

This prospectus (the "Prospectus") constitutes a prospectus within the meaning of Article 5(3) of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC (as amended, inter alia, by Directive 2010/73/EU) (the "Prospectus Directive"), and was set up according to Annex XI and XIII of the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements, as amended (the "Prospectus Regulation"). The Issuer will prepare and make available on its website (www.volksbankwien.at) an appropriate supplement to this Prospectus if at any time the Issuer is required to prepare a prospectus supplement pursuant to § 6 of the Austrian Capital Market Act (Kapitalmarktgesetz – "KMG"), as amended. This Prospectus will be published in electronic form together with all documents incorporated by reference on the website of the Issuer (www.volksbankwien.at).

Prospectus dated 2 October 2017

Job Nr.: 2017-0398
Prospekt gebilligt



02. Okt. 2017



VOLKSBANK WIEN AG

**EUR 400,000,000 2.75% Fix to Fix Tier 2 Notes
with an Interest Rate Reset Date on 6 October 2022**

ISIN AT000B121967, Common Code 169528187, WKN A19P69

Issue Price: 99.747 per cent.

VOLKSBANK WIEN AG (the "Issuer" or "VBW") will issue on 6 October 2017 (the "Issue Date") EUR 400,000,000 2.75% Fix to Fix Tier 2 Notes with an Interest Rate Reset Date on 6 October 2022 (the "Notes") in the denomination of EUR 100,000 (the "Specified Denomination") each.

The Notes will bear interest at the rate of 2.75 per cent. per annum (the "First Rate of Interest") from and including 6 October 2017 (the "Interest Commencement Date") to but excluding 6 October 2022 (the "Interest Rate Reset Date") and thereafter at the relevant Second Rate of Interest from and including the Interest Rate Reset Date to but excluding the Maturity Date. The "Second Rate of Interest" will be the sum of the 5-years mid swap rate per annum (the "Reference Rate") plus the Margin of 2.55 per cent. (all as defined in the terms and conditions of the Notes (the "Terms and Conditions")). Interest will be paid annually in arrear on 6 October in each year, commencing on 6 October 2018.

The Notes are redeemable by the Issuer on 6 October 2027 (the "Maturity Date"), subject to limitations and conditions as described in the Terms and Conditions. The "Redemption Amount" per Note shall be 100.00 per cent. of the Specified Denomination per Note. The Issuer may redeem the Notes in whole, but not in part, at the Redemption Amount on the Interest Rate Reset Date subject to the prior permission of the Competent Authority (as defined in the Terms and Conditions).

The Notes, as to form and content, and all rights and obligations of the holders of the Notes (the "Holders") and the Issuer will be governed by the laws of the Republic of Austria ("Austria").

The Notes will be issued in bearer form and be represented by a Global Note (as defined in the Terms and Conditions) without coupons.

This Prospectus has been approved by the Austrian Financial Market Authority (Finanzmarktaufsichtsbehörde - "FMA") as a prospectus under the Prospectus Directive in its capacity as competent authority under the KMG.

The accuracy of the information contained in this Prospectus does not fall within the scope of examination by the FMA under the KMG and the Directive 2003/71/EC of the European Parliament and the Prospectus Directive. The FMA has examined this Prospectus only in respect of its completeness, coherence and comprehensibility pursuant to § 8a KMG.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and subject to certain exceptions, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons.

Application has been made to the Vienna Stock Exchange for the Notes to be admitted to the Second Regulated Market (Geregelter Freiverkehr; the "Market"). The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC (Markets in Financial Instruments Directive – "MiFID").

Prospective purchasers of the Notes should ensure that they understand the nature of the Notes and the extent of their exposure to risks and that they consider the suitability of the Notes as an investment in the light of their own circumstances and financial condition.

Investing in the Notes involves certain risks. Please review the section entitled "Risk Factors" beginning on page 14 of this Prospectus. This Prospectus does not describe all of the risks of an investment in the Notes, but the Issuer believes that all material risks relating to an investment in the Notes have been described.

Joint Lead Managers

Crédit Agricole Corporate & Investment Bank
HSBC

Erste Group Bank AG
UBS Limited

IMPORTANT NOTICE

This Prospectus contains, together with the information incorporated by reference and the Terms and Conditions, all information, which, according to the particular nature of the Issuer and its consolidated subsidiaries (together taken as a whole, the "VBW Group") and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and of the rights attached to the Notes.

Purpose of this Prospectus. *This Prospectus has been solely drawn up for the purpose of facilitating the admission of the Notes to trading on the Market; any other use of this Prospectus is prohibited. This Prospectus solely serves as information for potential investors. Neither this Prospectus nor any other information supplied in connection with the Notes should be considered as a recommendation to purchase or subscribe for the Notes or as a solicitation to make an offer for the sale of the Notes. If investors have any doubt concerning the content or the meaning of any information contained in this Prospectus, they are required to contact their own advisers.*

Responsibility for this Prospectus. *The Issuer accepts the responsibility for the information contained in this Prospectus and hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and does not omit anything likely to affect the import of such information.*

Exclusive relevance of this Prospectus. *No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or admission to trading of the Notes. If given or made, such representation must not be relied upon as having been authorised by the Issuer or any of the Joint Lead Managers. Any information or undertakings given or made in connection with the admission to trading, the subscription or the sale of the Notes, which exceeds the information contained in this Prospectus, are irrelevant.*

Limited actuality. *Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that the information contained in this Prospectus in relation to the Issuer, the VBW Group and/or the Association of Volksbanks (Volksbanken-Verbund, the "Association of Volksbanks") is accurate at each date after the date of this Prospectus or, where applicable, after the date of the latest supplement thereto. In particular neither the delivery of this Prospectus nor the sale or the delivery of the Notes shall be taken as implication that there have not been any adverse changes or negative events, which lead or could lead to a negative change in the assets, the financial position and/or in the income situation of the Issuer, the VBW Group and/or the Association of Volksbanks since the date of this Prospectus, or, if earlier, since the date referred to in the information contained in this Prospectus. This holds true notwithstanding the obligation of the Issuer that any material new circumstances or any material incorrectness or inaccuracy as to the statements contained in the Prospectus that could influence the assessment of the Notes and that occur or are determined between the approval of this Prospectus and the final end of the public offer, or if later, the time when trading of the Notes on a regulated market begins needs to be included in a supplement (amending or supplementing statements) to this Prospectus (§ 6 KMG).*

Restrictions on the selling and distribution. *The distribution of this Prospectus as well as the offer and the sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required vis-à-vis the Issuer and the Joint Lead Managers to*

inform themselves about and to observe any such restrictions. A description of certain statutory restrictions on the distribution of this Prospectus as well as in relation to offers and sales of the Notes in certain jurisdictions are set out under page 118 of this Prospectus. The Notes have not been and will not be registered or approved pursuant to the United States Securities Act of 1933, as amended (the "**Securities Act**") or by any authority of any federal state of the U.S. or pursuant to applicable securities laws of the United States, Australia, Canada, Japan or the United Kingdom. The Notes are notes in bearer form that are subject to tax laws of the United States and may not be offered, sold or delivered within the United States or to U.S. persons (as defined in the Securities Act) except for certain exemptions as determined by U.S. tax laws.

No financial analysis or recommendation of the Issuer and/or the Joint Lead Managers. *Neither this Prospectus nor any other information supplied in connection with the Notes and/or the Issuer are intended to provide the basis for any credit evaluation or any other evaluation (such as a financial analysis) and should not be considered as a recommendation by any of the Issuer and the Joint Lead Managers to purchase the Notes. With regard to a decision to invest in the Notes each investor should rely on its own assessment of the Issuer as well as of the merits and risks associated with the investment in the Notes of the Issuer.*

No independent verification and no information obligation of the Joint Lead Managers. *The Joint Lead Managers have not independently verified the information contained in this Prospectus and are neither obliged to monitor the financial, business or income situation or other conditions of the Issuer for the duration of this Prospectus, nor to inform investors of any information in relation to the Issuer or the Notes coming to the Joint Lead Managers' attention or to otherwise share such information with the investors.*

To the fullest extent permitted by the laws of any relevant jurisdiction, neither any Joint Lead Manager nor any of its respective affiliates nor any other person mentioned in this Prospectus, except for the Issuer, accepts responsibility for the accuracy or completeness of the information contained in this Prospectus or any document incorporated by reference, and accordingly, and to the fullest extent permitted by the laws of any relevant jurisdiction, none of these persons accept any responsibility for the accuracy or completeness of the information contained in any of these documents. The Joint Lead Managers have not independently verified any such information and accept no responsibility for the accuracy thereof. Each Joint Lead Manager accordingly disclaims all and any liability whether arising in tort, ex delicto or contract or otherwise which it might otherwise have in respect of this Prospectus or any such statement.

Decision criteria for investors. *Each decision to invest in the Notes of the Issuer shall solely be based on a due and careful review of this Prospectus (including the documents incorporated by reference) together with the Terms and Conditions thereby considering that each summary or description of the legal provisions, corporate structures or contractual relationships contained in this Prospectus serve for information purposes only and shall not be deemed as a legal or tax advice concerning the interpretation or enforceability of its provisions or relationships. This Prospectus is no substitute for the indispensable advice in the individual case by appropriate advisers of the investors.*

(Financial) Information on the Association of Volksbanks (Volksbanken-Verbund). *Investors should bear in mind that the Association of Volksbanks is not a group and that the members of the Association of Volksbanks are not subsidiaries of Volksbank Wien AG. Only Volksbank Wien AG is the Issuer of and the debtor under the Notes.*

Stabilisation. IN CONNECTION WITH THE ISSUE OF THE NOTES THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER(S)) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

Euro. *In this Prospectus, all references to "€", "Euro" or "EUR" are to the currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community as amended by Treaty of the European Union or the official currency of Austria.*

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the following parts of the following documents which are incorporated by reference into this Prospectus and which have been filed with the FMA:

Document / Heading	Page reference
German language version of the Audited Consolidated Financial Statements of the Issuer for the financial year ended 31 December 2016 – Annual Financial Report 2016 <i>(Jahresfinanzbericht 2016)</i> (the "Audited Consolidated Financial Statements 2016") together with the Auditor's Report.¹	
Statement of comprehensive income <i>(Konzerngesamtergebnisrechnung)</i>	28
Statement of financial position as at 31 December 2016 <i>(Konzernbilanz zum 31. Dezember 2016)</i>	29
Changes in the Group's equity <i>(Entwicklung des Konzerneigenkapitals)</i>	30
Cash flow statement <i>(Konzerngeldflussrechnung)</i>	31
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German language version of the Audited Consolidated Financial Statements of the Issuer for the financial year ended 31 December 2015 – Annual Financial Report 2015 <i>(Jahresfinanzbericht 2015)</i> (the "Audited Consolidated Financial Statements 2015") together with the Auditor's Report.¹	
Statement of comprehensive income <i>(Konzerngesamtergebnisrechnung)</i>	30
Statement of financial position as at 31 December 2015 <i>(Konzernbilanz zum 31. Dezember 2015)</i>	31
Changes in the Group's equity <i>(Entwicklung des Konzerneigenkapitals)</i>	32
Cash flow statement <i>(Konzerngeldflussrechnung)</i>	33
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¹ The officially signed German language versions of the Issuer's Audited Consolidated Financial Statements 2016 and 2015 are solely legally binding and definitive.

For the purposes of this Prospectus the defined terms "Audited Consolidated Financial Statements 2016" and "Audited Consolidated Financial Statements 2015" shall also include the English translation of the Audited Consolidated Financial Statements of the Issuer for the financial years ended 31 December 2016 and 2015, respectively.

Auditors' Report (<i>Bestätigungsvermerk</i>)	135 - 136
English translation of the Audited Consolidated Financial Statements 2016 - Annual Report 2016 (<i>Konzernbericht 2016</i>)²	
Statement of comprehensive income	28
Statement of financial position as at 31 December 2016	29
Changes in the Group's equity	30
Cash flow statement	31
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English translation of the Audited Consolidated Financial Statements 2015 – Annual Report 2015 (<i>Konzernbericht 2015</i>)²	
Statement of comprehensive income	30
Statement of financial position as at 31 December 2015	31
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English translation of the Unaudited Interim Condensed Consolidated Financial Statements of the Issuer for the first half year ended 30 June 2017 – Half-Year Financial Report as at 30 June 2017 (<i>Halbjahresfinanzbericht zum 30. Juni 2017</i>) (the "Unaudited Interim Condensed Consolidated Financial Statements First Half Year 2017")	
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² The English translations of the Audited Consolidated Financial Statements 2016 and 2015 are not legally binding and are incorporated into this Prospectus by reference for convenience purposes only.

English translation of the Audited Consolidated Financial Statements of Association of Volksbanks according to IFRS for the financial year ended 31 December 2016 which have been prepared according to IFRS rules with certain exceptions³ – Annual Report Association of Volksbanks 2016 (*Verbundbericht 2016*) (the “Audited Consolidated Financial Statements of Association of Volksbanks 2016”)

Statement of comprehensive income (<i>Verbundgesamtergebnisrechnung</i>)	16
Statement of financial position as at 31 December 2016 (<i>Verbundbilanz zum 31. Dezember 2016</i>)	17
Changes in equity and cooperative capital shares (<i>Entwicklung des Verbundeigenkapitals und der Geschäftsanteile</i>)	18
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Auditors' Report (<i>Bestätigungsvermerk</i>)	120 - 124

English translation of the Audited Consolidated Financial Statements of the Association of Volksbanks for the financial year ended 31 December 2015 which have been prepared according to IFRS rules with certain exceptions³ – Annual Report Association of Volksbanks 2015 (*Verbundbericht 2015*) (the “Audited Consolidated Financial Statements of Association of Volksbanks 2015”)

Statement of comprehensive income ⁴ (<i>Verbundgesamtergebnisrechnung</i>)	18
Statement of financial position as at 31 December 2015 (<i>Verbundbilanz zum 31. Dezember 2015</i>)	19
Changes in equity and cooperative capital shares (<i>Entwicklung des Verbundeigenkapitals und der Geschäftsanteile</i>)	20
Cash flow statement (<i>Verbundgeldflussrechnung</i>)	21
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³ The Association of Volksbanks' financial statements are prepared according to IFRS rules. For full consolidation purposes § 30a (8) of the Austrian Banking Act specifies that the central organisation is to be regarded as superordinate institution and every affiliated institution and, under certain conditions, each transferring legal entity, is to be treated as a subordinate institution. In accordance with IFRS, a full consolidation only can take place if a company has full authority over decisions of the associated company, in other words, it has the ability to influence returns on equity by its power of disposition (IFRS 10.6). The Association of Volksbanks central organisation has the right to issue instructions, but doesn't receive returns from the member credit institutions; therefor the central organisation has no control as defined by IFRS 10. The lack of an ultimate controlling parent company means that despite the central organisation's extensive power to issue instructions, the consolidated accounts can only be drawn up by treating the Association of Volksbanks as a group of companies which are legally separate entities under unified control without a parent company. It was therefore necessary to define a set of rules for preparing the Association of Volksbanks' financial statements.

⁴ The comparative figures were restated to IFRS 5.

English translation of the Unaudited Interim Condensed Consolidated Financial Statements of the Association of Volksbanks according to IFRS for the first half year ended 30 June 2017 which have been prepared according to IFRS rules with certain exceptions³ - Association's Report 1st half of 2017 according to IFRS (*Verbundbericht 1. Halbjahr 2017 nach IFRS*) (the "Unaudited Interim Condensed Consolidated Financial Statements of Association of Volksbanks First Half Year 2017")

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For the avoidance of doubt, such parts of the Audited Consolidated Financial Statements 2016 and 2015 respectively as well as of the Unaudited Interim Condensed Consolidated Financial Statements as of 30 June 2017 which are not explicitly listed in the tables above, are not incorporated by reference into this Prospectus as these parts are either not relevant for the investor or covered elsewhere in this Prospectus.

Any information not listed above but included in the documents incorporated by reference is given for information purposes only.

Such parts of the documents which are explicitly listed above shall be deemed to be incorporated in, and form part of this Prospectus, save that any statement contained in such a document shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained in this Prospectus modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The above mentioned documents which are incorporated by reference into this Prospectus can be retrieved at the Issuer's website under the following links:

Audited Consolidated Financial Statements 2016:

http://www.volksbankwien.at/m101/volksbank/m044_43000/downloads/geschaeftsberichte/2016/ker_n_kb_wien_d_fin.pdf

Audited Consolidated Financial Statements 2015:

http://www.volksbankwien.at/m101/volksbank/m044_43000/downloads/geschaeftsberichte/vbwien_neu_gesperrt_1609/konzern-bericht_2015.pdf

English translation of the Audited Consolidated Financial Statements 2016:

http://www.volksbankwien.at/m101/volksbank/m044_43000/downloads/geschaeftsberichte/2016/ker_n_kb_wien_e_fin.pdf

English translation of the Audited Consolidated Financial Statements 2015:

http://www.volksbankwien.at/m101/volksbank/m044_43000/downloads/geschaeftsberichte/vbwien_neu_gesperrt_1609/konzern-bericht_2015_e.pdf

Unaudited Interim Condensed Consolidated Financial Statements First Half Year 2017:

http://www.volksbankwien.at/m101/volksbank/m044_43000/downloads/geschaeftsberichte/2017/vbw_hb_e_2017_pw.pdf

Audited consolidated Financial Statements of Association of Volksbanks 2016:

http://www.volksbankwien.at/m101/volksbank/zib/downloads/geschaeftsberichte/2016/verbundbericht_2016_e_fin.pdf

Audited consolidated Financial Statements of Association of Volksbanks 2015:

http://www.volksbankwien.at/m101/volksbank/zib/downloads/geschaeftsberichte/gesperrt/verbund-bericht_2015_e_zahlen_frei.pdf

Unaudited Interim Condensed Consolidated Financial Statements of the Association of Volksbanks First Half Year 2017:

http://www.volksbankwien.at/m101/volksbank/zib/downloads/geschaeftsberichte/2017/verb_hjb_e_062017_0905.pdf

Hardcopies of the above mentioned documents can be retrieved on the Issuer's business address at, Kolingasse 14-16, 1090 Vienna, Austria, during normal business hours free of charge.

SUPPLEMENT TO THE PROSPECTUS

The Issuer has given an undertaking to the Joint Lead Managers, and is obliged by the provisions of the Prospectus Directive and the KMG, that if at any time there is a significant new factor, material mistake or inaccuracy relating to information contained in this Prospectus which is capable of affecting the assessment of any Notes and which arises or is noted between the time when this Prospectus is approved and the final closing of an offer of the Notes to the public or, as the case may be, the time when trading on a regulated market begins, whichever occurs later, the Issuer shall prepare a supplement to this Prospectus or publish a replacement Prospectus for use in connection with any subsequent offering of the Notes and shall supply to each Joint Lead Manager and to the FMA and the stock exchange operating the Markets such number of copies of such supplement or replacement hereto as such Joint Lead Manager may request and relevant applicable legislation require.

