects. Employees are obliged to comply with the protective measures provided for and to follow the employer's instructions. The implementation of the ASchG within the Association of Volksbanks as well as compliance with or observance of the provisions of other laws such as the Austrian Workplace Ordinance (AStV) are described in an internal working instruction. Furthermore, all required documents must be made available digitally at every workplace. Each retail branch is responsible for updating these documents, and at the headquarters, this is done by the safety officer.

Details are also provided in the 2022 Sustainability Report of the Association of Volksbanks in the chapter "Employees". www.volksbank.at/nachhaltigkeit

(iii) Protection of customers and product responsibility

As of 2 August 2022, the sustainability preference query has been introduced in the financial services sector. In concrete terms, this means that investment advisors must ask their customers about their wishes with regard to sustainability and are allowed to recommend to them only financial instruments that meet their sustainability wishes. A committee of experienced investment specialists from the Association of Volksbanks develops and decides on product proposals from the area of investment funds and certificates. The product proposals are reviewed by Volksbank Tirol in the course of the investment process with regard to sales approval, tax transparency and MiFID regulations, as every MiFID-II-relevant product actively offered to a customer in the Association of Volksbanks has to pass a product approval procedure ("PGP") to be documented in advance.

However, any product successfully tested by Volksbank Tirol in the course of the PGP may only be included in the product range (Volksbank master list) if it is in line with the business strategy of the Association of Volksbanks.

As regards responsible corporate behaviour with a focus on human rights, a number of guidelines have been established throughout the Association. Throughout the Association of Volksbanks, the "Data Protection Manual" on data protection (a human right) applies as a uniform guideline and was approved by the Managing Board. Additionally, data protection management has been implemented in all banks of the Association.

Financial Literacy

With the support of cooperative associations – including the ÖGV – the first student cooperatives were launched in 2021. The idea behind it: The young generation should get to know the successful model of cooperative business in a practical way. Along the way, important skills such as self-initiative, creativity and team spirit are conveyed as well.

The right way to handle money is essential these days, but often not easy for customers to understand in the usual banking jargon. This is the reason why, since 2021, there has been "Veronica" on the Volksbank Instagram and Facebook channels, who presents a term from the world of finance every month, making the services of the Association of Volksbanks more tangible for the customers in a playful way.

(iv) Human rights

The Code of Conduct explicitly states that the Association of Volksbanks respects human rights and opposes child labour. Furthermore, the Code of Conduct states that any form of discrimination will not be tolerated. Volksbank values the dignity of human beings, their rights and their privacy. Therefore, VOLKSBANK WIEN AG has joined the UN Global Compact and supports its ten principles in the area of human rights, among others. To ensure compliance with human rights in the company's core business, for example, industries and business areas have been defined where the bank will not enter into business relationships. In addition, employee training events have been carried out, and care is taken to ensure that business partners comply with human rights.

e) *Integration of measures to manage social factors and risks into the internal governance rules, including the role of the committees, the allocation of tasks and responsibilities, and the feed-back loop from Risk Management to the management body*

See chapter 17.1 *Qualitative information on environmental risks* as well as chapter 17.2 *Qualitative information on environmental risks*, lit. e) and g); the information applies to ESG aspects.

f) *Reporting lines and frequency of reporting in relation to social risks*

See chapter 17.2 *Qualitative information on environmental risks*, lit. h); the information applies to ESG aspects.

g) *Alignment of the remuneration policy with the goals of the institution in connection with social risks*

The following sustainability factors serve to support the achievement of the sustainable aspects and long-term value creation within the Association of Volksbanks:

- Compliance with labour law standards;
- compliance with occupational health and safety;
- reasonable fixed and variable remuneration, in connection with the sustainable cooperative business model;
- fair conditions at the workplace, diversity as well as education and training opportunities;
- fighting inequality, and
- encouraging social cohesion.

Qualitative information on governance risks

a) *Integration of the efficiency of counterparties in corporate governance terms into the governance rules of the institution, including the committees of the top management body and the committees responsible for making decisions in economic, environmental and social matters*

The Association takes care of the core services of a retail bank itself: loans, deposits and payment transactions. Other products and services are offered by competent partners. Therefore, cooperation agreements were concluded with reliable product partners. Our product partners also pursue sustainable business policies – which is of essential importance to the Association. Through considerable streamlining and standardisation of the product range, transparency is increased for our customers due to a neat array of products.

See also chapter 17.2 *Qualitative information on environmental risks*, lit. e); the information applies to ESG aspects.

b) *Integration of the role of the top management body of the counterparty into the reporting of the institution on non-financial information*

The essential topics forming the basis for sustainability management are continuously being worked out together with the stakeholders. The topics are selected considering the ecological and social impact of the sustainability topics identified, as well as their relevance to stakeholders. The stakeholders are asked to evaluate the importance of the sustainability topics as well as the commitment of the Association of Volksbanks to sustainability topics. The surveys are conducted for the entire Association of Volksbanks. In this way, the stakeholders make an important contribution to determining the main sustainability topics. Counterparties are also stakeholders. At present, a materiality analysis is being carried out to prepare for the CSRD.

Details are provided in the 2022 Sustainability Report of the Association of Volksbanks in the chapter "SUSTAINABILITY MANAGEMENT/stakeholder survey". www.volksbank.at/nachhaltigkeit

c) *Integration of the efficiency of counterparties in corporate governance terms into the governance rules of the institution, including the following aspects:*

- *(i) Ethical considerations*
- *(ii) Strategy and risk management*
- *(iii) Inclusivity*
- *(iv) Transparency*
- *(v) Management of conflicts of interest*
- *(vi) Internal communication regarding critical matters*

The main product partners of the Association are domiciled in Austria and Germany and hence are subject to the strict requirements applicable to companies under EU regulations.

See also chapter 17.1 *Qualitative information on social risks*, lit. c).

17.3 Risk management

CRR Art 449a taking account of Art 435 CRR

Qualitative information on environmental risks

j) *Integration of short-, medium- and long-term effects of environmental factors and risks into the risk framework*

The Association of Volksbanks has comprehensively integrated ESG risks into its risk framework and created corresponding framework conditions. For example, the Risk Appetite Framework (RAF) for the Association of Volksbanks has been developed further and explicitly takes ESG risks into account in its specifications.

- ESG risks are managed centrally by the Risk Management Function
- Involvement of the Managing Board with a view to identifying and managing ESG risks
- Quarterly reporting to the Supervisory Board about progress in terms of integrating ESG risks
- The Association of Volksbanks is a group of credit institutions under ECB supervision and accordingly complies with the latter's high supervisory standards
- Standardised identification of ESG risks within the scope of the risk inventory process
- Calculation of ESG-related scenarios in the internal stress test
- Evaluation of ESG aspects in the course of the new product process since Q3/2021
- Assessment of outsourcing risks 2022 extended by ESG aspects
- The risk strategy of the Association represents the findings from the internal stress test and risk inventory
- Since 2022, ESG risks in specific risk types are also quantified in the risk bearing capacity calculation
- Consideration within the scope of regular risk reporting

On the one hand, the risk strategy of the Association maps ESG risks via a specially formulated sub-risk strategy; on the other hand, important findings from the risk identification and assessment process are described in the sub-risk strategies for existing risk types. The sub-risk strategy for ESG risks was determined at the level of the Association and is applied to all affiliated banks as part of the local risk strategies.