SOURCES OF INFORMATION

Unless otherwise stated, statistical and other data provided in this Prospectus has been extracted from the Audited Consolidated Financial Statements 2016 and the English translation of the annual report thereon as well as the Unaudited Interim Condensed Consolidated Financial Statements First Half Year 2017. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Furthermore, certain statistical and other data provided in this Prospectus has been extracted from reports and other documents of certain statistical offices and/or national banks in countries where the Issuer operates and the sources of any such information are included in the relevant section of this Prospectus.

Information on the rating of the Issuer and the Association of Volksbanks (as defined below) have been derived from the websites of Moody's Investors Service Ltd. ([www .moodys.com](http://www.moodys.com)) and Fitch Ratings Ltd. ([www .fitchratings.com](http://www.fitchratings.com)). The Prospectus furthermore contains data of the Basel Committee on Banking Supervision (the "**BCBS**") (www .bis.org), data of the European Commission (www .ec.europa.eu) and data of the legal information centre (*Rechtsinformationssystem*) of the Republic of Austria (www .ris.bka.gv.at).

The Issuer confirms that such information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from information published by the sources of such information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements. A forward-looking statement is a statement that does not relate to historical facts and events. They are based on analyses or forecasts of future results and estimates of amounts not yet determinable or foreseeable. These forward-looking statements can be identified by the use of terms and phrases such as "*anticipate*", "*believe*", "*could*", "*estimate*", "*expect*", "*intend*", "*may*", "*plan*", "*predict*", "*project*", "*will*" and similar terms and phrases, including references and assumptions. This applies, in particular, to statements in this Prospectus containing information on future earning capacity, plans and expectations regarding the Issuer's business and management, its growth and profitability, and general economic and regulatory conditions and other factors that affect it.

Forward-looking statements in this Prospectus are based on current estimates and assumptions that the Issuer makes to the best of its present knowledge. These forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results, including the Issuer's financial condition and results of operations, to differ materially from and be worse than results that have expressly or implicitly been assumed or described in these forward-looking statements. The Issuer's business is also subject to a number of risks and uncertainties that could cause a forward-looking statement, estimate or prediction in this Prospectus to become inaccurate.

In light of these risks, uncertainties and assumptions, future events described in this Prospectus may not occur. In addition, neither the Issuer nor the Joint Lead Managers assume any obligation, except as required by law, to update any forward-looking statement or to conform these forward-looking statements to actual events or developments.

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1. RISK FACTORS

Potential investors should carefully consider the risk factors described in this section, as well as all other information contained in this prospectus, including all supplements (if any) and the Terms and Conditions before deciding to invest in Notes. If one or more of the risks described below actually occur, this could have a material adverse effect on the Issuer's business, financial condition and results of operations, and limit its ability to meet its obligations under the Notes. Furthermore, each of these risks may have a material adverse effect on the market price of the Notes and/or the rights of the Holders, and consequently Holders could lose some or all of their investment.

Potential investors should be aware that the risks described in this section are not the only risks to which the Issuer and/or Notes are exposed. The Issuer has only described risks that are known to it on the date of the prospectus and deemed to be material. Additional risks that are not currently known to the Issuer or not deemed by it to be material may exist which may have the effects described above. Furthermore, potential investors should be aware that several of the risks described in this section may occur at the same time, potentially compounding the negative impacts thereof. If one or more of the following risks materialise, this may have a material adverse effect on the Issuer's business, financial condition and results of operations, limit its ability to meet its obligations under the Notes, and negatively affect the market price of the Notes.

Before a decision is made to invest in Notes, prospective investors should conduct their own in-depth analysis of an investment in the relevant Notes, in particular their own financial, legal and tax analysis, as any evaluation of the suitability of an investment in Notes for the potential investor depends both on their general and financial situation, as well as the Terms and Conditions of the Notes. In case of a lack of experience in financial, business and investment matters, without which it is not possible to make a sound decision on any investment, investors should obtain expert advice (e.g. from a financial advisor) before making a decision regarding the purchase of Notes. Notes should only be subscribed to by investors who are able to bear the risk of total loss of the invested capital, including the transaction costs incurred and any financing costs.

The order in which the risk factors have been presented does not constitute an opinion on the probability of occurrence and the extent of the economic effects of the risks set out below.

1.1 RISKS RELATING TO THE ISSUER AND ITS BUSINESS ACTIVITY

The challenging macroeconomic business and financial market environment may have a material adverse effect on the Issuer's business, financial condition and results of operations and its future prospects.

Following the turbulence on the global capital and credit markets, which began in 2007, deep concerns about the level of sovereign debt around the world and the stability of numerous banks has led to negative economic effects since mid-2011 and despite a slight global economic recovery. The eurozone was close to economic stagnation, with weaknesses being exposed even in core eurozone countries. Many European economies faced structural challenges in view of high levels of unemployment and heavy structural debt. Given that inflationary expectations may fall further, the risk of deflation in the eurozone remains present.

The global economic and financial crisis led to major disruptions on the interbank market and a sharp drop in the value of nearly all kinds of financial investments. The financial

markets saw an extremely high level of volatility. Confidence in the financial economy and in the economy as a whole plummeted.

In 2015 and 2016, the eurozone economy experienced a moderate recovery, accompanied by a positive trend displayed by leading inflation indicators and a steady decline in the rate of unemployment within the eurozone. Private consumption remained the most important pillar of growth in the eurozone, which also benefited from low energy prices. The positive development in the eurozone is expected to continue, however the volatility on the financial markets as a result of the fall in oil prices, geopolitical uncertainties in Turkey, Greece, Russia, Ukraine and Syria, as well as the economic slowdown in China, constitute a downside risk. Together with Great Britain (keyword: "Brexit"), China's economic transformation influenced the global economy in terms of increased share price volatility on the stock markets along with commodity prices on the commodity markets, leading to a drop in foreign exchange reserves. Investors sold shares and other risky investments in the immediate aftermath of the US presidential elections. The exchange rates of most emerging-market currencies – notably the Mexican peso – and the Euro against the US dollar fell, along with the price of oil. However, the situation improved in a short period of time, particularly on the equity and crude oil markets, with long-term US interest rates rising in anticipation of higher future inflation rates. This global economic situation with growing geopolitical challenges affects the eurozone and may lead to corresponding risks within the eurozone.

These include risks relating to the credit quality of the Issuer's counterparties. The Issuer is exposed to the credit risk of its debtors, which occurs when the latter are not able to meet their obligations to the Issuer on the due date, and the existing collateral is insufficient. In addition, exchange rate fluctuations resulted in loans becoming more expensive for borrowers holding a foreign currency loan, which led to a rise in the Issuer's credit costs for outstanding loans.

The consequences of the financial, economic and sovereign debt crisis had materially negative effects on the Issuer's business, financial condition and results of operations. It is to be expected that there may also be materially negative consequences for the Issuer in the future if the crisis intensifies again. At the same time, it is very difficult for the Issuer, if at all, to hedge against the risks relating to the financial, economic and sovereign debt crisis.

Economic and/or political developments and/or an economic downswing in Austria may have materially negative effects on the business activity of the Issuer.

The Issuer's business activity is centered on Austria. As a result, the Issuer's business activity is highly exposed to economic and other factors that influence growth on the Austrian banking market, the creditworthiness of the Austrian customers of the Issuer and other factors that affect the Austrian economy in general and the Issuer in particular. Examples of these factors include the general economic situation (both, an economic downswing as well as a tense and uncertain situation on the international financial markets, and the recession stemming from the financial crisis), deflation, hyperinflation, unemployment, the risk of terrorism, financial crises and volatile crude oil and/or real estate prices. If one or more of these factors occur in Austria, this would negatively affect the Issuer's business, financial condition and results of operations.

The Issuer is active in a highly competitive market, competing against strong local competitors and international financial institutions, notably in respect of interest margins (competition risk).

The Issuer is exposed to fierce levels of competition in all its business segments. The Issuer competes with a number of local competitors, such as other national credit institutions, private customer and business banks, mortgage banks, and international institutions in the financial sector. The Austrian market is characterised by fierce competition. As Austria has a disproportionately large number of banks compared to other countries, and a particularly large number of bank branches, the Issuer is exposed to strong competition from other providers of banking products and financial services. The Issuer is in fierce competition both, with its local competitors and with large international banks and competitors from neighboring countries offering products and services similar to those offered by the Issuer in the same markets. Interest margins are under pressure as a result of this competitive situation. Mistakes when setting interest margins may have materially negative effects on the Issuer's business, financial condition and results of operations.

There is a risk of not promptly recognising significant developments and trends in the banking sector.

The managing board of the Issuer (the "**Managing Board**") makes strategic decisions on the basis of material developments and trends in the banking sector. There is, however, the risk that even highly qualified executives and employees following and analysing these developments, as well as reviewing potential risks, fail to promptly identify material developments and trends. The competitiveness of the Issuer, however, heavily depends on its ability to adapt its divisions swiftly to industry trends. Any delay in identifying material developments and trends in the banking sector could therefore have a negative impact on the Issuer's business, financial condition and results of operations.

There is a risk of financial loss for the Issuer as a result of money depreciation (inflation risk).

The risk of financial loss as a result of money depreciation (inflation risk) exists above all if the actual inflation is higher than the expected inflation. Inflation risk primarily affects the real value of the assets held by the Issuer, as well as the real income that can be generated by the assets of the Issuer. As a result, a higher-than-expected rate of inflation may have a negative impact on the value of the Issuer's assets.

The Issuer is exposed to risks relating to possible deflation.

Deflation refers to a period of time with negative inflation rates, which may lead to an economic crisis and high unemployment in the markets concerned. During a deflationary phase, the risk of a self-sustaining or even a self-fueling tendency is very high. Falling prices and income lead to noticeable reticence on the part of consumers to spend money. The resulting drop in demand lowers the utilisation rates of production capacities, or even leads to insolvency, further weighing down on prices and income. Given the negative effects on creditors (including credit institutions), they restrict lending activities, which reduces the amount of money available and hampers economic growth.

This may have negative effects on the Issuer's business, financial condition and results of operations.

Interest rate volatility may negatively affect the operating result of the Issuer (interest rate risk).

Changes in the interest level (including changes in the difference between the level of short-term and long-term interest rates) may, among others, lead to higher capital and liquidity costs for the Issuer and to the need to write down existing asset positions, thereby having a materially negative effect on the operating result and the refinancing costs of the Issuer. Furthermore, changes in the interest level may have negative effects on the demand for the services and products offered by the Issuer, and thus on the Issuer's business, financial condition and results of operations.

Changes in interest rates may influence the margin between the interest rate the bank must pay to its depositors and other lenders and the interest rate the bank receives on loans handed out to its customers. If the interest margin narrows, net interest income also goes down, unless the bank is able to compensate for this decline by increasing the total amount of money it lends to its customers. A drop in the interest rates charged to customers may have a negative effect on the interest margin, particularly if the interest rates for deposits are already very low, as a bank has very few possibilities to reduce the interest it pays to its lenders accordingly. Any increase in the interest rates charged to customers may also have negative effects on net interest income if this means that less money is borrowed by customers. For competitive reasons, the Issuer may also decide to increase interest rates for deposits without accordingly raising interest rates for any loans issued. Ultimately, an imbalance in assets that generate interest income and liabilities that generate interest expense may, in the event of interest rate changes, lower the net interest margin of the Issuer in a specific period of time, which could have material negative effects on its net interest income and, thus, on the Issuer's business, financial condition and results of operations.

Negative interest rates in the financial sector may have significant negative effects on the Issuer's business, financial condition and results of operations.

The Issuer generates part of its operating income from net interest income. Interest rates for issued loans are normally linked to reference rates. These reference rates may react sensitively to a range of factors, such as the monetary policy of the European Central Bank ("**ECB**"), over which the Issuer has no influence. For instance, in March 2016, the ECB cut the prime rate from 0.05% to 0.00%. The interest rate for deposits of credit institutions at the ECB exceeding the minimum reserve was cut from -0.30% to -0.40%. At the same time, the ECB enabled credit institutions to borrow at negative interest rates under certain conditions. Credit institutions were therefore able to borrow money from the ECB and only need to repay a smaller amount.

If the EURIBOR as the reference interest rate is negative, as e.g. the 3-months EURIBOR was in the beginning of September 2017, a situation may arise in which the Issuer needs to pass on the resulting negative interest rates to borrowers. On the other hand, a negative interest rate, including an interest rate of zero, may not be passed on to savings deposits. Furthermore, minimum interest rates defined in the terms and

conditions of issue of various financial products prevent negative interest rates from being applied. This could result in a negative development of the interest margin and, thus, to financial disadvantages for the Issuer.

These developments may have material adverse effects on the Issuer's business, financial condition and results of operations.

There is a risk of additional legal and public interference in financial-sector institutions.

Recent developments on global markets have led to state and regulatory authorities exercising more influence over the financial sector and the activities of institutions of the financial sector. State and regulatory authorities in the EU and Austria, in particular, have created additional possibilities to generate capital and funding for credit and financial institutions (including the Issuer), as well as implementing further measures, including additional control measures in the banking sector and additional capital requirements (for details regarding Basel III, please see the corresponding risk factors).

In cases where the government invests directly in financial-sector institutions, it is possible that it exerts influence over the business decisions of the institutions concerned. Given the difficult economic situation currently facing the Association of Volksbanks, this is a potential risk, particularly in respect of the Association of Volksbanks and the Issuer. It remains unclear how this additional influence will affect the Association of Volksbanks, including the Issuer and the VBW Group. It may result in the market price of the Notes in question falling. Similarly, payments from the Notes in question may be lowered in case of a bail-in as a result of restrictions imposed by state and regulatory authorities in the EU and Austria, or even be suspended partially or in full for a period of time.

Changes in legislation or changes in the regulatory environment may have negative effects on the Issuer's and the Association of Volksbanks' business activity.

The Issuer, the legally independent Volksbanks and two special credit institutions form an association of credit institutions (the "**Association of Volksbanks**") pursuant to § 30a of the Austrian Banking Act (*Bankwesengesetz* – "**BWG**") on the basis of the association agreement (the "**Association Agreement**"). § 30a BWG refers to, *inter alia*, the criteria set out in Article 10 (1) CRR. The business activity of the Issuer and the Association of Volksbanks is subject to both national and supranational laws and regulations, as well as the supervision of the respective supervisory authorities in the jurisdictions in which the Issuer and the Association of Volksbanks are active. Through changes in the respective legal and regulatory framework conditions (as well as in response to the global financial crisis and the sovereign debt crisis in Europe), including changes in rulings and administrative practice, the business activity of the Issuer, and its ability to meet existing obligations to Holders under the Notes, may be impaired. Initiatives aimed at improving banking supervisory framework conditions on an ongoing basis include the following:

- *Basel III and CRD IV Package*

In June 2011, January 2013 and October 2014, the Basel Committee on Banking Supervision ("**BCBS**") published its (final) international regulatory framework for credit institutions (known as "Basel III"), which is a comprehensive set of reform measures to strengthen the regulation, supervision and risk management of the banking sector.

The main parts of Basel III have been transposed into European law by the CRD IV package, i.e. the Directive 2013/36/EU (*Capital Requirements Directive IV – "CRD IV"*) of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC and the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (*Capital Requirements Regulation – "CRR"*).

The CRD IV package in particular (further) increased the qualitative and quantitative requirements for regulatory capital (own funds) and the required capital for derivative positions as well as newly introduced requirements for liquidity standards and a leverage ratio. The leverage ratio requirements will probably be harmonised at the EU level from 1 January 2018. Until this time, the regulators may apply these measures as they see fit.

The CRR (an EU regulation which directly applies in all EU Member States without any national implementation) as well as the Austrian federal law implementing the CRD IV into Austrian law (and certain related regulations), which includes amendments to the BWG, are applicable since 1 January 2014 subject to certain transitional provisions.

The implementation of Basel III at the international (in particular European) and national level causes additional costs for the Issuer and/or the Association of Volksbanks, which may have a negative impact on Issuer's or the Association of Volksbanks' business, financial condition and results of operations.

Furthermore, investigations and proceedings conducted by the responsible regulators may have negative effects on the business activity of the Issuer or the Association of Volksbanks and their shareholdings, e.g. changes in the recognition of own funds, stricter or different accounting standards.

- *Changes in Recognition of Own Funds*

Due to regulatory changes, certain existing capital instruments (which have been issued in the past) will be subject to (gradual) exclusion from own funds (grandfathering) or reclassification as a lower category of own funds. For example, existing hybrid capital instruments will, over time, be phased out.

- *Capital Buffers*

Articles 128 to 140 CRD IV introduce provisions that may require institutions to maintain newly defined specific capital buffers in addition to the CET 1 capital

maintained to meet the own funds requirements imposed by the CRR and potentially any Pillar 2 additional own funds requirements. In Austria, these provisions have been implemented into national law in §§ 23 to 23d BWG. Most of these buffer requirements will be gradually phased in starting from 1 January 2016 until 1 January 2019. Furthermore, the Austrian Capital Buffers Regulation (*Kapitalpuffer-Verordnung* – "**KP-V**") of the FMA, *inter alia*, stipulates the calculation, determination and recognition of the countercyclical buffer rate pursuant to § 23a(3) BWG.

Pursuant to the KP-V, the countercyclical buffer rate is currently set at 0.00% for significant credit exposures located in Austria.

- *BCBS' Reviews of Banking Regulatory Framework*

As part of its continuous effort to enhance the banking regulatory framework, the BCBS is currently reviewing different aspects and approaches under the Basel III framework. Originally, the BCBS intended to finalise all revisions to the Basel III framework at or around the end of 2016. However, on 3 January 2017 it was announced that more time is needed to finalise some work, including ensuring the framework's final calibration, and that the BCBS is expected to complete this work in the near future. Therefore, the BCBS' final calibration and the amendments to the Basel III framework and subsequently, its implementation within the European Union are still uncertain. On this basis, currently no firm conclusions regarding the impact on the potential future capital requirements and their impact on the capital requirements for the Issuer can be made.

- *Bank Recovery and Resolution Legislation*

The "Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms" (*Bank Recovery and Resolution Directive* - "**BRRD**") has been implemented in Austria into national law by the Austrian Recovery and Resolution Act (*Sanierungs- und Abwicklungsgesetz* – "**BaSAG**") which entered into force on 1 January 2015. The BRRD/BaSAG establishes a framework for the recovery and resolution of credit institutions and, *inter alia*, requires institutions to draw up "recovery plans" which set out certain arrangements and measures that may be taken to restore the long-term viability of the financial institution in the event of a material deterioration of its financial position. In addition, institutions have to meet, at all times, the minimum requirement for own funds and eligible liabilities ("**MREL**") set by the resolution authority on a case-by-case basis. Measures undertaken under the BRRD/BaSAG may also have a negative impact on debt instruments (such as, in particular, AT 1 instruments, Tier 2 instruments, other subordinated notes, but under certain circumstances also senior notes, including but not limited to the Notes) by allowing resolution authorities to order the write-down of such instruments or convert them into CET 1 instruments (see also the risk factor "*The Notes may be subject to write-*

down or conversion to equity upon the occurrence of a certain trigger event, which may result in Holders losing some or all of their investment in the Notes (statutory loss absorption)."). Apart from potentially being subject to resolution tools and other powers as set out under the BRRD/BaSAG, the Issuer may also be subject to national insolvency proceedings.

- *Single Resolution Mechanism for European Credit Institutions*

The Single Resolution Mechanism ("**SRM**") which started operationally in January 2016 is one of the components of the Banking Union, alongside the Single Supervisory Mechanism ("**SSM**") and a common deposit guarantee scheme. It is set to centralise key competences and resources for managing the failure of a credit institution in the participating Member States of the Banking Union. Under the SRM, the Single Resolution Board ("**SRB**") is, in particular, responsible for adopting resolution decisions in close cooperation with the ECB, the European Commission and the national resolution authorities in case of a failing (or likely failing) of a significant entity subject to direct supervision of the ECB, such as the Issuer (see also the risk factor "*The Notes may be subject to write-down or conversion to equity upon the occurrence of a certain trigger event, which may result in Holders losing some or all of their investment in the Notes (statutory loss absorption).*"). The SRM complements the SSM and aims to ensure that if a credit institution subject to the SSM faces serious difficulties, its resolution can be managed efficiently with minimal costs to taxpayers and the real economy.

The SRM is governed by: (i) the "Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010" (*Single Resolution Mechanism Regulation – "**SRM Regulation**"*) covering the main aspects of the mechanism and broadly replicating the BRRD rules on the recovery and resolution of credit institutions; and (ii) an intergovernmental agreement related to some specific aspects of the Single Resolution Fund ("**SRF**").

The SRF shall be composed of contributions from credit institutions and certain investment firms in the participating Member States. The SRF shall be gradually built up during the first eight years (2016 - 2023) and shall reach the target level of at least 1% of the amount of covered deposits of all credit institutions within the Banking Union by 31 December 2023.

- *Minimum Requirement for Own Funds and Eligible Liabilities*

In order to ensure the effectiveness of bail-in and other resolution tools introduced by the BRRD, the BRRD requires that all institutions must meet an individual MREL requirement, currently to be calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities, with effect from 1 January 2016 (taking into account the anticipated developments to be expected in connection with MREL, the risk-weighted assets are now used already for the calculation instead of the total liabilities due to a requirement by the resolution authorities) and determined by the relevant resolution authorities. In this regard, the European Commission

issued a Delegated Regulation supplementing the BRRD, which specifies the current criteria for setting MREL ("**MREL Delegated Regulation**"). The MREL Delegated Regulation requires each resolution authority to make a separate determination of the appropriate MREL requirement for each group or institution within its jurisdiction, depending on the institution's resolvability, risk profile, systemic importance and other characteristics. As of the date of the Prospectus, no final MREL has been set for the Issuer (although a preliminary MREL exists).

It is possible that the Issuer has to issue additional MREL eligible liabilities in order to meet the additional requirements (see also the risk factor "*The Issuer and/or the Association of Volksbanks may not be able to meet the minimum requirement for own funds and eligible liabilities; this would lead to regulatory measures that could have a negative impact on the business, financial condition and results of operations.*").

- *EU Banking Reform Package of European Commission*

On 23 November 2016, the European Commission published consultation drafts for the revision of the CRD IV and the CRR as well as of the BRRD and the SRM Regulation. The proposal builds on existing EU banking rules and aims to complete the post-crisis regulatory agenda of the European Commission. The consultation drafts, which have been submitted to the European Parliament and to the Council for their consideration and adoption, include the following key elements: (i) more risk-sensitive capital requirements, in particular in the area of market risk, counterparty credit risk, and for exposures to central counterparties; (ii) a binding leverage ratio to prevent institutions from excessive leverage; (iii) a binding net stable funding ratio to address the excessive reliance on short-term wholesale funding and to reduce long-term funding risk; and (iv) the TLAC requirement for G-SIIs which will be integrated into the MREL logic applicable to all credit institutions. It also proposes a harmonised national insolvency ranking of unsecured debt instruments to facilitate credit institutions' issuance of such loss absorbing debt instruments.

Currently, no firm conclusions regarding the impact on the potential future capital requirements and consequently how this will affect the capital requirements for the Issuer and/or the Association of Volksbanks can be made.

- *MiFID II / MiFIR*

The current EU regulatory framework for investment services and regulated markets set by, *inter alia*, the MiFID will be updated by the Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (*Markets in Financial Instruments Directive II* – "**MiFID II**") and the Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (*Markets in Financial Instruments Regulation* - "**MiFIR**"). Due to a postponement, the (new) date of the application will be 3 January 2018. As MiFID II and MiFIR will effect regulatory changes affecting derivatives, other financial instruments and related procedures, there will be increased costs

and/or increased regulatory requirements. On 26 July 2017, the Austrian Securities Supervision Act 2018 (*Wertpapieraufsichtsgesetz 2018 – WAG 2018*) for the implementation of MiFID II in Austria was published. As such changes are still in the process of being implemented and it remains unclear how the new rules will be applied, the full impact of MiFID II and MiFIR cannot yet be assessed.

- *Stricter and Changing Accounting Standards*

Prospective changes in accounting standards as well as those imposing stricter or more extensive requirements to carry assets at fair value, could also impact the Issuer's capital needs.

Additional, stricter and/or new regulatory requirements may be adopted in the future, and the existing regulatory environment in many markets in which the Issuer operates continues to evolve. The substance and scope of any such (new or amended) laws and regulations as well as the manner in which they are adopted or enforced (nationally or internationally) and/or interpreted by the relevant regulators may have an adverse effect on the Issuer's business, financial condition and results of operations, along with the latter's prospects.

Furthermore, any such regulatory development may prevent the Issuer from continuing with existing business segments in part or in full, restrict the nature or scope of the transactions conducted by the Issuer, or limit the amount of interest and fees that it may charge for loans and other financial products, or require changes to be made here. Additionally, considerably higher compliance costs and substantial restrictions on the realisation of business opportunities may arise for the Issuer.

The Issuer is subject to the risk of changes in the tax framework, in particular regarding bank tax and the introduction of a financial transaction tax.

The future development of the Issuer's assets, financial and profit position, *inter alia*, depends on the tax framework. Every future change in legislation, case law and the tax authorities' administrative practice may negatively impact on the Issuer's assets, financial and profit position.

The Issuer is subject to bank tax (*Stabilitätsabgabe*) pursuant to the Austrian Bank Tax Act (*Stabilitätsabgabegesetz*). The tax basis is the average unconsolidated balance sheet total. It is reduced, *inter alia*, by secured deposits, subscribed capital and reserves, certain liabilities against credit institutions that are being wound up or that are being restructured, certain export finance related liabilities for which the Republic of Austria has posted guarantees and certain liabilities resulting from the holding of assets on trust. The tax rate is 0.024% for that part of the tax basis exceeding EUR 300 million but not exceeding EUR 20 billion and 0.029% for that part exceeding EUR 20 billion. However, the bank tax must neither exceed certain statutorily defined limits (*Zumutbarkeitsgrenze* and *Belastungsobergrenze*) nor undercut a minimum amount.

Pursuant to the proposal by the European Commission for a "Council Directive implementing enhanced cooperation in the area of financial transaction tax" eleven EU Member States, i.e. Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, the Slovak Republic, Slovenia and Spain ("**Participating Member States**") shall charge a financial transaction tax ("**FTT**") on financial transactions as defined if at least one

party to the transaction is established in the territory of a Participating Member State and a financial institution established in the territory of a Participating Member State is party to the transaction, acting either for its own account or for the account of another person, or is acting in the name of a party to the transaction (residency principle). However, Estonia has since stated that it will not participate. In addition, the proposal contains rules pursuant to which a financial institution and, respectively, a person which is not a financial institution are deemed to be established in the territory of a Participating Member State if they are parties to a financial transaction in certain instruments issued within the territory of that Participating Member State (issuance principle). According to a publication by the Council of the European Union dated 8 December 2015, shares and derivatives shall be taxed initially. All Participating Member States except for Estonia have agreed on main features of the tax base, but not on the respective tax rates. It is unclear whether an FTT will be introduced at all. The FTT as proposed by the European Commission has a very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. If an FTT is introduced, due to higher costs for investors there is a risk that it would result in fewer transactions taking place, thereby negatively affecting the earnings of the Issuer. Prospective holders of the Notes are advised to seek their own professional advice in relation to FTT.

Changes in accounting principles and standards may have an impact on the presentation of the business and financial results of the Issuer and/or the Association of Volksbanks (risk of change in accounting principles).

The Issuer prepares its consolidated financial statements in accordance with International Financial Reporting Standards⁵ (as adopted by the EU "IFRS") standards. The consolidated financial statements of the Association of Volksbanks are prepared in accordance with International Financial Reporting Standards (as adopted by the EU "IFRS" and based on the Framework of Rules for the preparation of consolidated financial statements of the Association of Volksbanks). From time to time, the International Accounting Standards Board (IASB) announces changes in the IFRS standards or their interpretations. These changes are normally mandatory for all entities applying IFRS. Such changes may have a material impact on how the Issuer records and reports its financial position, as well as its business and financial results.

The Issuer is expecting an impact from changes in impairment methodology and from changes in valuation of approximately -50 bps on CET1 at the level of the Association of Volksbanks and a negligible impact on CET1 at the level of the Issuer. The amount depends on market developments until End of 2017, positive effects could partially compensate this impact.

⁵ International Financial Reporting Standards are issued by the IASB and adopted by the European Union. The issuer prepares separate financial statements pursuant to the BWG and in accordance with the Austrian Enterprise Code (*Unternehmensgesetzbuch – UGB*).

Compliance with anti-money laundering, anti-corruption and anti-terrorism financing rules involve significant costs and efforts and non-compliance may have severe legal and reputational consequences.

The Issuer is subject to rules and regulations regarding money laundering, sanctions, corruption and the financing of terrorism. These rules and regulations have been recently tightened, in particular by the implementation of the Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC (so-called "4th AML-Directive"). Monitoring compliance with anti-money laundering, sanctions, anti-corruption and anti-terrorism financing rules which might be further tightened and enforced more strictly can result in a significant financial burden on credit institutions and other financial institutions and can pose serious technical problems. The Issuer cannot guarantee that it is in compliance with all applicable anti-money laundering, sanctions, anti-corruption and anti-terrorism financing rules at all times or that its group-wide anti-money laundering, sanctions, anti-corruption and anti-terrorism financing standards are being consistently applied by its employees in all circumstances. Any violation of anti-money laundering, sanctions, anti-corruption or anti-terrorism financing rules, or even alleged violations, may have severe legal, monetary and reputational consequences and could have a material adverse effect on the Issuer's business, financial condition and results of operations.

There is a risk that the Issuer, the VBW Group and/or the Association of Volksbanks are directly affected by the economic difficulties of other large institutions in the financial sector.

Economic difficulties afflicting large institutions in the financial sector, such as credit institutions or insurance companies, may generally have a negative impact on financial markets and contracting partners. Institutions in the financial sector are mutually dependent on each other, such as through loans, trade and clearing and/or other interconnections. As a result, negative assessments of large institutions in the financial sector, such as by rating agencies and other market participants or economic difficulties of larger institutions in the financial sector may lead to significant liquidity problems on the market and to losses or economic difficulties for other institutions in the financial sector. These risks are generally referred to as systemic risks and may have a negative impact on financial intermediaries such as clearing systems, banks, securities companies and stock exchanges (with which the Issuer interacts on a daily basis). Such dependency is particularly pronounced among the members of the Association of Volksbanks and due to the close contractual ties that are further-reaching than among other institutions of the financial sector. The occurrence of one or a combination of these events may have materially negative effects on the Issuer, the VBW Group and the Association of Volksbanks, as well as the ability of the Issuer to make payments relating to the Notes.

There is a risk of losses due to inadequate or failed internal processes, people, systems or external events, regardless of whether these were caused intentionally or accidentally by natural circumstances (operational risk).

The Issuer is exposed to operational risk, which is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events, regardless of whether these were caused intentionally or accidentally by natural circumstances (operational risk). Such operational risks comprise the risk of unexpected loss as a result of individual events arising, *inter alia*, from faulty information systems, inadequate organisational structures or ineffective control mechanisms. Such risks also comprise the risk of higher costs or loss as a result of generally unfavourable economic or trade-specific trends. Reputational damage that the Issuer may experience as a result of one of these events also falls under this risk category.

If operational risk occurs, this may lead to unexpectedly high losses and consequently significantly reduce the ability of the Issuer to make payments relating to the Notes and have a materially negative impact on the market price of the Notes.

The loss of key personnel may have a material adverse effect on the business activity of the Issuer.

The Issuer's key personnel, such as members of its Managing Board and its senior management, play a major role in the development and implementation of the Issuer's strategy. The continued work of the key personnel at the Issuer is essential for its management and its ability to successfully implement strategies. The loss of key personnel could therefore have a material adverse effect on the Issuer's business, financial condition and results of operations.

The Issuer may have difficulty recruiting new talent or retaining qualified employees.

The Issuer's commercial success depends, *inter alia*, on its ability to retain existing employees and to recruit additional talents with the necessary qualifications and level of experience in banking. Increasing competition for labour from other international financial institutions using substantial capital resources may also make it more difficult for the Issuer to attract and retain qualified employees and may lead to rising labour costs and/or the loss of know-how in the future.

There is a risk that a rating agency suspends, downgrades or withdraws the rating of Issuers and/or the Association of Volksbanks, all of which could lead to a reliability and liquidity risk (risk of rating changes).

A rating is the opinion of a rating agency on the credit standing of an Issuer, i.e. a forecast or an indicator of the solvency of the company(-ies) the rating refers to and, in the case of the Association of Volksbanks, indirectly also of the Issuer. It is not a recommendation to buy, sell or hold Notes.

A rating agency may suspend, downgrade or withdraw a rating at any time in justified cases. Any such action may seriously impact the credit rating and liquidity of the Issuer and have an adverse effect on the market price of the Notes. The rating of the Association of Volksbanks may also be negatively affected in particular by a

deterioration of the creditworthiness of one or more individual members of the Association of Volksbanks. A downgrading of the rating may also lead to a restriction of access to funds and, consequently, to higher refinancing costs for the members of the Association of Volksbanks, including the Issuer. A rating may also be suspended or withdrawn if the Association of Volksbanks were to terminate the agreement with the relevant rating agency or to determine that it would not be in its interest to continue to supply financial data to a rating agency.

Potential investors should be aware that the rating of the Association of Volksbanks may be suspended, downgraded or withdrawn, thereby also undermining confidence in the Issuer, increase its refinancing costs, restrict its access to refinancing and capital markets or limit the range of counterparties willing to enter into transactions with the Issuer, which may have a negative impact on the Issuer's business, financial condition and results of operations.

If the rating of the Issuer's covered bonds is no longer defined as investment grade (the "**Investment Grade**"), these may no longer be deposited at the ECB as collateral, which may lead to a liquidity shortage and have a negative impact on Issuer's business, financial condition and results of operations.

The Issuer is exposed to the risk of partial or total interest loss and/or loss of the repayment amount to be made by the counterparty (credit risk).

The Issuer is exposed to a range of counterparty and credit risks. Third parties who owe the Issuer money, securities or other assets may be unable to meet their payment or other obligations against the Issuer as a result of, *inter alia*, insolvency, lack of liquidity, economic downturns or loss of value of property, business interruptions or other reasons.

Credit risk is one of the most substantial risks for credit institutions, as it may arise both with standard bank products, such as loans, discount and guarantee business, as well as with certain other products such as derivatives (e.g. futures, swaps and options) as well as repurchase transactions (*Pensionsgeschäfte*) and securities lending transactions, and thus from a range of different transactions, including all types of business pursued by the Issuer. The occurrence of credit risk may negatively impact on the Issuer's business, financial condition and results of operations or other companies of the VBW Group and thus also on the ability of the Issuer to make payments on the Notes.

Credit risk also includes country risk. This relates both to the credit risk of sovereign counterparties (regional authorities) as well as the risk that a foreign counterparty is unable, despite being solvent, to make planned interest payments or repayments as, for instance, the responsible central bank does not have adequate foreign currency reserves (economic risk) or due to intervention on the part of the corresponding government (political risk).

In recent years, the sovereign debt markets in the eurozone have experienced substantial stress as the financial markets have begun to perceive a number of countries, such as Greece, Ireland, Italy, Portugal, Spain, Cyprus and Slovenia as well as – outside the eurozone – Russia and Ukraine, as representing an increased credit risk. These concerns have persisted in light of increasing public debt levels and

stagnating economic growth in these and other European countries both within and outside the eurozone, including countries in Central and Eastern Europe. It cannot be ruled out that the Issuer will need to make further impairments as a result of country risks. These may have significantly negative effects on the Issuer's business, financial condition and results of operations.

Potential Holders should be aware that the Issuer is exposed to credit risks in each of their business areas and that, if credit risks occur, they may limit the ability of the Issuer to make payments on the Notes and also adversely affect the market price of the Notes.

The value of Issuer participations and its income therefrom may fall and the Issuer may be obliged to make further investments in their participations (participation risk).

The Issuer holds direct and indirect investments in companies. There is a risk that, due to economic difficulties being experienced by companies in which the Issuer holds a stake, these investments need to be subject to impairments and/or write-downs, and income from the participations falls or disappears entirely. The Issuer may also be obliged to make further investments in their participations. Such impairments and/or write-downs and/or contribution obligations becoming necessary may have an adverse effect on Issuer's business, financial condition and results of operations.

There is a risk that, in the future, there are no favourable funding possibilities available to the Issuer on the capital market (refinancing risk).

The Issuer's refinancing possibilities depend partially on the national and international capital markets. The Issuer's ability to obtain refinancing in the future under economically acceptable conditions depends on the economic development and situation of the Issuer, as well as the Association of Volksbanks and, furthermore, on market-related factors such as the interest rate, the availability of liquid funds or the situation of other institutions in the financial sector over which the Issuer has no influence. There is no guarantee that the Issuer will have access to refinancing on the financial market under acceptable conditions. If the Issuer is unable to obtain acceptable refinancing on the capital market, this may have a materially adverse effect on Issuer's business, financial condition and results of operations, and thus on its ability to make payments on the Notes.

The Issuer is obliged to contribute amounts to the Single Resolution Fund and to *ex ante* financed funds of the deposit guarantee schemes of Volksbank Einlagensicherung eG; this results in additional financial burdens for the Issuer and thus, adversely affects the financial position of the Issuer and the results of its business, financial condition and results of operations.

The SRM includes a Single Resolution Fund (SRF) to which credit institutions and certain investment firms in the participating Member States have to contribute.