Details on the RAF and the risk strategy are included in chapter 2 Risk management and governance.

k) *Definitions, methods and international standards that the framework for environmental risk management is based on*

Environmental, social and governance risks (ESG risks) refer to operational risk events or conditions affecting the climate, the environment, social affairs or corporate governance, the occurrence of which could have an actual or potential negative impact on the value of assets or on the net assets, financial position and earnings situation, as well as the reputation of the Association of Volksbanks. ESG risks arise because climate, environmental, social and governance matters (ESG factors) may affect counterparties, customers and other contractual partners of the Association of Volksbanks. ESG risks comprise the following sub-risk categories:

- **Climate and environmental risks** are the risks arising from exposures of the Association of Volksbanks to counterparties, customers and other contractual partners that may contribute to or be affected by climate change or other forms of environmental degradation. Climate and environmental risks can manifest themselves in physical risks or transition risks. Physical risks arise as a result of changing climatic and/or environmental conditions. Transition risks arise as a result of the adjustment process toward a lower-carbon and more environmentally sustainable economy.
- **Social risks** are risks arising from exposures of the Association of Volksbanks to counterparties, customers and other contractual partners that are negatively impacted by the neglect of social aspects.
- **Risks in the area of corporate governance** are risks arising from exposures of the Association of Volksbanks to counterparties, customers and other contractual partners that are negatively impacted by the neglect of appropriate corporate governance.

Within the Association of Volksbanks, ESG risks are not considered as a separate risk type, but are mapped within the existing risk types.

As regards the requirements of various stakeholders in terms of transparency and disclosure (supervision, rating agencies, auditors, customers, etc.), we are in the process of joining the following initiatives and standards:

- TCFD (= Task Force on Climate Related Financial Disclosures): standard for considering climate risks and opportunities in companies
- PCAF (= Partnership for Carbon Accounting Financials): standardised method to measure carbon emissions (= basis for managing climate risks)
- SBTi (= Science Based Targets Initiative): initiative aiming at the definition of scientifically sound climate targets

l) ***Process for identifying, measuring and monitoring activities and exposures (and collaterals, if any) susceptible to environmental risks, including relevant transmission channels***

Risk identification

The Association of Volksbanks basically considers ESG risks as material. Therefore, ESG risks are regularly analysed and reassessed as part of the risk inventory using ESG heat maps. ESG heat maps are a tool to identify, analyse and assess the materiality of ESG risks and/or their risk drivers. In the ESG heat maps, various risk events (e.g. increased costs due to CO2 taxes, extreme weather events, biodiversity loss, water stress and land use, etc.) are described and evaluated for all relevant risk types of the Association of Volksbanks. The 17 risk events included in the ESG heat map are derived from the United Nations Sustainable Development Goals (SDGs). The assessment of the impact of risk events is based on a medium- to long-term horizon of 5 to 10 years. The underlying economic conditions in the assessment are those of an orderly transition to a lower-carbon economy. The application of ESG heat maps enables ESG risks to be systematically recorded across risk factors and risk drivers and allows a detailed analysis of individual industries and portfolios as well as the identification of those risk events that have the strongest influence from the perspective of the Association of Volksbanks. The results of the ESG heat maps are incorporated into the ESG score.

For the assessment of the risks associated with ESG factors at the individual borrower level, a separate scoring was developed, which is applied depending on the credit exposure for corporate and real estate customers. By means of the assessment of soft facts by the account managers, the risks associated with ESG factors as well as the risk-mitigating measures taken by the customers are evaluated in the context of an ESG score. The soft facts, which are tailored to the customer segments, cover all three risk aspects (environmental, social and governance). Moreover, certain aspects regarding corporate governance are taken into account in the soft facts of the rating models applied.

The ESG score is designed to take into account both industry risks and customer awareness and actions in relation to ESG factors. In quantitative terms, the additional assessment of customer-specific soft facts (evaluation of qualitative information), in addition to industry-specific ones, results in an ESG score, which can subsequently be used to classify ESG risks.

An assessment of the risks associated with ESG factors is carried out as part of the lending and monitoring processes. The assessment of the borrower's ability to service the debt is generally made taking into account the borrower's current and future financial circumstances, whereby risks to the future financial and liquidity position must be included in the consideration. The credit decision must therefore also take into account transitory and physical environmental risks. The manufacturing, energy supply and transport sectors in particular are currently undergoing a major transformation process with regard to the reduction of CO2 emissions. For customers in these sectors, the front office statement should therefore address – in addition to the ESG score – the extent to which costs/efforts for high CO2 emissions or for the transformation towards low CO2 economic activity are incurred by the customer. In doing so, onerous or hazardous aspects in relation to the customer's earning power and business model need to be assessed.

Furthermore, the statement must address if a financed property is located in a danger zone (e.g. flood, danger of avalanches, earthquake). As it may be assumed that there is insufficient insurance cover for properties in danger zones, an assessment must be made as to whether there are reserves in the customer's financial position to cover any losses.

Risk assessment

Within the Association of Volksbanks, ESG risks are mapped in existing risk types (e.g. credit, market and operational risk). The management of ESG risks is therefore carried out using existing risk types and is being driven forward by successively expanding the quantification methods and the related data basis and enriching them with new findings.

Quantification of ESG risks through credit risk

The assumptions regarding expected losses are still considered to be reasonable. However, overall economic uncertainties arising from ESG risks (e.g. CO2 pricing, increasing physical risks, compliance costs) may systematically influence the economic valuation and hence are measured as part of unexpected losses.

For the purpose of quantifying ESG risks, an ESG credit spread premium (exceeding the currently used credit spreads) per rating level and maturity is calibrated. The derivation is based on the difference in GDP development in the NGFS scenarios “Orderly Transition” and “Disorderly Transition Front Loaded”.

Application in the loan portfolio model

- Simulation of impairments for the unsecured portions of the performing exposures of Corporates.
- For Private Customers and for other positions, no ESG risk is currently provided for.

Quantification of ESG risks in operational risk

Within the scope of the annual analysis of operational risk, various negative scenarios are considered. These scenarios have been classified in terms of any relation to ESG risks since 2022, for longer-term ESG risk trends to be subsequently derived therefrom.

Risk monitoring

The ESG score is updated once a year within the scope of the annual review process. Any climate-related transitional and physical risks are also taken into account as part of the lending and monitoring process in assessing the creditworthiness of the customer. For instance, when checking the customer’s repayment ability, the way in which climate change (e.g. transformation costs) will impact on the customer’s business is critically analysed. Aspects that burden or jeopardise the customer’s sustainable profitability, their assets and/or their business model must be reported.

In the course of a regular industry analysis based on external, macroeconomic as well as internal and ESG factors, branches of industry associated with higher risks are identified, and measures are taken if necessary.

m) Activities, obligations and exposures that contribute to the mitigation of environmental risks

The Association of Volksbanks is committed to conducting lending operations in a sustainable and responsible manner. For this reason, we do not enter into business relationships in sensitive areas that conflict with this claim. Business relationships or financing transactions are not possible for traders in ethically questionable sectors and business areas, or are only possible in accordance with the rules of conduct specified by Compliance. Furthermore, in the context of lending, attention is paid to the protection of the environment and the sustainability of social concerns. Financed transactions must comply with environmental regulations. For this reason, no business is conducted in environmentally or socially harmful sectors. In case of doubt, or if a conflict is suspected, a special approval process will be initiated that Compliance is significantly involved in. In this way, reputational risks due to financing transactions or investments that may be subject to criticism are largely avoided. Defining undesirable branches of industry and business areas reduces the reputational risk of the individual regional bank and of the Association of Volksbanks.

The assessment of the borrower’s ability to service the debt is made taking into account the borrower’s current and future financial circumstances, whereby risks to the borrower’s future financial and liquidity position are included in the consideration. Both physical and transitory risks are taken into account with regard to the environment.

Climate and environmental risks are examined as part of the valuation of commercial and residential properties. This is done by examining environmental impacts (noise, flooding, hazard zones), energy efficiency, and use of fossil fuels. For this purpose, climate and environmental influences (noise, flooding, hazard zones), energy efficiency (energy certificate, year of construction, year of refurbishment) and the use of fossil fuels (oil, gas) are documented and incorporated into the assessment. If a real property is located within the sphere of any climate or environmental hazard, the assessment must indicate if this fact is relevant in terms of value and if a corresponding impairment must be recognised.