Furthermore, the "Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes" (Directive on Deposit Guarantee Schemes – "DGSD") stipulates financing requirements for the Deposit Guarantee Schemes ("DGS"). In principle, the target level of *ex ante* financed funds for DGS is

0.8% of covered deposits to be collected from credit institutions until 3 July 2024. According to the Austrian Deposit Guarantee and Investor Protection Act (*Einlagensicherungs- und Anlegerentschädigungsgesetz* – "ESAEG"), which implements the DGSD in Austria, the deposit guarantee fund must therefore be established until 3 July 2024.

In the past, the Austrian mandatory DGS did not require *ex ante* funding, but merely has obliged the respective DGS-members (*ex post*) to contribute after deposits of any member have become unavailable (protection event). Therefore, the implementation of the DGSD into Austrian law which stipulates *ex ante* contributions triggers an additional financial burden for the Issuer.

In addition to *ex ante* contributions, if necessary, credit institutions have to pay certain additional (*ex post*) contributions also in the case that other Austrian deposit guarantee schemes face a lack of funds due to failures of the respective members.

The obligation to contribute amounts for the establishment of the SRF and the *ex-ante* funds to the DGS results in additional financial burdens for the Issuer and thus, adversely affects the financial position of the Issuer and the results of its business, financial condition and results of operations.

The Issuer is exposed to currency risks, as part of its activities, assets and customers are outside the eurozone (foreign currency risk).

The Issuer has assets and customers outside the eurozone and thus, performs part of its business activities outside the eurozone. The Issuer is therefore subject to foreign currency risk, i.e. the risk that the value of these assets and/or income generated outside the eurozone will fall as a result of the devaluation of the respective currency against the euro or the value of its liabilities and/or payments due outside the eurozone increases as a result of an appreciation of the respective currency against the euro. Local governments may undertake measures that affect the currency levels and exchange rates and thus influence the credit risk of the Issuer regarding these currencies, e.g. a minimum exchange rate for the euro which determines how banks must convert foreign currency loans into local currency. There can be no assurances that similar measures will not be introduced in various countries outside the eurozone. All this may have a negative impact on the Issuer's business, financial condition and results of operations of the Issuer and thus, an adverse effect on the ability of the Issuer to make payments on the Notes.

There is a risk that the devaluation of collateral used to guarantee business and real estate loans has a materially adverse effect on the Issuer's business, financial condition and results of operations.

Under the current prevailing market conditions, the Issuer expects volatile prices for measures to secure business and real estate loans to continue. In view of changing framework conditions on the money and capital markets and/or concerning investor yield expectations, this may lead to stress and substantial write-downs of collateral that may negatively affect the result of the Issuer's business, financial condition and results of.

There is a risk that the Issuer has insufficient access to liquidity to fulfil its payment obligations or such liquidity may only be obtained by the Issuer under unfavourable conditions (liquidity risk).

The Issuer is legally obliged to hold enough liquid funds to be able to meet its payment obligations at all times. In this context, the Issuer is required to comply with regulatory figures like the LCR (liquidity coverage ratio) and the mandatory ILAAP (internal liquidity adequacy assessment process).

Credit and money markets have experienced and will continue to experience banks' reluctance to lend to each other due to uncertainty about the creditworthiness of banks. Even the perception among market participants that a financial institution has a greater liquidity risk may lead to a substantial damage to the institution, as potential investors could require additional collateral or other measures which further reduce the ability of that institution to ensure the provision of funds. This increase in counterparty risk has led to a further restriction on the Issuer's access to traditional sources of funds and may be impaired by further regulatory restrictions on the capital structure and the calculation of regulatory capital quotas.

The liquidity situation of the Issuer can be demonstrated by comparing payment obligations with payment receipts. Inconsistency between incoming and outgoing payments (e.g. due to late repayments, unexpectedly high outflows, the failure of follow-up financing or due to a lack of market liquidity) may result in liquidity bottlenecks or stagnation which will lead to the Issuer no longer being able to meet its payment obligations (in full and on time), thereby falling into arrears or having to procure funds at conditions that are unfavourable to the Issuer. The Issuer's liquidity situation may also be influenced by the liquidity situation of other members of the Association of Volksbanks as the liquidity situation is monitored on the basis of the consolidated accounts of the Association of Volksbanks. This may have adverse effects on the Issuer's business, financial condition and results of operations, and limit its ability to meet its obligations as part of the Notes.

The Issuer is exposed to risks associated with the transfer of parts of VBAG (now immigon portfolioabbau ag) businesses in the course of the implementation of the plans for the restructuring of the Association of Volksbanks, which, *inter alia*, resulted in the Issuer assuming the central organisation function in the Association of Volksbanks and which could have a material adverse effect on the Issuer's business, financial condition and results of operations.

Österreichische Volksbanken AG ("**VBAG**"), the former central organisation of the Association received financial support twice in response to the financial crisis. Association member banks and the Austrian government injected capital into VBAG in 2009 and 2012. In the course of the implementation of the plans for the restructuring of the Association of Volksbanks, the former VBAG leaving the Association of Volksbanks and the conversion of the VBAG into a wind-down company (*Abbaugesellschaft*) in 2015, the Issuer was transferred certain assets, contracts, resources and systems (the "**Parts of VBAG Business**") from VBAG, enabling the Issuer to assume and fulfil its role as a central organisation of the Association of Volksbanks.

Despite a review of the takeover of the Parts of VBAG Business by employees of the Issuer and external consultants, it cannot be ruled out that the actual value of the assets is lower and/or the actual amount of the liabilities is greater than expected. Nor can it be ruled out that the Issuer will be required to assume liability for currently unknown liabilities or other risks of the transferring company which are currently unknown to it as a result of the transfer of business parts. There is also the risk that the management of the Issuer will not be able to manage the significantly larger group of companies efficiently and to generate sufficient income after the takeover of the Parts of VBAG Business.

If only parts of the risks described above materialise, this may have far-reaching materially adverse effects on the Issuer's net asset, financial and earnings position, and have a materially adverse effect on its ability to fulfil its obligations under the Notes.

There is a risk that the obligations of the Issuer arising from the Association of Volksbanks may have a negative impact on the Issuer's business, financial condition and results of operations (association risk).

Based on a respective Association Agreement, the Issuer, in its role as central organisation (*Zentralorganisation*), the legally independent Volksbanks and two special credit institutions form an association of credit institutions pursuant to § 30a BWG. § 30a BWG refers to, *inter alia*, the criteria set out in Article 10 (1) CRR. The Association of Volksbanks is *inter alia*, based, on (normally unlimited) mutual assumptions of liability (e.g. in the event of a liquidity crisis or a threatening deterioration in the financial situation of a member of the Association of Volksbanks) by the central organisation and the member credit institutions (*Liquiditäts- und Haftungsverbund*).

The Issuer is obligated to contribute to the trust fund (the "**Trust Fund**") provided for in the Association Agreement for the Association of Volksbanks in order to be able to take appropriate (intervention) measures (e.g. in the event of a liquidity crisis of a member of the Association of Volksbanks) according to the provisions of the Association Agreement.

In this context, the economic difficulties of one or more members of the Association of Volksbanks may have a materially adverse effect on the other members – and thus on the Issuer as well.

The Issuer and/or the Association of Volksbanks may no longer be able in the future to meet the regulatory conditions stipulated by the regulators, in particular the capital ratio; this could lead to regulatory measures that endanger the existence of the Issuer.

Based on the results of the Supervisory Review and Evaluation Process ("**SREP**"), the relevant competent authorities stipulated a total SREP capital requirement for the Issuer consisting of a minimum own funds requirement and an additional capital requirement consisting of CET 1 capital. The Issuer and the Association of Volksbanks are subject to regular periodic review by the relevant competent authorities under SREP.

2017 SREP: SREP decision for 2017: a minimum CET 1 Pillar 1 requirement of 4.5%, a CET 1 Pillar 2 requirement of 2.5%, a phased-in capital conservation buffer of 1.25%

and a Pillar 2 guidance of 2.45%. This implies a 10.7% CET 1 demand for 2017. The total capital requirement for 2017 is 11.75% (including 1.5% AT 1 and 2% Tier 2 requirement, excluding Pillar 2 guidance). The capital conservation buffer will rise to 2.5% in 2019. For 2017, there is no further buffer to be added to the requirements above.

2018 SREP: (preliminary) SREP decision for 2018: a minimum CET 1 Pillar 1 requirement of 4.5%, a CET 1 Pillar 2 requirement of 2.5%, a phased-in capital conservation buffer of 1.875%, an expected phased-in systemic risk buffer of 0.25% and a Pillar 2 guidance of 1.8%. This implies a 10.925% CET 1 demand for 2018. The total capital requirement for 2018 is 12.625% (including 1.5% AT 1 and 2% Tier 2 requirement, excluding Pillar 2 guidance). The capital conservation buffer will rise to 2.5% in 2019. The expected systemic risk buffer will rise to 1% in 2020.

In addition, there are also additional statutory and official regulatory requirements, notably concerning capital demands and liquidity to be met by the Issuer and/or the Association of Volksbanks.

Non-compliance by the Issuer and/or the Association of Volksbanks with the regulatory requirements applicable to Issuer and/or the Association of Volksbanks (in particular the own funds and liquidity requirements) may lead to materially negative consequences, in particular to regulatory measures (including the dissolution of the Association of Volksbanks). This would have unforeseeable consequences for the Issuer and/or members of the Association of Volksbanks and could endanger the existence of the Issuer (see here also the risk factor "*There is a risk that the economic difficulties of the Association of Volksbanks or one of its members may have a materially adverse effect on the Issuer.*").

The Issuer and/or the Association of Volksbanks may not be able to meet the minimum requirement for own funds and eligible liabilities; this would lead to regulatory measures that could have a negative impact on the business, financial condition and results of operations.

Under the SRM, each institution has to ensure that it meets at all times (on an individual basis and in case of EU parent undertakings (such as the Issuer) also on a consolidated basis) a MREL. Such minimum requirement currently shall be determined by the resolution authority and shall be calculated as the amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds of the institution. The scope, calculation and composition of the MREL is currently under review (see also the risk factor "*Changes in legislation or changes in the regulatory environment may have negative effects on the Issuer's and the Association of Volksbanks' business activity.*"). The Single Resolution Board (SRB) advised the Association of Volksbanks that it will issue a final MREL ratio for the Association of Volksbanks either in late 2017 or in early 2018. The final MREL ratio will substitute the indicative MREL ratio issued in 2016, which was set at 24.75%. The indicative ratio was derived by doubling the total capital requirement without buffers (Pillar 1 requirement of 8.0% and Pillar 2 requirement of 2.5%) under SREP of 10.5% and adding a "fully loaded" combined buffer requirement of 2.5% (consisting of 2.5% capital conservation buffer) and a 1.25% market confidence charge (consisting of the 2.5% fully loaded combined buffer requirement minus 1.25%). The

minimum required eligible liabilities can in future be fulfilled by issuing new capital instruments (CET 1, AT 1, Tier 2) and/or senior non-preferred liabilities (for which the introduction of legal requirements is pending) and/or potentially eligible senior liabilities. There is a risk that the Issuer and/or the Association of Volksbanks may not be able to meet these minimum requirements for own funds and eligible liabilities which could result in higher refinancing costs, regulatory measures and, if resolution measures were imposed on the Issuer, could significantly affect its business, financial condition and results of operations and lead to losses for its creditors (including the Holders) and materially adversely affect the Issuer's ability to make payments on the Notes.

There is a risk that the Issuer incurs additional costs through the Association of Volksbanks that could have a negative impact on the Issuer's business, financial condition and results of operations.

Each of the services to be rendered by the Issuer as the central organisation is performed on the basis of the Association Agreement concluded between the Issuer and the members of the Association of Volksbanks, including the Issuer. The Issuer has, *inter alia*, the competence to take (binding) decisions for the members of the Association of Volksbanks participating in the *Haftungsverbund* (Joint Liability Scheme). In addition, there are also commitments under the Cooperation Agreement (as defined below) concluded, whereby the Volksbank Vertriebs- und Marketing eG is also entrusted, among other things, with the competence to adopt resolutions to bear their costs by the members of the Association of Volksbanks in the context of the implementation of the target structure of the Association of Volksbanks.

In addition to the costs for the restructuring of the Association of Volksbanks, this includes above all the determination of the amount of transfer prices for services provided across the Association and the allocation of distribution keys to cover costs incurred by Volksbank Vertriebs- und Marketing eG in the performance of its tasks as well as for other services rendered within the framework of the Association of Volksbanks, provided that they are not compensated for by transfer prices.

There is therefore a risk that additional costs are incurred through the Association of Volksbanks (including the costs of its restructuring) for the Issuer through possible future changes in the distribution keys by the Issuer or Volksbank Vertriebs- und Marketing eG, which may have a negative impact on the Issuer's business, financial condition and results of operations.

There is a risk that the economic difficulties of the Association of Volksbanks or one of its members may have a materially adverse effect on the Issuer.

There is a risk that the economic difficulties of the Association of Volksbanks or one of its members may have a materially adverse effect on the Issuer.

In the event of the elimination of the preconditions for the formation of the Association of Volksbanks, or if the Association of Volksbanks is no longer able to meet the regulatory requirements (in particular in case of non-compliance with the capital requirements at the consolidated level of the Association of Volksbanks without prospect of improvement), the responsible authority must officially rule that an association of credit institutions pursuant to § 30a BWG no longer exists. Such dissolution of the Association of

Volksbanks would have unforeseeable consequences for all members of the Association of Volksbanks, including the Issuer, and may have an adverse effect on the Issuer's business, financial condition and results of operations and the VBW Group.

In view of the uniform presence of the Association of Volksbanks on the market and the perception thereof, any negative developments for one or more members of the Association of Volksbanks may also have a negative economic impact on the Issuer.

The Issuer is exposed to risks relating to amalgamations (mergers), both carried out and planned, that may have far-reaching negative consequences for the Issuer's business, financial condition and results of operations.

In 2016, the banking activities of Volksbank Weinviertel e.Gen., Volksbank Niederösterreich Süd eG and Volksbank Südburgenland eG have been transferred into the Issuer by way of universal succession (*Gesamtrechtsnachfolge*) pursuant to § 92 BWG by way of certain contribution in kind agreements (*Sacheinlagenverträge*).

Due to the contribution and contribution in kind agreement (*Sacheinlagenvertrag*) dated 22 May 2017, the banking activities of SPARDA BANK AUSTRIA eGen have been transferred into the Issuer by way of universal succession (*Gesamtrechtsnachfolge*) pursuant to § 92 BWG, the respective transfer of assets (*Einbringung*) was registered in the Austrian companies register (*Firmenbuch*) on 17 August 2017.

Despite a review of advantages and disadvantages of the mergers, both carried out and planned, by employees of the Issuer and external consultants, it cannot be ruled out that the actual value of the assets of one or more of the transferring cooperatives is lower and/or the actual amount of the liabilities of one or more of the transferring cooperatives is greater than expected. Nor can it be ruled out that the Issuer will be required to assume liability for currently unknown liabilities or other risks of the transferring cooperatives which are currently unknown to it as a result of the mergers, both carried out and planned. It is also uncertain whether the synergy effects anticipated by the Issuer will be achieved at all through the mergers planned and carried out, or if they are achieved to the extent and at the time expected. Finally, it cannot be guaranteed that the Issuer is able to integrate the transferring cooperatives into its operations at all or in a timely fashion. There is also the risk that the management of the Issuer will not be able to manage the significantly larger companies efficiently and to generate sufficient income after performing the planned and actual mergers.

If the planned and actual mergers do not have the effects intended by the Issuer or the risks described above occur even only in part, this may have far-reaching materially adverse effect on the Issuer's net asset, financial and earnings position, and have a materially adverse effect on its ability to fulfil its obligations under the Notes.

There is a risk that, after the temporary regulatory approval concerning the weighting of risk positions vis-à-vis the members of the Association of Volksbanks still to be merged, additional expenses arise that may have a negative effect on the Issuer's business, financial condition and results of operations and the Association of Volksbanks.

By ECB resolution of 29 June 2016, the Issuer as the central organisation was granted approval, with effect from 1 July 2016, of non-application of the requirements under Article 113(1) CRR with respect to risk positions (assets and off-balance sheet items to be covered by own funds) vis-à-vis the members of the Association of Volksbanks as counterparties and allocation of a risk weight of 0% (zero weighting) vis-à-vis these members of the Association of Volksbanks as counterparties under Article 113(6) CRR, unless they are items of CET 1 capital, AT 1 capital or Tier 2 capital. The ECB granted its approval for this waiver for the members of the Association of Volksbanks in which mergers are still to be performed by 31 December 2017 to create the planned target structure, consisting of up to eight regional Volksbanks and up to three special credit institutions, however only temporarily until this date.

If the planned mergers cannot be implemented (in full) by the end of 2017, the temporary approval in respect of members for which the mergers have not yet been implemented, both for members of the Association of Volksbanks to be integrated and the ones integrating, would lapse, which would trigger the obligation of the Issuer to hold own funds for the risk positions vis-à-vis these members.

In such case, the Issuer as central organisation would be dependent on an inflow of external capital to provide own funds, which could result in a not insignificant financial burden being placed on the Issuer. Pursuant to the agreements made in the Association of Volksbanks, the member credit institutions would have to carry out a necessary recapitalisation on a pro rata basis.

These developments could have an adverse effect on the Issuer's business, financial condition and results of operations and the members of Association of Volksbanks.

If dividends under a participation right issued by the subsidiary VB Rückzahlungsgesellschaft mbH in the course of restructuring measures are effected to the Republic of Austria, the Issuer has agreed to make contributions to such dividends.

In the course of measures to restructure the Association of Volksbanks, a participation right was issued by VB Rückzahlungsgesellschaft mbH (a wholly owned subsidiary of the Issuer) to the Federal Government (*Bundesregierung*) of the Republic of Austria (the "**Austrian Government Participation Right**") to fulfil the commitments given vis-à-vis the Republic of Austria to obtain the state aid law approval for the restructuring from the European Commission.

The members of the Association of Volksbanks (including the Issuer) agreed to make contributions to the disbursements under the Austrian Government Participation Right.

In addition, certain shareholders of the Issuer transferred to the Federal Government, on 28 January 2016, certain shares in the Issuer without consideration as ownership transferred by way of security after receipt of a corresponding statement of purchase by

the Federal Government, meaning that the Federal Government consequently holds a total of 25% plus one share in the Issuer (also after implementation of the contribution of the banking operations of other members of the Association of Volksbanks into the Issuer in the course of restructuring, as has been planned in the course of restructuring and necessary to restructure members of the Association of Volksbanks). The Federal Government is obliged to transfer said shares back to the shareholders without consideration, as soon as the sum of the dividends, on the participation right held by the Federal Government, received by the Federal Government and other creditable amounts, as defined in the Restructuring Agreement 2015, reaches EUR 300 million. As of 2 August 2017, EUR 233 million of the Austrian Government Participation Right was still outstanding.

The Federal Government is not authorised to dispose of these shares, except if the amounts received by the Federal Government on contractually defined dates (dividends on the Austrian Government Participation Right and eligible amounts) do not achieve defined minimum amounts. In this case, the relevant shareholders of the Issuer have agreed to transfer to the Federal Government further 8% of the ordinary shares of the Issuer without any further consideration and to make these freely available. Overall, accordingly, up to 33% plus 1 share of the shares in VBW may pass into the ownership of the Federal Government and the Federal Government is entitled to freely dispose of said shares. The Federal Government's authorisation to freely dispose of said shares is subject to a right of first refusal, which comes into effect when a binding purchase offer is made and applies in favour of a purchaser named by the Issuer.

Ongoing and future legal and arbitration proceedings may, if negative, result in financial burdens for the Issuer (risk of pending legal and arbitration proceedings).

In the course of its normal business operations, the Issuer conducts civil-law and administrative-law proceedings before courts and authorities. In particular, the Issuer is a co-defendant in actions for damages against immigon portfolioabbau ag ("**Immigon**") (see point 4.15 "*Legal and arbitration proceedings*"). The outcome of the pending legal and arbitration proceedings cannot be foreseen. A negative outcome of ongoing and future legal and arbitration proceedings could have a materially adverse effect on the Issuer's business, financial condition and results of operations.

The Issuer and other companies in the VBW Group are exposed to the risk of potential write-downs to its real estate loan portfolio (real estate risk).

Market price fluctuations and volatility in respect of real estate returns may result in the need to write down real estate loans of the Issuer and other companies in the VBW Group. This relates in particular to property risk incurred within the framework of asset management. A decline in the value of the real estate loan portfolio may have materially adverse effects on the Issuer's business, financial condition and results of operations and the VBW Group.

As a result of the financial and economic crisis and the economic downturn as a consequence of the European sovereign debt crisis, the Issuer experiences deterioration in credit quality.

The financial and economic crisis and the economic downturn as a consequence of the European sovereign debt crisis, reduced consumption, rising unemployment, and decreasing private and commercial asset values in certain regions have led to and will lead to negative effects on the credit quality of counterparties of the Issuer and the VBW Group. The Issuer is exposed to the credit risk of its debtors, which occurs when the latter are not able to meet their obligations to the Issuer on the due date, and the collateral provided is insufficient to cover outstanding debt. Loans denominated in a foreign currency also became more expensive for borrowers as a result of foreign exchange volatility. Consequently, the loan costs of the Issuer considerably increased for defaulted loans and had a negative effect on the Issuer's business, financial condition and results of operations and the VBW Group. In view of the uncertainty, the speed and the scope of the economic downturn, it is currently not possible to determine the extent to which credit quality will further deteriorate and credit costs further rise. Given the current economic framework conditions, it is likely that credit quality will continue falling. Unanticipated political developments (e.g. forced conversion of foreign currency loans) may result in loan write-downs that exceed the extent forecast by the Issuer. All the above factors may have substantially negative effects on the Issuer's business, financial condition and results of operations and limit the ability of the Issuer to make payments on the Notes, as well as reducing the market price of the Notes.

Market fluctuations may result in the Issuer not generating a sufficiently high net profit for the year to make payments on certain notes (market risk).

Fluctuations on the capital markets may reduce the value of the Issuer's assets and/or increase the value of the Issuer's liabilities. The occurrence of such market fluctuations may also have negative effects on the income generated by the Issuer's business and could negatively impact the Issuer's business, financial condition and results of operations, limiting the Issuer's ability to meet its existing obligations to note creditors within the framework of the Notes.

The Issuer's hedging strategies may prove to be ineffective.

The Issuer uses a range of instruments and strategies to hedge against risks. Unanticipated market risks may have a material effect on the effectiveness of hedging measures. Instruments used to hedge interest and currency risks can result in losses if the underlying financial instruments are sold or if valuation adjustments must be undertaken. Gains and losses from ineffective risk-hedging measures can increase the volatility of the results generated by the Issuer, which could have a materially adverse effect on the Issuer's business, financial condition and results of operations.

The Issuer's risk management strategies and procedures may be insufficient to limit risks and may leave it exposed to unidentified or unanticipated risks (risk of deficient risk management).

The Issuer utilises strategies and procedures to manage risks (see also point 4.6 "*Risk management*"). These strategies and procedures may, under certain circumstances, fail, notably if the Issuer is faced with risks that it failed to identify or properly assess. Several risk management methods of the Issuer are based on observations of historical market behaviour. Statistical methods are applied to these observations to assess the risks to which the Issuer is exposed. These statistical methods might be unable to properly assess the risks facing the Issuer if circumstances occur that were not observed in the historical information or last occurred a long time ago.

If circumstances arise that the Issuer did not identify or correctly assess in developing its statistical models, losses could be greater than the maximum losses envisaged under its risk management system. Furthermore, the assessments do not take all risks or market conditions into account (see point 4.6 "*Risk management*" for risks addressed in the risk management). If the measures used to assess and mitigate risks prove insufficient, the Issuer may experience material unanticipated losses, which could have a materially adverse effect on Issuer's business, financial condition and results of operations.

The deconsolidation of cooperative holding companies (*Verwaltungsgenossenschaften*) could negatively affect the Issuer and the Issuer is dependent on the successful placement of the Notes

Following discussions with the ECB, it has been determined that the cooperative holding companies will no longer be included in the prudential consolidation when determining capital ratios of the Association of Volksbanks in the future. The Issuer expects that this will lead to a decrease of Tier 2 capital of approximately EUR 177 million in 2017 (approximately EUR 140 million in 2018 due to phasing out). Furthermore, the eligibility of the members uncalled liabilities (*Haftsummenzuschläge*) of currently 50% in 2017 will decrease 10 percentage points per annum from 1 January 2018 onwards. The anticipatory effects regarding Tier 2 capital should be compensated by the MREL capable Notes. On the CET 1 capital a minor effect (around zero) will be expected. If the Issuer fails in the successful placement of the Notes such compensation would not occur and the Issuer and the Association of Volksbanks would be materially negatively affected.

1.2 FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE RISKS ASSOCIATED WITH THE NOTES

The Notes may not be a suitable investment for investors if they do not have sufficient knowledge and/or experience in the financial markets and/or access to information and/or financial resources and liquidity to bear all the risks of an investment and/or a thorough understanding of the terms of the Notes and/or the ability to evaluate possible scenarios for economic, interest rate and other factors that may affect their investment.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement hereto;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation and the investment(s) it is considering, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Holders of fixed rate notes are exposed to the risk that the price of such notes falls as a result of changes in the market interest rate.

A holder of fixed rate notes is exposed to the risk that the price of such notes falls as a result of changes in the market interest rate. While the nominal interest rate of fixed rate notes is fixed during the life of such notes, the current interest rate on the capital market for issues of the same maturity (the "**market interest rate**") typically changes on a daily basis. As the market interest rate changes, the price of fixed rate notes also changes, but in the opposite direction. If the market interest rate increases, the price of fixed rate notes typically falls, until the yield of such notes is approximately equal to the market interest rate. If the market interest rate falls, the price of fixed rate notes typically increases, until the yield of such notes is approximately equal to the market interest rate.

Fix to Fix rate notes bear interest at a rate that converts from a fixed rate to a different fixed rate. A Holder bears the risk that after such conversion, the new interest rate may be lower than the then prevailing interest rates.

Fix to Fix rate notes bear interest at a rate that converts from a fixed rate to a different fixed rate. The conversion of the interest rate will affect the market price of the Notes. If the interest rate converts from a fixed rate to a different fixed rate, such fixed rate may be lower than the then prevailing interest rates payable on fixed rate notes. In addition, the new fixed rate may at any time be lower than the interest rates payable on other notes.

Risks related to Notes which are linked to "benchmarks"

The EURIBOR and other interest rate indices which are deemed to be benchmarks are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such "benchmarks" to perform differently than in the past, or to disappear entirely, or have other consequences which cannot be predicted.

Under the existing terms and conditions, if for any reason the EURIBOR rate should become unavailable, it is provided that the interest rate applicable to the Second Rate of Interest under the Notes will be determined by the Calculation Agent by averaging quotes obtained from reference banks, if available, or, if no such quotes are available, by the Calculation Agent in its sole discretion and reasonable determination. Uncertainty as to the continuation of EURIBOR, the availability of quotes from reference banks to allow for the market-based determination of a Second Rate of Interest, and the Second Rate of Interest that would be applicable if EURIBOR is discontinued may adversely affect the trading market and the value of the Notes. At this time, it is not possible to predict what the effect of these developments will be or what the impact on the value of the Notes will be.

More generally, any of the above changes or any other consequential changes to EURIBOR or any other "benchmark" as a result of international, national, or other proposals for reform or other initiatives or investigations, or any further uncertainty in relation to the timing and manner of implementation of such changes, could have a material adverse effect on the value of the Notes.

In the event that any Notes are redeemed prior to their maturity, a Holder of such Notes may be exposed to risks, including the risk that his investment will have a lower than expected yield (Risk of Early Redemption).

The Issuer will have the right to redeem the Notes early under certain circumstances (including the prior permission of the Competent Authority), if there is a change in the applicable tax treatment of the Notes or if there is a change in the regulatory classification of the Notes. Furthermore, the Issuer may at its sole discretion (subject to the prior permission of the Competent Authority) redeem the Notes on the Interest Rate Reset Date. If the Issuer redeems the Notes prior to maturity or the Notes are subject to

early redemption due to an early redemption event (Tax Event or Regulatory Event), a Holder of such Notes is exposed to the risk that, due to early redemption, its investment may have a lower than expected yield. The Issuer might exercise its right to redeem the Notes early on the Interest Rate Reset Date at its option if the yield on comparable Notes in the capital markets falls, which means that the Holder may only be able to reinvest the redemption proceeds in Notes with a lower yield or with a similar yield of a higher risk.

Holders should note that where the Terms and Conditions of the Notes provide for a right of early redemption by the Issuer only, as with respect to the Notes, Holders usually receive a higher yield on their Notes than they would if they were also granted a right to redeem the Notes early reflecting the higher risk of early redemption the Holders of such Notes are exposed to. Excluding the Holders' right to redeem Notes prior to their maturity is often a precondition for the Issuer being able to hedge its exposure under the Notes. Thus, without early redemption by Holders being excluded, the Issuer would not be able to issue Notes at all, or the Issuer would factor the potential hedging break costs into the redemption amount of the Notes, thus reducing the yield Holders receive from the Notes. Investors should therefore carefully consider whether they think that a right of early redemption only for the Issuer would be to their detriment, and should, if they think that this is the case, not invest in the Notes.

Certain rights of a Holder may be amended or reduced or even cancelled by way of resolutions, which could affect the Holder negatively.

As the Terms and Conditions of the Notes provide for resolutions of Holders, either to be passed in a meeting of Holders or by vote taken without a meeting, a Holder is subject to the risk of being outvoted by a majority resolution of the Holders. As such majority resolution properly adopted is binding on all Holders, certain rights of such Holder against the Issuer under the Terms and Conditions of the Notes may be amended or reduced or even cancelled.

As the Terms and Conditions of the Notes provide for the appointment of a Joint Representative, a Holder may be deprived of its individual right to pursue and enforce its rights under the relevant Terms and Conditions of the Notes against the Issuer.

As the Terms and Conditions of the Notes provide for the appointment of a Joint Representative, it is possible that a Holder may be deprived of its individual right to pursue and enforce its rights under the Terms and Conditions of the Notes against the Issuer, such right passing to the Joint Representative who is then exclusively responsible to claim and enforce the rights of all Holders.

Although the Terms and Conditions of the Notes exclude the applicability of the provisions of the Austrian Notes Trustee Act and the Austrian Notes Trustee Supplementation Act, it cannot be excluded that an Austrian court nevertheless appoints a trustee for the Notes to exercise the rights and represent the interests of Holders on their behalf in which case the ability of Holders to pursue their rights under the Notes individually may be limited. If the disapplication of the Austrian Notes Trustee Act is valid, investors will not be protected by it.

Pursuant to the Austrian Notes Trustee Act (*Kuratoren-gesetz*), a trustee (*Kurator*) can be appointed by an Austrian court upon the request of any interested party (e.g. a Holder) or upon the initiative of the competent court, for the purposes of representing the common interests of the Holders in matters concerning their collective rights. In particular, this may occur if insolvency proceedings are initiated against the Issuer, in connection with any amendments to the Terms and Conditions of the Notes or changes relating to the Issuer, or under other similar circumstances. Even though the applicability of the Austrian Notes Trustee Act is excluded in the Terms and Conditions, it cannot be excluded that an Austrian court rejects the exclusion of the applicability of the Austrian Notes Trustee Act and appoints a trustee, because the Issuer is an Austrian company. If a trustee is appointed, it will exercise the collective rights and represent the interests of the Holders and will be entitled to make statements on their behalf which shall be binding on all Holders. Where a trustee represents the interests of and exercises the rights of Holders, this may conflict with or otherwise adversely affect the interests of individual or all Holders. The role of an appointed trustee may also conflict with provisions of the Terms and Conditions related to majority resolutions of the Holders pursuant to the Terms and Conditions. On the other hand, investors should not rely on the protection afforded by the Austrian Notes Trustee Act, as its application has been excluded in the Terms and Conditions and an Austrian court may give effect to such disapplication.

The Notes may be subject to write-down or conversion to equity upon the occurrence of a certain trigger event, which may result in Holders losing some or all of their investment in the Notes (statutory loss absorption).

The stated aim of the SRM is to provide relevant resolution authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses.

The powers provided to such resolution authorities include write-down and conversion powers which may be used prior to or on entry into resolution to ensure that, *inter alia*, relevant capital instruments fully absorb losses at the point of non-viability (defined below) of the issuing institution and/or the group. For the time being and for the purposes of indicative resolution planning, the Association of Volksbanks is treated as a group. The relevant resolution authority may also apply the bail-in tool in resolution with the objective of restoring the capital of the failing institution to enable it to continue to operate as a going concern. Accordingly, resolution authorities will be required to order the write-down of such capital instruments on a permanent basis, or convert them into Common Equity Tier 1 items ("**CET 1**") (such as ordinary shares or other instruments of

ownership), at the point of non-viability and before any resolution tool other than the bail-in tool is made use of (statutory loss absorption). Resolution authorities shall exercise the write-down or conversion in relation to statutory loss absorption in a way that results in: (i) CET 1 items being reduced first in proportion to the relevant losses; and (ii) thereafter, if CET 1 is not sufficient to cover the relevant losses, the principal amount of Additional Tier 1 instruments ("**AT 1**") being reduced or converted to cover the relevant losses and recapitalise the entity; and (iii) thereafter, if CET 1 and AT 1 are not sufficient, the principal amount of Tier 2 instruments ("**Tier 2**") (such as the Notes) being reduced or converted; and in case of a bail-in tool also: (iv) thereafter, if CET 1, AT 1 and Tier 2 are not sufficient to cover the relevant losses and recapitalise the entity, other subordinated debt (in accordance with the hierarchy of claims in the normal insolvency proceedings); and (v) if still insufficient, the rest of eligible liabilities including certain senior debt (in accordance with the hierarchy of claims in the normal insolvency proceedings) being reduced down to zero on a permanent basis or converted. When the bail-in tool is applied for the purpose of restoring the capital of the institution, write-down or conversion of non-equity instruments into CET 1 items is to be made in the same order.

For the purposes of statutory loss absorption, the point of non-viability is the point at which the following conditions are met:

1. the competent authority or the resolution authority determines that the institution is failing or likely to fail, i.e.:
 - (a) the conditions for the withdrawal of the authorisation by the competent authority are met or there are objective elements to support a determination that this will be the case in the near future, including but not limited to because the institution has incurred or is likely to incur losses that will deplete all or a significant amount of its own funds;
 - (b) the assets of the institution are or there are objective elements to support a determination that the assets of the institution will, in the near future, be less than its liabilities;
 - (c) the institution is or there are objective elements to support a determination that the institution will, in the near future, be unable to pay its debts or other liabilities as they fall due;
 - (d) extraordinary public financial support is required except when the extraordinary public financial support takes certain forms in order to remedy a serious disturbance in the economy of a Member State and preserve financial stability; and
2. having regard to timing and other relevant circumstances, there is no reasonable prospect that any alternative private sector measures, including measures by an institutional protection scheme, or supervisory action, including early intervention measures or the write-down or conversion of relevant capital instruments taken in

respect of the institution, would prevent the failure of the institution within a reasonable timeframe; and

3. in case of the application of the bail-in tool, a resolution action is necessary in the public interest; or
4. in case of exercising the power to write down or convert capital instruments, a group shall be deemed to be failing or likely to fail where the group infringes, or there are objective elements to support a determination that the group, in the near future, will infringe, its consolidated prudential requirements in a way that would justify action by the competent authority including but not limited to because the group has incurred or is likely to incur losses that will deplete all or a significant amount of its own funds.

Any write-down or conversion of all or part of the principal amount of any instrument, including accrued but unpaid interest in respect thereof, in accordance with the bail-in tool or the write-down and conversion powers would not constitute an event of default under the terms of the relevant instruments. Consequently, any amounts so written down or converted would be irrevocably lost and the holders of such instruments including the Notes would cease to have any claims thereunder, regardless whether or not the institution's financial position is restored.

Hence, the Notes may be subject to write-down or conversion into CET 1 upon the occurrence of the relevant trigger event, which may result in Holders losing some or all of their investment in the Notes. The exercise of any such power is highly unpredictable and any suggestion or anticipation of such exercise could materially adversely affect the market price of the Notes.

Apart from potentially being subject to resolution tools and powers as set out above, the Issuer may also be subject to national insolvency proceedings.

The Issuer may be subject to resolution powers which may also have a negative impact on the Notes.

Provided that the Issuer meets the applicable conditions for resolution, the resolution authority has certain resolution powers which it may exercise either individually or in any combination together with or in preparation of applying a resolution instrument. Such resolution powers in particular include:

- the power to transfer to another entity rights, assets or liabilities of the Issuer (such as the Notes);
- the power to reduce, including to reduce to zero, the nominal value of or outstanding amount due in respect of eligible liabilities of the Issuer;
- the power to convert eligible liabilities of the Issuer into ordinary shares or other instruments of ownership of the Issuer, a relevant parent institution or a bridge institution to which assets, rights or liabilities of the Issuer are transferred;

- the power to cancel debt instruments issued by the Issuer (such as the Notes);
- the power to require the Issuer or a relevant parent institution to issue new shares or other instruments of ownership or other capital instruments, including preference shares and contingent convertible instruments; and/or
- the power to amend or alter the maturity of debt instruments (such as the Notes) and other eligible liabilities issued by the Issuer or the amount of interest payable under such debt instruments and other eligible liabilities, or the date on which the interest becomes payable, including by suspending payment for a temporary period.

The exercise of such resolution powers could have a negative impact on the Issuer and/or the Notes.

The Issuer is not prohibited from issuing further debt instruments or incurring further liabilities.