The new product process ensures that new products, markets, services and service providers are in line with the understanding of sustainability of the Association of Volksbanks, and that ESG risks can be identified and mitigated at an early stage. Based on the General Instruction on Risk Assessment of Outsourcing, all outsourcing activities of the Association of Volksbanks are reviewed using a defined standard process. A sustainability check is part of this process. Checking for sustainability risks covers a wide range of issues, e.g. whether the service provider endangers the environment and/or biodiversity, is heavily dependent on resources such as coal, gas, oil, water, etc. or has established sustainability principles.

As regards risk mitigation within the lending and monitoring process, reference is made to item l) *Risk identification* and the information on the ESG score. The assessment of the borrower’s ability to service the debt is generally made taking into account the borrower’s current and future financial circumstances, whereby risks to the future financial and liquidity position must be included in the consideration. Therefore, transitory and physical environmental risks must be taken into account within the scope of the credit decision, and onerous or hazardous aspects in relation to the customer’s earning power, financial situation and/or business model need to be assessed.

n) Introduction of tools to identify, measure and manage environmental risks

In addition to the new product process, risk identification and assessment for ESG risks is carried out via ESG heat maps and the internal stress test. As part of the internal stress test, ESG-related scenarios are simulated that reflect both physical and transition risks as well as risk events from the social and/or governance categories. For example, the effects of extreme weather events as well as the rapid implementation of stricter requirements in connection with climate and environmental standards on the portfolio of the Association of Volksbanks are simulated. The scenarios are designed with respect to the portfolio composition of the Association of Volksbanks and also take into account the key assumptions of the NGFS (Network for Greening the Financial System). The time horizon of the internal stress test is up to 3.5 years. In addition to the internal stress test, adverse scenarios for a long-term horizon of up to 10 years have been analysed for selected portfolios since 2022.

o) Results of the risk tools used and estimated effects of environmental risk on the risk profile with a view to capital and liquidity

The results of the scenario analyses show that the internal hurdle rates are complied with throughout the stress test horizon. The effects of the longer-term climate scenario on the expected default rates of the loan portfolio are manageable. The analyses show that the Association of Volksbanks can maintain all regulatory capital ratios and adequate liquidity levels even if potential ESG risks materialise, and that the resilience of the business model is not jeopardised over the simulated period due to ESG risks.

ESG risks are analysed and assessed each year using ESG heat maps. For each risk type, the qualitative assessment performed in 2022 of the risk events indicated in the heat maps has shown that the operational risk events have an impact which the Association of Volksbanks is able to manage. While ESG risks can basically be material, and although they have resulted in increased credit risk values in various sub-branches of industry, cumulatively speaking they are not material for the Association of Volksbanks for our planning horizon due to the current portfolio structure; in other words, they are manageable in terms of their effects on income statement, capital, reputation and entrepreneurs or customers.

Physical risks

Acute and chronic physical risks were determined for each transaction or real estate collateral based on external data sources. For the portfolio in Austria, physical risks were evaluated by means of a scenario analysis, taking into account various data sources and forward-looking climate scenarios. The assessment of the physical risks of foreign exposures is based on the Think Hazard! data source. The exposures reported as “sensitive to physical risks” exclusively concern acute physical risks (in Austria: heavy rain, landslide and snowfall). Chronic physical risks are insignificant.

In line with the EBA ITS on supervisory disclosures of ESG risks under Article 449a CRR, the results of our analyses of physical climate risks are disclosed in Template 5. It shows the credit exposure of the Association of Volksbanks that is sensitive to physical climate risks, broken down by maturity among others. In addition to the information presented in Template 5 (banking book – indicators for potential physical risks due to climate change: exposures carrying a physical risk), it should be noted that sensitivities to physical climate risks concern Austria’s mountainous regions, in particular, especially the federal Länder of Salzburg and Tirol.

CO2 emissions

The measurement of financed CO2 emissions started in 2021 is effected in line with the PCAF standard and developed continuously (FY 2022 extension to Scope 2 and Scope 3 emissions). Directly captured CO2 emission data are meant to be integrated as of 2023. Details are provided in the 2022 Sustainability Report of the Association of Volksbanks in the chapter “SUSTAINABILITY MANAGEMENT/Financed emissions (Scope 3)”. www.volksbank.at/nachhaltigkeit

p) Availability, quality and accuracy of the data and efforts to improve these aspects

Data are an essential factor with a view to identifying, measuring, monitoring and managing ESG risks. A comprehensive gap analysis (taking account of regulatory requirements, in particular the expectation of the ECB under the *Guideline on Climate and Environmental Risks* and the *EBA Guideline Loan Origination and Monitoring*) has already been carried out as part of the sustainability project of the Association of Volksbanks, and measures to close the gaps identified were initiated or implemented, among others the implementation of ESG scoring, determination of energy certificates, extended documentation requirement for climate and environmental risks within the scope of real estate valuations.

In order to achieve the strategic plans and ensure the requirements for ESG data, the Association of Volksbanks set up an ESG data project in the 4th quarter of 2022 – to continue and expand the topics addressed by the sustainability project – in particular for the lending portfolio. This project ensures the comprehensive ESG data requirements for internal control and risk management as well as sustainability reporting and regulatory disclosure.

Many of the planned initiatives have already been implemented:

- Collection of data for the quantification of acute and chronic physical risks in the loan portfolio (by way of scenario analyses).
- Within the scope of CRR disclosure/Template 5, quantification of exposures “sensitive to acute and chronic risks”. For the portfolio in Austria using different forward-looking climate scenarios (RCP 2.6, RCP 4.5, RCP 6.0 and RCP 8.5) and based on several external data sources (e.g. Copernicus, World Bank, ISIMIP, etc.).
- Collection of CO2 emission data (Scope 1, 2 and 3) for the loan portfolio (in line with the PCAF standard).
- Calculation of financed CO2 emissions: The emission data used for greenhouse gases (in CO2e) for the corporate sectors come from the Statistical Office of the European Commission (Eurostat) and are publicly available there per NACE code. For the property-specific emissions, the data source used was the Climate Protection Report

2021 of the Austrian Federal Environment Agency (see also 2022 Sustainability Report of the Association of Volksbanks, chapter “SUSTAINABILITY MANAGEMENT/Financed emissions (Scope 3)”).

- Labelling of sustainable real estate financing (pilot phase in selected banks of the Association).
- Initiative for the labelling of sustainable financing (EU Taxonomy).

Acute and chronic physical risks were determined for each transaction or real estate collateral based on external data sources. For the portfolio in Austria, physical risks were evaluated by means of a scenario analysis, taking into account various data sources and forward-looking climate scenarios. The assessment of the physical risks of foreign exposures is based on the Think Hazard! data source. The exposures reported as “sensitive to physical risks” exclusively concern acute physical risks (in Austria: heavy rain, landslide and snowfall). Chronic physical risks are insignificant.

In Austria, the share of companies subject to the NFRD (and hence companies that have to disclose their ESG data) is low, especially in the SME segment which is relevant for the Association. Moreover, there is currently no energy certificate database that covers the whole of Austria. Therefore, apart from the measures taken by the Association to collect ESG data directly from our customers, external ESG databases and data providers constitute essential sources of data. Therefore, the Association supports external initiatives to establish ESG databases covering the whole of Austria, especially for SMEs, such as the OeKB > ESG Data Hub, and is exchanging technical information with the OeKB (among others, participation in the ESG questionnaire of the OeKB tool for the tourism sector).

q) Description of upper limits for environmental risks (as drivers of risks subject to supervision) that are defined and will trigger escalations and exclusions if exceeded

Apart from the undesirable branches of industry and areas of business (see chapter 17.3 *Qualitative information on governance risks*, lit. d)), external financing transactions are limited within the Association, due to the regional business model. The major part of admissible foreign exposure (currently no more than 5 %) originates from Germany and other European neighbouring countries.