The Terms and Conditions of the Notes place no restriction on the amount of debt that the Issuer may issue, incur and/or guarantee. Furthermore, the Issuer is not obliged to inform Holders about issuing, incurring or guaranteeing further debt. Issuing, incurring or guaranteeing further debt may have a negative impact on the market price of the Notes and the Issuer's ability to meet all obligations under the issued Notes and may also reduce the amount recoverable by Holders upon the Issuer's insolvency. If the Issuer's financial situation were to deteriorate, the Holders could suffer direct and materially adverse consequences, including cancellation of interest payments and reduction of the principal amount of the Notes and, in case of the Issuer's liquidation, loss of their entire investment. All these factors may have a negative impact on the Holders.

The obligations of the Issuer under the Notes constitute unsecured and subordinated obligations which are subordinated to the claims of all unsubordinated creditors of the Issuer.

The obligations of the Issuer in respect of the Notes constitute unsecured and subordinated obligations. Any claim for repayment of the principal amount of the Notes is subordinated to the claims of all unsubordinated creditors. In the event of an insolvency or liquidation of the Issuer, no amounts will be payable under such subordinated obligations until the claims of all unsubordinated creditors of the Issuer have been satisfied in full. Furthermore, the Terms and Conditions of the Notes do not give the Holder the right to accelerate the future scheduled payment of interest or principal.

Claims of the Issuer are not permitted to be offset against payment obligations of the Issuer under the Notes which are not, and may not become secured or subject to a guarantee or any other arrangement that enhances the seniority of the claim.

The Holders are exposed to the risk that the Issuer may issue subordinated debt instruments or incur subordinated liabilities which are senior to the Notes.

The Holders are exposed to the risk of subordination not only in respect of unsubordinated obligations of the Issuer (including, without limitation, senior notes or covered notes), but also in respect of subordinated debt instruments or other subordinated liabilities which the Issuer may or have to issue or incur and which rank or are expressed to rank senior to Notes. This could in particular apply in respect of contractual bail-in instruments which the Issuer would have to issue under the SRM for MREL purposes.

To qualify as contractual bail-in instrument, it is required that the instrument: (i) contains a contractual term providing that, where a resolution authority decides to apply the bail-in tool to that institution, the instrument shall be written down or converted to the extent required before other eligible liabilities are written down or converted; and (ii) is subject to a binding subordination agreement, in the event of normal insolvency proceedings ranks below other eligible liabilities and cannot be repaid until other eligible liabilities outstanding at the time have been settled.

In the event of an insolvency of the Issuer, no amounts will be payable under the Notes until the claims of any and all such subordinated creditors of the Issuer ranking senior to the Notes have been satisfied in full. Similarly, where the resolution authority applies the bail-in tool, the Notes will be subject to write down or conversion prior to such other subordinated creditors of the Issuer ranking senior to the Notes, in accordance with the statutory sequence of write-down and conversion (*Verlusttragungskaskade*).

The Notes may not be redeemed early at the option of the Holders, and any rights of the Issuer to redeem the Notes early or repurchase Notes are subject to the prior permission of the competent authority.

The Holders will have no rights to call for the early redemption of their Notes and should not invest in the Notes in the expectation that any early redemption right will be exercised by the Issuer.

The Issuer may at its sole discretion, redeem the Notes at any time either for tax or regulatory reasons at the Redemption Amount plus interest accrued until the date fixed for redemption. In addition, the Issuer may at its sole discretion redeem the Notes on the Interest Rate Reset Date at the Redemption Amount plus accrued interest.

Any early redemption and any repurchase of the Notes is subject to the prior permission of the competent authority pursuant to Article 4(1)(40) CRR which is responsible to supervise the Issuer (the "**Competent Authority**") and compliance with regulatory rules applicable to the Issuer. Under the CRR, the Competent Authority may only permit the Issuer to redeem the Notes prior to maturity or repurchase the Notes if certain conditions prescribed by the CRR are complied with. These conditions, as well as a number of other technical rules and standards relating to regulatory requirements applicable to the Issuer, should be taken into account by the Competent Authority in its assessment of whether or not to permit any early redemption or repurchase. It is uncertain how the

Competent Authority will apply these criteria in practice and such rules and standards may change during the maturity of the Notes. It is therefore difficult to predict whether, and if so, on what terms, the Competent Authority will grant its prior permission for any early redemption or repurchase of the Notes.

Furthermore, even if the Issuer would be granted the prior permission of the Competent Authority, any decision by the Issuer as to whether it will redeem the Notes early will be made at the absolute discretion of the Issuer taking into account external factors such as the economic and market impact of exercising an early redemption right, regulatory requirements and prevailing market conditions. The Issuer disclaims, and investors should therefore not expect, that the Issuer will exercise any early redemption right in relation to the Notes.

Holders of the Notes should therefore be aware that they may be required to bear the financial risks of an investment in the Notes until their final maturity.

Credit ratings of Notes may not adequately reflect all risks of the investment in such Notes, credit rating agencies could assign unsolicited ratings, and ratings may be suspended, downgraded or withdrawn, all of which could have an adverse effect on the market price and trading price of the Notes.

A rating of Notes may not adequately reflect all risks of the investment in such Notes. Credit rating agencies could decide to assign credit ratings to the Notes on an unsolicited basis. Equally, ratings may be suspended, downgraded or withdrawn. Any such unsolicited rating, suspension, downgrading or withdrawal may have an adverse effect on the market price and trading price of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

The Notes are governed by Austrian law, and changes in applicable laws, regulations or regulatory policies may have an adverse effect on the Issuer, the Notes and the Holders.

The Terms and Conditions of the Notes are governed by Austrian law. Holders should thus note that the governing law may not be the law of their own home jurisdiction and that the law applicable to the Notes may not provide them with similar protection as their own law. Furthermore, no assurance can be given as to the impact of any possible judicial decision or change to Austrian law, or administrative practice after the date of this Prospectus.

Holders are exposed to the risk of partial or total inability of the Issuer to make interest and/or redemption payments under the Notes.

Holders are subject to the risk of a partial or total inability of the Issuer to make interest and/or redemption payments that the Issuer is obliged to make under the Notes. Any deterioration of the creditworthiness of the Issuer would increase the risk of loss. A materialisation of the credit risk may result in partial or total inability of the Issuer to make interest and/or redemption payments.

Holders assume the risk that the credit spread of the Issuer widens resulting in a decrease in the price of the Notes.

A credit spread is the margin payable by the Issuer to the Holder of an instrument as a premium for the assumed credit risk. Credit spreads are offered and sold as premiums on current risk-free interest rates or as discounts on the price.

Factors influencing the credit spread include, among other things, the creditworthiness and rating of the Issuer, probability of default, recovery rate, remaining term to maturity of the Notes and obligations under any collateralisation or guarantee and declarations as to any preferred payment or subordination. The liquidity situation of the market, the general level of interest rates, overall economic developments, and the currency, in which the relevant obligation is denominated may also have a negative effect.

Holders are exposed to the risk that the credit spread of the Issuer widens resulting in a decrease in the price of the Notes.

The Holder may be exposed to the risk that due to future money depreciation (inflation), the real yield of an investment may be reduced.

Inflation risk describes the possibility that the market price of assets such as the Notes or income therefrom will decrease as inflation reduces the purchasing power of a currency. Inflation causes the rate of return to decrease in value. If the inflation rate exceeds the interest paid on the Notes, the yield on the Notes will become negative.

There can be no assurance that a liquid secondary market for the Notes will develop or, if it does develop, that it will continue. In an illiquid market, a Holder may not be able to sell his Notes at fair market prices.

Application will be made to admit the Notes to the Market, which appears on the list of regulated markets issued by the European Commission. However, there can be no assurance that a liquid secondary market for the Notes will develop or, if it does develop, that it will continue. The fact that the Notes may be listed does not necessarily lead to greater liquidity as compared to unlisted Notes. In an illiquid market, a Holder might not be able to sell its Notes at any time at fair market prices or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a material adverse effect on the market price of Notes. The possibility to sell the Notes might additionally be restricted by country-specific reasons.

There is a risk that trading in the Notes will be suspended, interrupted or terminated, which may have an adverse effect on the price of such Notes.

The listing of the Notes may be suspended or interrupted by the Vienna Stock Exchange or the FMA upon the occurrence of a number of reasons, including violation of price limits, breach of statutory provisions, occurrence of operational problems of the stock exchange or generally if deemed required in order to secure a functioning market or to safeguard the interests of Holders. Furthermore, trading in the Notes may be terminated, either upon decision of the stock exchange, a regulatory authority or upon application by the Issuer. Holders should note that the Issuer has no influence on trading suspension or interruptions (other than where trading in the Notes is terminated upon the Issuer's decision) and that Holders in any event must bear the risks connected therewith. In

particular, Holders may not be able to sell their Notes where trading is suspended, interrupted or terminated, and the stock exchange quotations of such Notes may not accurately reflect the price of such Notes. Finally, even if trading in Notes is suspended, interrupted or terminated, Holders should note that such measures may neither be sufficient nor adequate nor in time to prevent price disruptions or to safeguard the Holders' interests; for example, where trading in Notes is suspended after price-sensitive information relating to such Notes has been published, the price of such Notes may already have been adversely affected. All these risks would, if they materialise, have a material adverse effect on the Holders.

Holders are exposed to the risk of an unfavourable development of market prices of their Notes which materialises if the Holder sells the Notes prior to the final maturity of such Notes.

The development of market prices of the Notes depends on various factors, such as changes of market interest rate levels, the policies of central banks, overall economic developments, inflation rates or the lack of or excess demand for the relevant type of Instrument. The Holder is therefore exposed to the risk of an unfavourable development of market prices of its Notes which materialises if the Holder sells the Notes prior to the final maturity of such Notes. Holders should also be aware that Notes may be issued at a price higher than the market price at issue and/or the redemption amount. This will increase the impact that unfavourable market price developments may have on the Notes. If the Holder decides to hold the Notes until final maturity, the Notes will be redeemed at the amount set out in the Terms and Conditions.

In case of an early redemption of any Notes, there is a risk that Holders may not be able to reinvest proceeds from the Notes in such a way that they earn the same rate of return.

Holders may be subject to the risk that any return earned from an investment in the Notes may in the event of an early redemption of any Notes not be able to be reinvested in such a way that they earn the same rate of return as the redeemed Notes.

Exchange rate risks may occur, if a Holder's financial activities are denominated in a currency or currency unit other than EUR in which the Issuer will make principal and interest payments. Furthermore, government and monetary authorities may impose exchange controls that could adversely affect an applicable exchange rate.

The Issuer will pay principal and interest on the Notes in EUR. This presents certain risks relating to currency conversions if a Holder's financial activities are denominated principally in a currency or currency unit ("**Holder's Currency**") other than EUR. These include the risk that exchange rates may significantly change (including changes due to devaluation of EUR or revaluation of the Holder's Currency) and the risk that authorities with jurisdiction over the Holder's Currency may impose or modify exchange controls. An appreciation in the value of the Holder's Currency relative to EUR would decrease: (i) the Holder's Currency-equivalent yield on the Notes; (ii) the Holder's Currency-equivalent value of the principal payable on the Notes; and (iii) the Holder's Currency-equivalent market price of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, Holders may receive less interest or principal than expected, or no interest or principal.

Holders have to rely on the functionality of the relevant clearing system.

The Notes are purchased and sold through different clearing systems, such as OeKB CSD GmbH, Clearstream Banking, S.A., Luxembourg and Euroclear Bank SA/NV. The Issuer does not assume any responsibility as to whether the Notes are actually transferred to the securities portfolio of the relevant investor. Holders have to rely on the functionality of the relevant clearing system.

The applicable tax regime may change to the disadvantage of the Holders; therefore, the tax impact of an investment in the Notes should be carefully considered.

Interest payments on Notes, or profits realised by a Holder upon the sale or repayment of Notes, may be subject to taxation in the Holder's state of residence or in other jurisdictions in which the Holder is subject to tax. The tax consequences which generally apply to Holders may, however, differ from the tax impact on an individual Holder. Furthermore, the applicable tax regime may change to the disadvantage of the investors in the future. Prospective investors, therefore, should contact their own tax advisors on the tax impact of an investment in the Notes.

Legal investment considerations may restrict certain investments.

The investment activities of certain Holders are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) Notes are legal investments for it; (ii) Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Furthermore, the Terms and Conditions of the Notes may contain certain exclusions or restrictions of the Issuer's or other parties' (e.g. the Fiscal Agent, the Calculation Agent, the Paying Agent etc.) liability for negligent acts or omissions in connection with the Notes, which could result in the Holders not being able to claim (or only to claim partial) indemnification for damage that has been caused to them. Holders should therefore inform themselves about such exclusions or restrictions of liability and consider whether these are acceptable for them.

The Issuer is exposed to conflicts of interest which might adversely affect the Holders.

The Issuer may from time to time act in other capacities with regard to the Notes, such as calculation agent, which allows the Issuer to make calculations in respect of the Notes (e.g. the amount of interest to be paid) which are binding for the Holders. This fact could generate conflicts of interest and may affect the market price of the Notes.

It is usual for employees of financial institutions such as the Issuer to undertake deals on their own behalf subject to securities laws on personal transactions and market abuse as well as statutory or internal compliance standards. Employees and connected parties are permitted to take part in securities offerings of the Issuer. Furthermore, when purchasing the Notes, the employee receives a discount from the value of the market price. The Issuer's sales employees may be motivated to sell these Notes, due to the value of incentives received by them (in case the sale is successful) subject to securities and banking laws applicable to any such incentives. Despite measures taken by the Issuer to ensure compliance with applicable laws and internal procedures, this could create a conflict with the duties owed to the Holders.

Furthermore, members of the Managing Board and the Issuer's supervisory board (the "**Supervisory Board**") may serve on management or supervisory boards of various different companies (others than the Issuer), including customers of and investors in VBW, which may also compete directly or indirectly with the Issuer. Directorships of that kind may expose such persons to potential conflicts of interest if the Issuer maintains active business relations with said companies, which could have a material adverse effect on the Issuer's business, financial position and results of operations.

2. USE OF PROCEEDS

The Tier 2 capital which should be constituted by the Notes is intended to be used for general corporate purposes and to diversify the investor base and the funding sources, to strengthen subordination layer and the total capital position, to support depositors, senior bondholders and other creditors of the Issuer and to support the Issuer's credit rating. The Tier 2 issuance should count towards future MREL needs and allow VBW to meet a significant portion of these requirements.

It is expected that the Tier 2 capital issued by VBW will support the issuer ratings of VBW including both the senior unsecured ratings as well as future ratings of subordinated senior instruments (MREL-eligible senior).

The proceeds of the Tier 2 Notes issuance should initially remain at VBW. There is currently no intention to downstream or onlend these capital proceeds to other members of the Association of Volksbanks. However, the Tier 2 funds could be used for onward distribution within the Association of Volksbanks in the future, if needed.

3. OVERVIEW OF THE NOTES

The following overview contains basic information about the Notes and does not purport to be complete. It does not contain all the information that is important for making a decision to invest in the Notes. For a more complete description of the Notes, please refer to the Terms and Conditions of the Notes set out in section "Terms and Conditions of the Notes" of this Prospectus. For more information on the Issuer, its business and its financial condition and results of operations, please refer to the section "The Issuer" of this Prospectus. Terms used in this overview and not otherwise defined have the meaning given to them in the Terms and Conditions of the Notes.

Issuer	VOLKSBANK WIEN AG
VBW Group	The Issuer and its consolidated subsidiaries together taken as a whole.
Securities offered	EUR 400,000,000 2.75%Fix to Fix Tier 2 Notes with an Interest Rate Reset Date on 6 October 2022 (the " Notes ")
Definitions	References to capitalised terms not defined herein are to those terms as defined in the Terms and Conditions of the Notes.
Issue Date	6 October 2017
Currency	EUR
Issue Size	EUR 400,000,000
Denomination	EUR 100,000 per Note.
Re-Offer Price	99.747% of the Specified Denomination
Form	Bearer notes in classic global note format
Clearing Systems	OeKB CSD GmbH, Clearstream Banking, S.A., Luxembourg and Euroclear Bank SA/NV
Status in the insolvency or liquidation of the Issuer	<p>The Notes constitute direct, unsecured and subordinated obligations of the Issuer and shall constitute Tier 2 Instruments (as defined below).</p> <p>In the insolvency or liquidation of the Issuer, the obligations of the Issuer under the Notes will rank:</p> <ul style="list-style-type: none">(a) junior to all present or future: (i) unsubordinated instruments or obligations of the Issuer; and (ii) all other instruments or obligations of the Issuer ranking or expressed to rank subordinated to unsubordinated obligations of the Issuer (other than instruments or obligations of the Issuer ranking or expressed to rank <i>pari passu</i> with or subordinated to the Notes);(b) <i>pari passu</i>: (i) among themselves; and (ii) with all other

present or future: (x) Tier 2 Instruments; and (y) other subordinated instruments or obligations of the Issuer ranking or expressed to rank *pari passu* with the Notes (other than subordinated instruments or obligations of the Issuer ranking or expressed to rank junior to the Notes); and

- (c) senior to all present or future: (i) AT 1 Instruments (as defined below); (ii) ordinary shares of the Issuer and any other CET 1 Instruments (as defined below); and (iii) all other subordinated instruments or obligations of the Issuer ranking or expressed to rank: (x) subordinated to the obligations of the Issuer under the Notes; or (y) *pari passu* with AT 1 Instruments, ordinary shares of the Issuer and any other CET 1 Instruments, including the Existing Participation Capital Instruments (as defined below).

Where:

"AT 1 Instruments" means any (directly or indirectly issued) capital instruments of the Issuer that qualify as Additional Tier 1 instruments pursuant to Article 52 CRR, including any capital instruments that qualify as Additional Tier 1 instruments pursuant to transitional provisions under the CRR.

"CET 1 Instruments" means any capital instruments of the Issuer that qualify as Common Equity Tier 1 instruments pursuant to Article 28 CRR, including any capital instruments that qualify as Common Equity Tier 1 instruments pursuant to transitional provisions under the CRR.

"CRR" means the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (*Capital Requirements Regulation*), as amended or replaced from time to time, and any references in these Terms and Conditions to relevant Articles of the CRR include references to any applicable provisions of law amending or replacing such Articles from time to time.

"Existing Participation Capital Instruments" means the (directly or indirectly issued) capital instruments of the Issuer with the following ISIN: (i) QOXDB4408833; (ii) QOXDB4408908; (iii) QOXDB4409005; (iv) QOXDB4409039; (v) QOXDB4409120; and (vi) QOXDB4409195.