The Association of Volksbanks aims to make its sustainability strategy measurable and controllable and to take account of major sustainability risks by using divisional goals, KPIs and KRIs. The Association of Volksbanks has determined a set of KPIs that cover the three ESG aspects and are relevant for controlling the ESG goals of the group of credit institutions. These KPIs are being implemented at present and will then be reported on in the NAKO on a current basis; this committee is also responsible for steering these efforts (see also chapter 17.1 *Qualitative information on environmental risks*, lit. b)).

r) Description of the link (transmission channels) between environmental risks/social risks and credit risk, liquidity and financing risk, market risk, operational risk, and reputational risk within the Risk Management framework

In assessing the impact of ESG risks, consideration was given to key transmission channels. Transmission channels explain how ESG factors can affect the Association of Volksbanks via counterparties, customers, contractual partners as well as invested assets. These transmission channels are mapped on the one hand via the scenarios of the internal stress test or via the risk events of the ESG heat maps. The following transmission channels were considered, for example:

- Profitability
- Real estate values
- Household incomes
- Performance of investments
- Cost of implementation of and compliance with regulatory requirements
- Legal costs

The qualitative assessment based on the ESG heat maps for 2022 has shown that existing risks due to ESG risks will not materially increase overall. The quantitative results of the internal stress test confirm this finding.

The long-term integration of ESG aspects into the business model of the Association of Volksbanks is managed via the sustainability strategy, which is part of the business strategy. Building on existing initiatives such as the United Nations SDGs, the Paris Agreement on Climate Change and the United Nations Global Compact, it sets out concrete plans and corresponding framework conditions in connection with products and services.

The Austrian real estate market has basically proven its immediate robustness and stability in all previous crises. Structural changes, short- to medium-term negative effects are possible, in particular, for retail stores, obsolete office buildings and commercial real estate with respect to higher costs for current operation (energy) and ESG-compliant refurbishment measures.

Qualitative information on social risks

h) Definitions, methods and international standards that the framework for the management of social risks is based on

i) Process for identifying, measuring and monitoring activities and exposures (and collaterals, if any) susceptible to social risks, including relevant transmission channels

j) Activities, obligations and assets that contribute to the mitigation of social risks

k) Introduction of tools to identify and manage social risks

l) Description of how the upper limits for social risks are determined and in which cases these upper limits will trigger escalations and exclusions if exceeded

m) Description of the link (transmission channels) between social risks and credit risk, liquidity and financing risk, market risk, operational risk, and reputational risk within the Risk Management framework

We refer to chapter 17.3 Risk management lit. j) to r); the information refers to ESG aspects.

Qualitative information on governance risks

d) Integration of the efficiency of counterparties in corporate governance terms into the risk management rules of the institution, including the following aspects:

(i) Ethical considerations
(ii) Strategy and risk management
(iii) Inclusivity
(iv) Transparency
(v) Management of conflicts of interest
(vi) Internal communication regarding critical matters

The Association of Volksbanks and its affiliated banks act in accordance with the highest ethical and professional standards and are therefore committed to conducting lending business in a sustainable and responsible manner. For this reason, we reserve the right not to enter into any business relationships or financing transactions with sectors or in business areas that are in conflict with these core values. This list of industries and business areas includes, among others, business relationships related to the following topics:

- Forced labour or child labour
- Violations of the European Convention on Human Rights, or of obligations under social and labour law
- Corruption
- Violations against environmental protection in general (environmental hazards, intentional violation of environmental protection regulations, increased contamination, etc.)
- Animal testing
- Ownership and operation of nuclear power plants or operation of final disposal sites for nuclear waste
- Mining of coal or operation of coal-fired power plants
- Arms deals
- Particularly controversial forms of gambling

Business relationships or financing transactions are not possible for traders in ethically questionable sectors and business areas, or are only possible in accordance with the rules of conduct specified by Compliance.

Furthermore, in the context of lending, attention is paid to the protection of the environment and the sustainability of social concerns. Financed transactions must comply with environmental regulations. For this reason, no business is conducted in environmentally or socially harmful sectors.

See also the information on the ESG score (chapter 17.3 *Qualitative information on environmental risks*, lit. l), *Risk identification*).

18 List of abbreviations

Abs/para	paragraph
ABS	Asset Backed Security
afs	available for sale
AMA	Advanced Measurement Approach
Art	Article
ASA	Alternative Standardised Approach
A-SRI	other systemically important institutions
AT1	Additional Tier 1
BB	banking book
BIA	Basic Indicator Approach
BP/bp	basis point(s), 0.01 per cent
BWG	Bankwesengesetz, Austrian Banking Act
bzw.	and/or, respectively
CCF	Credit Conversion Factor
CDS	Credit Default Swap, derivative swap instrument on a loan loss
CEM	Current Exposure Method
CET1	Common Equity Tier 1
CQS	Credit Quality Step
CRD IV	Capital Requirements Directive IV, Directive 2013/36/EU of the European Parliament and of the Council
CRE	Commercial Real Estate
CRR	Capital Requirements Regulation, Regulation (EU) No. 575/2013 of the European Parliament and of the Council
CSR	Corporate Social Responsibility
CVA	Credit Value Adjustment
i.e.	that is
Dr.	Doctor
EAD	Exposure at Default, outstanding exposure in the event of default
EBA	European Banking Authority
ECAI	External Credit Assessment Institution
incl.	including
EM	Own funds
EU	European Union
EUR	euro
EWB	individual loan loss provisions
ECA	European Currency Area
et seqq	and following (plural)
FH	financial holding
FMA	Austrian Financial Market Authority
FRA	Forward Rate Agreement, over-the-counter forward rate transaction
FX	foreign exchange, foreign currency
DOB	born
acc. to	according to
G-SRI	global systemically important institutions
P&L	income statement, profit & loss account
GI	General Instruction

HB	trading book
hft	held for trading
HR	Human Resources
htm	held to maturity
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
IFRS	International Financial Reporting Standards
incl.	included/including
IRB	Internal Rating Based, based on internal ratings
IRS	Interest Rate Swap, derivative swap instrument on variable interest rates
iVm	in connection with
JRAD	Joint Risk Assessment Decision
KI	credit institution
SME	small and medium-sized enterprises
KP-V	Capital Buffer Regulation
KRL	capital reserve(s)
LCR	Liquidity Coverage Ratio
lit	littera, letter
LFZ	maturity, term
LGD	Loss Given Default
l&r	loans and receivables
LK	countries and municipalities
Mag.	Magister
MEUR	million euros
m	million(s)
MUM	Monetary Union Member, country of the euro zone
NPL	non-performing loans
no.	number
ODP	open foreign exchange position
OEM	Original Exposure Method
OeNB	Oesterreichische Nationalbank (Austrian national bank)
UCI	undertakings for collective investment
OpR	operational risk
OTC	over the counter (derivatives)
p.a.	per annum, annually
PSE	Public Sector Entity
p&l	profit and loss
RAS	Risk Appetite Statement
RCF	Risk Control Function
RL	Directive
RRE	Residential Real Estate
RST	provision
RTFR	risk bearing capacity calculation
SPPI	Solely Payments of Principal and Interest
SREP	Supervisory Review and Evaluation Process
STA	standardised approach

T1	Tier 1
T2	Tier 2
TC	Total Capital
kEUR	thousand euros
Tsd.	thousand
UGB	Unternehmensgesetzbuch, Austrian Business Code
VO	Regulation
FTE	full-time equivalent
Z	digit
e.g.	for example
CO	central organisation