"Tier 2 Instruments" means any (directly or indirectly issued) capital instruments of the Issuer that qualify as Tier 2 instruments pursuant to Article 63 CRR, including any capital instruments that qualify as Tier 2 instruments pursuant to transitional provisions

	under the CRR.
No security, no guarantee	The Notes are neither secured nor subject to a guarantee that would enhance the seniority of the claims under the Notes.
No arrangement that enhances the seniority of the claim under the Note	The Notes are not subject to any arrangement, contractual or otherwise, that would enhance the seniority of the claim under the Notes in insolvency or liquidation.
No set off	Claims of the Issuer are not permitted to be set-off or netted against payment obligations of the Issuer under the Notes, and no contractual collateral may be provided by the Issuer or any third person for the liabilities constituted by the Notes.
Interest	<p>Each Note will bear interest at the rate of 2.75 <i>per cent. per annum</i> from, and including, 6 October 2017 to, but excluding, 6 October 2022 (the "Interest Rate Reset Date").</p> <p>Thereafter, on the Interest Rate Reset Date, the interest rate is reset to the sum of the 5 (five) years mid-swap rate <i>per annum</i> plus 2.55 per cent.</p>
Maturity	Unless previously redeemed in whole or in part or purchased and cancelled, each Note shall be redeemed at 100.00 <i>per cent.</i> of the Specified Denomination (the " Redemption Amount ") on 6 October 2027 (the " Maturity Date ").
No Early Redemption at the Option of a Holder	The Holders do not have a right to demand the early redemption of the Notes.
Early Redemption at the Option of the Issuer	Subject to the conditions to early redemption and repurchase as set out in § 5 (6) of the Terms and Conditions being met, the Issuer may, upon giving notice, call and redeem the Notes in whole, but not in part, at the Redemption Amount on the Interest Rate Reset Date.
Special Event Redemption	Subject to the conditions to early redemption and repurchase as set out in § 5 (6) of the Terms and Conditions being met, the Issuer may, upon giving notice, redeem the Notes in whole, but not in part, at their Redemption Amount at any time on the date of redemption specified in the notice, if either a Tax Event or a Regulatory Event occurs.
Conditions to Early Redemption and Repurchase	<p>Any early redemption and any repurchase is subject to:</p> <p>(a) the Issuer having obtained the prior permission of the Competent Authority (as defined below) for the redemption or any repurchase in accordance with Article 78 CRR, if applicable to the Issuer at that point in time, whereas such permission may, <i>inter alia</i>, require that:</p> <p>(i) either the Issuer replaces the Notes with own funds instruments of equal or higher quality at terms that are</p>

- sustainable for the income capacity of the Issuer; or
 - (ii) the Issuer has demonstrated to the satisfaction of the Competent Authority that the own funds of the Issuer would, following such redemption or repurchase, exceed the minimum capital requirements (including any capital buffer requirements) by a margin that the Competent Authority considers necessary at such time; and
- (b) in the case of any redemption prior to the fifth anniversary of the date of issuance of the Notes:
- (i) due to a Tax Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the applicable change in tax treatment is material and was not reasonably foreseeable as at the date of issuance of the Notes; or
 - (ii) due to a Regulatory Event, the Competent Authority considers such change to be sufficiently certain and the Issuer has demonstrated to the satisfaction of the Competent Authority that the relevant change in the regulatory classification of the Notes was not reasonably foreseeable as at the date of issuance of the Notes.

For the avoidance of doubt, any refusal of the Competent Authority to grant permission in accordance with Article 78 CRR shall not constitute a default for any purpose.

"Competent Authority" means the competent authority pursuant to Article 4(1)(40) CRR which is responsible to supervise the Issuer.

Repurchases

Provided that all applicable regulatory and other statutory restrictions are observed, and provided further that the Conditions to Early Redemption and Repurchase are met, the Issuer may repurchase Notes in the open market or otherwise at any price. Notes repurchased by the Issuer may, at the option of the Issuer, be held, resold or surrendered to the Fiscal Agent for cancellation.

Gross-up/Taxation

All payments of interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Republic of Austria or by any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

In that event, the Issuer shall pay such additional amounts (the **"Additional Amounts"**) to the Holder as shall result in receipt by that Holder of such amounts as would have been received by it had

no such withholding or deduction been required, except that no such Additional Amounts shall be payable with respect to any Note:

- (a) to, or to a third party on behalf of, a Holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the Republic of Austria other than the mere holding of the Note; or
- (b) presented for payment more than 30 calendar days after the date on which payment in respect of it first becomes due.

The Issuer is authorised to withhold or deduct from amounts payable under the Notes to a Holder or beneficial owner of Notes sufficient funds for the payment of any tax that it is required by law to withhold or deduct pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (the "**Code**"), any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental agreement thereto ("**FATCA**") (including under a voluntary agreement entered into with a taxing authority as described in Section 1471(b) of the Code (the "**FATCA Agreement**"). The Issuer will not be required to make any payment of additional amounts for or on account of any withholding tax deducted by the Issuer or an intermediary in compliance with FATCA. For the avoidance of doubt, the withholding or deduction of any amounts which are withheld or deducted pursuant to a FATCA Agreement shall be treated as being required by law.

Agents

Fiscal Agent and Principal Paying Agent:

VOLKSBANK WIEN AG

Kolingasse 14-16
1090 Vienna
Austria

Calculation Agent:

VOLKSBANK WIEN AG

Kolingasse 14-16
1090 Vienna
Austria

Notices

Website of the Issuer, institutions which maintain the Holders' security accounts, Clearing System.

Amendment of the Terms and Conditions, Holders' Meetings, Joint Representative

Standard provisions subject to Austrian law

Exclusion of the

The applicability of the provisions of the Austrian Notes Trustee Act

applicability of the Austrian Notes Trustee Act	(<i>Kuratorenrecht</i>) and the Austrian Notes Trustee Supplementation Act (<i>Kuratorenrechtsergänzungsgesetz</i>) is explicitly excluded in relation to the Notes.
Governing Law	The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by, and shall be construed in accordance with, Austrian law except for its conflict of law rules.
Listing and admission to trading	Vienna Stock Exchange's Second Regulated Market (<i>Geregelter Freiverkehr</i>) which will only exist until January, 2018. Thereafter, the securities listed in the Vienna Stock Exchange's Second Regulated Market are expected to be automatically transferred in the Official Market (<i>Amtlicher Handel</i>).
Rating	The Notes are expected to be rated Baa3 by Moody's. A rating is not a recommendation to buy, sell or hold the Notes and it may be revised or withdrawn by the rating agency at any time.
ISIN, Common Code, WKN	ISIN AT000B121967, Common Code 169528187, WKN A19P69
Joint Lead Managers	Crédit Agricole Corporate & Investment Bank, Erste Group Bank AG, HSBC Bank plc, UBS Limited
Selling Restrictions	There are restrictions on the transfer of the Notes prior to the expiration of the distribution compliance period. For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of offering material in certain jurisdictions including but not limited to the United States of America and its Territories and the European Economic Area. Please see " <i>Subscription and Sale</i> " below.

4. THE ISSUER

4.1 BUSINESS HISTORY AND BUSINESS DEVELOPMENT

VOLKSBANK WIEN AG (the "**Issuer**") was established in 2001 by means of a spin-off (*Abspaltung*) from Österreichische Volksbanken-AG ("**VBAG**", now Immigon) in the course of transferring the "Branch business" division. The company was first entered into the Austrian companies register under the legal name "Volksbank Wien AG" on 27 July 2001. In the same year, the banking business of Volksbank in Wien und Klosterneuburg registrierte Genossenschaft mit beschränkter Haftung was integrated into the Issuer. In 2010, VBAG, as the main shareholder up to that point, sold its shares in Volksbank Wien AG to credit institutions of the Volksbank sector.

With its entry into the Austrian companies register on 15 October 2013, the banking business of Volksbank Baden e.Gen. was integrated into the Issuer as part of a contribution in kind (*Sacheinlage*) pursuant to § 92 BWG (contribution and contribution in kind agreement of 17 September 2013) by universal succession as of 31 December 2012, and the legal name of the Issuer changed to "Volksbank Wien-Baden AG". Likewise, the banking business of Gärtnerbank, registrierte Genossenschaft mit beschränkter Haftung entered into the Austrian companies register on 28 October 2014 was integrated into the Issuer retroactively as of 1 April 2014 as part of a contribution in kind pursuant to § 92 BWG (contribution and contribution in kind agreement of 22 September 2014) by universal succession.

In the course of restructuring the Association of Volksbanks (*Volksbanken-Verbund*) and the conversion of VBAG into a wind-down company, the branch of activity of VBAG enabling the Issuer to acquire and fulfil the function as central organisation (*Zentralorganisation*) and central institution (*Zentralinstitut*) in the new credit institution Association of Volksbanks formed by the association agreement (*Verbundvertrag*) were transferred into the Issuer by means of a spin-off for acquisition in accordance with the Austrian De-Merger Act (*Spaltungsgesetz – "SpaltG"*), carried out in accordance with a spin-off agreement dated 1 June 2015 and having been entered into the Austrian companies register on 4 July 2015.

The banking activities of Volksbank Ost registrierte Genossenschaft mit beschränkter Haftung and Volksbank Obersdorf Wolkersdorf – Deutsch Wagram e.Gen. were subsequently integrated into the Issuer by means of universal succession with the contribution agreement and the contribution in kind agreement dated 7 August 2015 pursuant to § 92 BWG. At the same time, Volksbank Wien-Baden AG was renamed VOLKSBANK WIEN AG. The entry into the Austrian companies register was made on 3 November 2015.

With the contribution agreement and the contribution in kind agreement dated 18 May 2016, the banking activities of Volksbank Weinviertel e.Gen. were then integrated into the Issuer by universal succession pursuant to § 92 BWG, with registration in the Austrian companies register taking place on 19 July 2016.

The banking activities of Volksbank Niederösterreich Süd eG and Volksbank Südburgenland eG were integrated by universal succession into the Issuer pursuant to § 92 BWG by means of the contribution agreement and the contribution in kind agreement dated 7 September 2016 and entered into the Austrian companies register on 3 November 2016.

Furthermore, with the contribution agreement and the contribution in kind agreement dated 22 May 2017, the banking activities of SPARDA BANK AUSTRIA eGen were integrated into the Issuer by universal succession pursuant to § 92 BWG, registered in the Austrian companies register on 17 August 2017.

Since 4 July 2015, the Issuer serves as central organisation of the Association of Volksbanks formed on the basis of the Association Agreement and as central institution of the historic banking sector of Volksbanks. As of 30 June 2017 the Issuer has 65 branches in Vienna, Lower Austria and Burgenland with approximately 246,000 retail and 18,000 small and medium sized enterprise ("**SME**") customers as well as 22 SPARDA BANK branches throughout Austria with approximately 82,000 retail and 1,200 SME customers.

4.2 LEGAL AND COMMERCIAL NAME, DOMICILE AND LEGAL FORM

The Issuer is a stock corporation incorporated under the laws of Austria for an indefinite period and entered in the Austrian companies register (*Firmenbuch*) of the commercial court (*Handelsgericht*) of Vienna under registration number FN 211524 s under the name "VOLKSBANK WIEN AG". It operates under the commercial name "Volksbank Wien".

The seat and business address of the Issuer is Kolingasse 14-16, 1090 Vienna, Austria. The Issuer's central telephone number is +43 (0)1 401 37 0.

4.3 RECENT DEVELOPMENTS

ECB's decision on the capital requirements for the Association of Volksbanks

Pursuant to an ECB decision based on the SREP results in 2016, the following additional capital requirements apply to the Association of Volksbanks as of 1 January 2017.

2017 SREP: SREP decision for 2017: a minimum CET 1 Pillar 1 requirement of 4.5%, a CET 1 Pillar 2 requirement of 2.5%, a phased-in capital conservation buffer of 1.25% and a Pillar 2 guidance of 2.45%. This implies a 10.7% CET 1 demand for 2017. The total capital requirement for 2017 is 11.75% (including 1.5% AT 1 and 2% Tier 2 requirement, excluding Pillar 2 guidance). The capital conservation buffer will rise to 2.5% in 2019. For 2017, there is no further buffer to be added to the requirements above.

2018 SREP: (preliminary) SREP decision for 2018: a minimum CET 1 Pillar 1 requirement of 4.5%, a CET 1 Pillar 2 requirement of 2.5%, a phased-in capital conservation buffer of 1.875%, an expected phased-in systemic risk buffer of 0.25% and a Pillar 2 guidance of 1.8%. This implies a 10.925% CET 1 demand for 2018. The total capital requirement for 2018 is 12.625% (including 1.5% AT 1 and 2% Tier 2

requirement, excluding Pillar 2 guidance). The capital conservation buffer will rise to 2.5% in 2019. The expected systemic risk buffer will rise to 1% in 2020.

The Issuer as central organisation of the Association of Volksbanks has to fulfill the SREP capital quantitative measures on a consolidated basis, including all member credit institutions according to § 30a BWG.

MREL ratio for the Association of Volksbanks

The Single Resolution Board (SRB) advised the Association of Volksbanks that it will issue a final MREL ratio for the Association of Volksbanks either in late 2017 or in early 2018. The final MREL ratio will substitute the indicative MREL ratio issued in 2016, which was set at 24.75%. The indicative ratio was derived by doubling the total capital requirement without buffers (Pillar 1 requirement of 8.0% and Pillar 2 requirement of 2.5%) under SREP of 10.5% and adding a "fully loaded" combined buffer requirement of 2.5% (consisting of 2.5% capital conservation buffer) and a 1.25% market confidence charge (consisting of the 2.5% fully loaded combined buffer requirement minus 1.25%). The minimum required eligible liabilities can in future be fulfilled by issuing new capital instruments (CET 1, AT 1, Tier 2) and/or senior non-preferred liabilities (for which the introduction of legal requirements is pending) and/or potentially eligible senior liabilities.

Deconsolidation of cooperative holding companies (*Verwaltungsgenossenschaften*)

Following discussions with the ECB, it has been determined that the cooperative holding companies will no longer be included in the prudential consolidation when determining capital ratios of the Association of Volksbanks in the future.

This will have the following (expected) impact:

- a decrease of Tier 2 capital of approximately EUR 177 million in 2017 (approximately EUR 140 million in 2018 due to phasing out) will be expected;
- this constitutes anticipatory effects as the members uncalled liabilities are in phasing out and will no longer be eligible as own funds; the eligibility of the members uncalled liabilities of currently 50% in 2017 will decrease 10 percentage points *per annum* from 1 January 2018 onwards;
- the anticipatory effects regarding Tier 2 capital will be compensated by this MREL capable issue; and
- on the CET 1 capital a minor effect (around zero) will be expected.

Merger in 2017

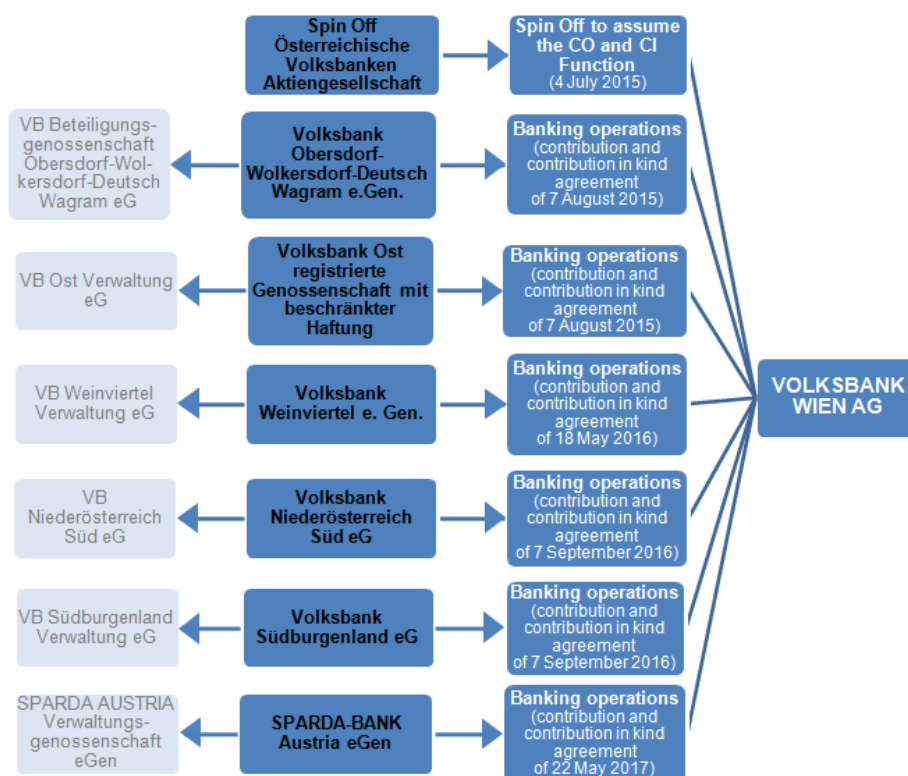
Due to the contribution and contribution in kind agreement (*Einbringungs- und Sacheinlagevertrag*) dated 22 May 2017, the banking activities of SPARDA BANK AUSTRIA eGen have been transferred into the Issuer by way of universal succession (*Gesamtrechtsnachfolge*) pursuant to § 92 BWG, the respective transfer of assets (*Einbringung*) was registered in the Austrian companies register (*Firmenbuch*) on 17 August 2017.

Integrating the banking activities of SPARDA-BANK AUSTRIA eGen also means that VBW will continue to operate banking branch offices in Austria and use the brand of "SPARDA-BANK" as an additional brand.

Cooperation with Volksbank Niederösterreich AG and Waldviertler Volksbank Horn, reg.Gen.m.b.H.

Moreover, agreements were made between the Issuer and Volksbank Niederösterreich AG with a view to starting negotiations as to whether and in what manner the cooperation between the two institutions might be intensified. Based on the geographical proximity and the closely related areas of business, cooperation models and the associated synergies are being evaluated. Furthermore the supervisory board of Waldviertler Volksbank Horn, reg.Gen.m.b.H. authorised its managing board to start negotiations regarding a tighter cooperation with the Issuer.

Graphical representation of mergers made in the past two years



(Source: Information provided by the Issuer)

Restructuring of the Association of Volksbanks – conversion of VBAG into a wind-down company (*Abbaugesellschaft*) and change of name to "immigon portfolioabbau ag"

By means of a resolution in principle dated 2 October 2014, the primary institutions of the Austrian Volksbanks sector (the "**Volksbanks Sector**"), i.e. the regional Volksbanks belonging to the Association of Volksbanks (established in September 2012 pursuant to § 30a BWG) at that time, the special credit institutions (e.g. Österreichische Apothekerbank eG, SPARDA-BANK AUSTRIA eGen), the credit cooperative banks (e.g.

Spar- und Vorschußverein "Graphik" registrierte Genossenschaft mit beschränkter Haftung and Spar- und Vorschuß-Verein der Beamtenschaft der Oesterreichischen Nationalbank registrierte Genossenschaft mit beschränkter Haftung) and a building society (start:bausparkasse), decided on the fundamental restructuring and reorganisation of the Association of Volksbanks; the following measures in particular are part of this restructuring plan still being implemented at the time of approval of this Prospectus:

- Spin-off of the central organisation and central institution function of VBAG and operation of VBAG as wind-down company

As part of the restructuring of the Association of Volksbanks, VBAG was, as the central organisation at that time, reorganised with effect from 4 July 2015 and the banking operations and the central organisation function were de-merged into VOLKSBANK WIEN AG (formerly: "Volksbank Wien-Baden AG"). At the same time, VBAG's banking license ended and VBAG left the Association of Volksbanks. As a wind-down company pursuant to § 162 BaSAG, it is solely responsible for dismantling the portfolio after having been renamed "immigon portfolioabbau ag". Accordingly, the Issuer has been the central organisation of the Association of Volksbanks since 4 July 2015.

- Restructuring of the Association of Volksbanks

The strategic restructuring of the Association of Volksbanks to be implemented by 31 December 2017, involves establishing a target structure consisting of up to eight regional Volksbanks (including the Issuer) and up to three special credit institutions. This planning objective is to be realised through corporate-law measures, in particular mergers of member credit institutions and incorporations of companies or banking activities of member credit institutions pursuant to § 92 BWG as well as the sale (executed on 1 December 2016) of start:gruppe (start:bausparkasse AG and IMMO-BANK Aktiengesellschaft).

Several agreements which are relevant for the then existing association of credit institutions (*Kreditinstitute-Verbund*) were re-concluded in the course of the restructuring. The Association Agreement to form an association of credit institutions (*Kreditinstitute-Verbund*) pursuant to § 30a BWG was concluded between the Issuer as the central organisation and the member credit institutions and came into effect on 1 July 2016. The Trust Fund (from the earmarked trust assets held by the central organisation as the trustor as part of the joint liability scheme) came into effect with the trust agreement trust fund (*Treuhandvertrag Leistungsfonds* – the "**Trust Agreement**") between the Issuer as the central organisation and the member credit institutions on 1 July 2016. The cooperation agreement (*Zusammenarbeitsvertrag* – the "**Cooperation Agreement**") was concluded between the members of the Association of Volksbanks (*Volksbanken-Verbund*) and the Volksbank Vertriebs- und Marketing eG to harness the maximum number of synergies possible and came into effect on 1 July 2016 (see point 4.16 "MATERIAL CONTRACTS" for details of the agreements).

On 29 June 2016, the ECB approved the association formed between the Issuer as the central organisation and the member credit institutions affiliated to the central institution as an association of credit institutions pursuant § 30a BWG effective from 1 July 2016. § 30a BWG refers to, *inter alia*, the requirements as laid down in Article 10 (1) CRR.

Participation of the Republic of Austria (Federal Government) in the Issuer

In order to obtain the state aid law approval for the restructuring from the European Commission, a participation right (*Genussrecht*) in the aggregate principal amount of EUR 300 million was issued by VB Rückzahlungsgesellschaft mbH (a wholly owned subsidiary of the Issuer) as of 20 October 2015 to the Federal Government of the Republic Of Austria (the "**Austrian Government Participation Right**") to fulfil the commitments given by the Association of Volksbanks vis-à-vis the Republic of Austria in the course of measures to restructure the Association of Volksbanks.

The members of the Association of Volksbanks (including the Issuer) agreed to make contributions to the disbursements to the Austrian Government Participation Right.

The Austrian Government Participation Right is not paid-in capital and is therefore not included in the CET 1 capital of the Association of Volksbanks. However, the future payment will lead to a decrease of returns in the same amount as the payment will be made from current retained earnings or future earnings of the Association of Volksbanks insofar as the liquidation proceeds from immigion may not be accounted for.

In addition, as of 28 January 2016, the members of the Association of Volksbanks and other shareholders of the Issuer transferred shares of the Issuer without consideration as ownership transferred by way of security (*Sicherungseigentum*) to the Federal Government after receipt of a corresponding statement of purchase by the Federal Government, meaning that the Federal Government consequently holds a total of 25% plus one share in the Issuer (also after implementation of the integration of the banking operations of other members of the Association of Volksbanks into the Issuer in the course of restructuring, planned in the course of restructuring and necessary to restructure members of the Association of Volksbanks). The Federal Government is obliged to transfer said shares back to the shareholders without consideration, as soon as the sum of the dividends, on the participation right held by the Federal Government, received from the Federal Government and other creditable amounts reaches EUR 300 million. As of 2 August 2017, EUR 233 million of the Austrian Government Participation Right was still outstanding.

The Federal Government is not authorised to dispose of these shares, except if the amounts received by the Federal Government on contractually defined dates (dividends on the Austrian Government Participation Right and eligible amounts) do not achieve defined minimum amounts. In this case, the relevant shareholders of the Issuer have agreed to transfer to the Federal Government further 8% of the ordinary shares of the Issuer without any further consideration and to make these freely available. Overall, accordingly, up to 33% plus 1 share of the shares in VBW may pass into the ownership of the Federal Government and the Federal Government is entitled to freely dispose of said shares. The Federal Government's authorisation to freely dispose of said shares is subject to a right of first refusal, which comes into effect when a binding purchase offer is made and applies in favour of a purchaser named by the Issuer.

4.4 RATING

The Issuer has been given the following rating by Moody's Investors Service Ltd. ("**Moody's**"): "Baa2" (see below for more on Moody's). The Association of Volksbanks has been given the following rating from Fitch Ratings Ltd. ("Fitch"): "BBB-" (see below for more on Fitch).

The Issuer's covered bonds (*fundierte Bankschuldverschreibungen*) have been given the following rating by Moody's: "Aaa".

The Notes to be issued are expected to be rated by Moody's as follows: "Baa3"

Detailed information about the ratings may be found on the Issuer's website www.volksbankwien.at under: "Investoren/Investor Relations/Ratings".

General information about the meanings of ratings and limitations that must be considered in this connection may be found on the websites of Moody's www.moody.com and Fitch www.fitchratings.com.

Fitch is registered at the Companies House in England and has its business address in North Colonnade, London E14 5GN, England. Moody's is registered at the Companies House in England and has its business address in One Canada Square, Canary Wharf, London E14 5FA, England.

Moody's and Fitch are legally registered pursuant to Regulation (EC) No 1060/2009 of the European Parliament and Council of 16 September 2009 on rating agencies.

A rating does not constitute a recommendation to buy, sell or hold bonds, and may be suspended, changed or withdrawn by the rating agency at any time.

4.5 BUSINESS OVERVIEW

Main areas of activity

The Issuer is primarily active in the following areas of business:

- credit business;
- deposit business;
- securities account business;
- function as the central organisation of the Association of Volksbanks; and
- private customer business.

Through the brand "LiveBANK", the Issuer offers services in respect of online banking. Furthermore through the brand "SPARDA BANK" services to retail customers are offered by the Issuer throughout Austria.

The Issuer is a regional bank and runs its operations pursuant to § 3 of its articles of association (*Satzung*) with the aim of supporting the interests of its members. It performs this in the Association of Volksbanks as the central organisation. The statutory auditing association was, until mid-2015, solely Österreichischer Genossenschaftsverband (Schulze-Delitzsch). From the second half of 2015, auditing was performed jointly by

Österreichischer Genossenschaftsverband (Schulze-Delitzsch) and KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. Since 2016, the unconsolidated and consolidated financial statements of the Issuer are audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft.

The purpose of the Issuer is to perform banking activities pursuant to § 1 BWG, excluding banking activities pursuant to § 1(1)(12), (13), (13a) and (21) BWG.

This also includes the issuing of covered bonds (*fundierte Bankschuldverschreibungen*) as well as the investment of proceeds from such instruments in accordance with the applicable legal provisions (securities underwriting business) (§ (1)(1)(9) BWG) as well as the business of financing through the acquisition and resale of equity shares (capital financing business) (§ (1)(1)(15) BWG).

Within the framework of the corresponding legal regulations, the Issuer also deals in the provision of payment services, trading with coins, medals and ingots made from precious metals, the letting of safes under joint control with the lessor, exchange office business, building society advisory services and the arrangement of building society savings contracts, the arrangement of insurance, leasing, services for automated data processing, the distribution of credit cards, investment consulting and asset management, the marketing of lottery shares of officially approved lottery games and the marketing of lotteries and all other activities permitted pursuant to § 1(1)(2) and (3) BWG.

As a central money and credit institution, and as the central organisation of the Association of Volksbanks, the Issuer also has the following responsibilities in particular:

- a) To perform the functions of the central organisation of the association of credit institutions pursuant to § 30a BWG, including giving instructions to the member credit institutions to ensure compliance with banking supervisory requirements;
- b) to manage and invest the liquid funds made available to it by the member credit institutions, notably their liquidity reserves;
- c) to grant loans, loan support and temporary liquidity support to the member credit institutions, to ensure corresponding liquidity such as by way of securities issues, to facilitate their money and business dealings with each other and with third parties;
- d) to perform, maintain, technically develop and promote its cashless payment transactions and other banking services;
- e) to issue covered bonds;
- f) to support the member credit institutions with their marketing activities;
- g) to represent the interests of the member credit institutions; and
- h) to handle the syndicated loan business together with the member credit institutions.

The Issuer is entitled to undertake any transactions and measures that are necessary and expedient to achieve the purpose of the company or that directly or indirectly serve the purpose of the company, in particular to establish branches in Austria as well as to acquire stakes in other companies of the same or a similar nature.

The Issuer must perform and fulfil all its legal, statutory and contractual rights and obligations as the central organisation of the association of credit institutions (§ 30a BWG), in particular to participate in the liquidity and liability scheme, as well as to observe the conditions of the association agreement.

The Issuer's business is to be performed in consideration of its position as the central organisation, central institution and liquidity clearing house of the member credit institutions in accordance with general economic aspects and commercial principles, with particular consideration being given to the purpose of the company (§ 3 of the articles of association) and cost efficiency. When issuing, changing and supplementing instructions (§ 30a BWG), the Issuer must always preserve the aim of promoting the member credit institution, as well as the principle of objective equal treatment of the member credit institutions.

Strategic Points of the Association of Volksbanks

In the view of the Issuer, the main strategic points for the time being and the near future are the following:

- **IFRS 9:** The Association of Volksbanks aims at implementing IFRS 9 on requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This should optimise risk management, capital, accounting and registration within the Association of Volksbanks. The preparations for the implementation of IFRS 9 are in a very advanced stage. The relevant model parameters have been estimated using statistical data analysis supported by expert judgement. The validation process is currently ongoing. The Issuer is expecting an impact from changes in impairment methodology and from changes in valuation of approximately -50 basis points (bps) on CET 1 at the level of the Association of Volksbanks and a negligible impact on CET 1 at the level of the Issuer. The amount depends on market developments until End of 2017, positive effects could partially compensate this impact.
- **NPL process:** Since 2016, the Association of Volksbanks works on the reduction of non-performing loans (the "NPL") which should be achieved by an optimized and uniform pre-warning system, better reminder mechanisms and the improved management of loans at risk.
- **Digitalisation & Innovation:** The Association of Volksbanks aims at the digitalisation of core business with a focus on growth, client value and efficiency gains. This strategy includes in particular three mobile apps, a new online banking-desktop, online client opening (including video identification), an account switching tool, a wallet with peer-to-peer (P2P) payment, loyalty cards and contactless payment, online consumer lending including self-service portal, MiFID compliant robo-advise for small regular savings with investment products. Furthermore, the Association of Volksbanks works on innovation and the set-up of a digital eco-system (corporate partner of accelerator weXelerate, API & Sandbox). The strategy also includes new business models, e.g. spend optimization via personal finance manager.
- **Improving efficiency:** A series of projects are currently implemented by the Association of Volksbanks in order to improve efficiency:

- Streamlining of the credit process: The main objective of this project is to standardize and optimize the credit process which is one of the core business processes within the Association of Volksbanks. This should result in the acceleration of the whole credit process and increasing efficiency regarding required manpower and IT. This project should also be beneficial for the customers, who should have faster and easier access to loans.
- Client service center / centralizing of back offices and back office related entities: A number of projects within the Association of Volksbanks focus on streamlining back office processes, e.g. establishing centralized client service centers or releasing market units from back office tasks thus enabling them to concentrate on customers. In addition, back office tasks should be consolidated in centralized units in order to achieve cost synergies.
- IT-relevant efficiency projects: Certain projects of the Association of Volksbanks address IT-cost-efficiency. These projects comprise e.g. the standardizing of core banking solutions regarding product parametrization, cost-optimization of telecommunication services within the Association, of Volksbanks and the streamlining and/or outsourcing of IT-infrastructure-services.

4.6 RISK MANAGEMENT

4.6.1 Introduction

The assumption and management of risks associated with the business activities is a core function of any credit institution. The Issuer fulfils the central task of implementing and managing the processes and methods to identify, control, measure and monitor banking risks both, at the level of the Issuer as well as at the level of the Association of Volksbanks (in its role as central organisation of the Association of Volksbanks).

4.6.2 Regulatory requirements

The following regulatory requirements are the basis for the risk management framework of the Issuer:

The implementation of Pillar 1 at the level of the Issuer as central organisation of the Association of Volksbanks is aimed at meeting minimum regulatory requirements. With respect to both, credit risk and market risk, and for operational risk, the respective regulatory standard approaches for determining the minimum capital requirements apply.

The requirements of Pillar 2 are implemented within the scope of the so-called Internal Capital Adequacy Assessment Process ("**ICAAP**"). In this context, the Issuer implements all measures required to ensure sufficient capitalisation, at all times, for current business activities and also for those planned in future, as well as the associated risks. Furthermore, in the context of what is known as the Internal Liquidity Adequacy Assessment Process ("**ILAAP**"), it shall be ensured that all material liquidity and refinancing risks of the Issuer are identified, measured and monitored and that, where necessary, measures are taken promptly to avoid liquidity shortages.

The requirements of Part VIII of the CRR are met through the publication of qualitative and quantitative disclosure information on the Issuer's website www.volksbankwien.at under "*Ihre Regionalbank/Offenlegung*" (in German language).

4.6.3 Risk management structure

The Issuer believes that it has taken all necessary organisational measures in order to meet the requirements of a state-of-the-art risk management and risk regulatory compliance organisation. There is a clear separation between risk-taking and risk assessment, measurement and control, also carried out according to the "four eyes principle", in order to avoid conflicts of interest.

The risk management is composed by a strategic function (i.e. the "**Risk Controlling**") and a credit operations function. Risk Controlling is responsible for the identification, measurement, assessment, steering, monitoring and reporting of all relevant risks on the level of the Issuer and on the level of the Association of Volksbanks. Furthermore, the risk controlling department sets the governance, methods and models for the Association of Volksbanks-wide risk management and steering on a portfolio level.

The underwriting credit risk management activities are organisationally separated from the business and Risk Controlling functions and are combined in the credit operations department of the Issuer (the "**Credit Operations department**"). The Credit Operations department deals with the credit risk management topics on client and on group of connected clients level.

For the purpose of carrying out its steering function according to § 30a BWG, the Issuer as central organisation of the Association of Volksbanks has issued general instructions for the credit institutions included in the Association of Volksbanks.

4.6.4 Risk Appetite Framework

The overarching policy for the risk governance in the Association of Volksbanks is the General Instruction on Risk Appetite Framework ("**RAF**"). RAF defines the roles and responsibilities in the Association of Volksbanks and sets up the principles for the risk policies, procedures, processes, controls and systems that were consistently implemented throughout the Association of Volksbanks, including the Issuer, in order to identify, quantify and aggregate all financial and non-financial risks, as well as to identify new potential risks. RAF is designed to ensure the identification and monitoring of the risk appetite, as well as the escalation of limit breaches and to ensure and strengthen an appropriate risk culture across the Association of Volksbanks and inside the Issuer.

4.6.5 Risk strategy

The risk strategy of the Issuer is based on the business strategy and business model and on the risk strategy of Association of Volksbanks (the "**Risk Strategy**") and defines the guidelines for a uniform and mandatory handling of risks, as well as for ensuring the risk bearing capacity and Risk Appetite Statement ("**RAS**") within the VBW Group at all times. Detailed regulations for the management of individual risks are part of the General

Instruction Risk Management as well as in the related manuals of Association of Volksbanks and operational and working instructions of the Issuer.

Based on the Risk Strategy of the Association of Volksbanks, the Issuer defines its own risk strategy adjusted to the specific business model. The Risk Strategy is reviewed for up-to-datedness and adequacy at least annually and adjusted to the respective current general conditions if necessary.

4.6.6 General Instruction Risk Management

The General Instruction Risk Management is part of the risk management framework and is based on the Risk Strategy of Association of Volksbanks. It is dealing with both, strategic risk and credit operations topics that are consistently applied throughout Association of Volksbanks. The General Instruction Risk Management has the role to provide the risk management rules and frame for the operational implementation of the strategic risk targets of the Association of Volksbanks (ICAAP consolidation basis) according to § 30a BWG.

Specific handbooks, methodologies and working instructions are derived out of the Risk Strategy and the General Instruction Risk Management and are thoroughly implemented by the Issuer. They include detailed risk management processes, roles and responsibilities, models, applications and methods.

4.6.7 Internal Capital Adequacy Assessment Process

The business activities resulting from the business model require the ability to appropriately identify, quantify, aggregate and control risks and to provide an adequate capital base.

In order to ensure a sustainable, risk-adequate capital base, the Issuer has set up the ICAAP process as a revolving control and steering cycle based on the principles, methods, systems and reports provided by the central organisation, who regularly monitors the implementation.

The ICAAP starts by identifying the key risks of the Issuer, undergoes a risk quantification and aggregation process, determination of risk-bearing capacity, capital allocation, and limitation, and concludes with ongoing risk monitoring and the measures derived therefrom.

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 statement, annually for risk self-assessment (risk inventory) and definition of the risk strategy).

The core elements of the Risk Strategy are an integrated limit system aligned with the business strategy and the RAS.

The development of the integrated and consistent limit system is carried out according to § 30a BWG at the level of the Association of Volksbanks and at the Issuer level through the central organisation. The system with continuously planned and allocated limits is meant to safeguard and steer the risk-bearing capacity. The limit system is reviewed at

least on a yearly basis. The set up of the limit system is defined within the Risk Strategy and detailed in a specific handbook.

The RAS set of indicators comprising strategic and operating indicators helps the Managing Board to implement central strategic goals. Target, trigger and limit values are defined for key indicators in the RAS. These indicators are constantly monitored. This shall ensure that the risk profile is compliant with the Association of Volksbanks' defined strategic orientation and at the Issuer level. Potential deviations from the plan shall be quickly detected and counter-measures should be initiated in good time based on the available escalation process.

The Issuer is exposed through its business activities to a variety of risks, financial or non-financial (e.g. credit risk, market risk, operational risk, business risk, reputational risk, liquidity risk, model risk, compliance risk).

The Issuer regularly assesses (at least on a yearly basis) which risks are present in ongoing banking operations, as well as their materiality based on the principles and tools provided by the central organisation. This process, called risk inventory, involves both, a quantitative and qualitative assessment of individual risk types.

The results of the risk assessments are compiled in a risk map, which shows the results and material risk types for each local bank (i.e. Issuer) and the Association of Volksbanks. Risks which are identified as materially significant during the annual risk inventory and which are quantifiable are included in the preparation of the Risk Strategy, in the risk-bearing capacity calculation and in every consequent element of the ICAAP process. Risks which the Issuer believes not to be material and/or not quantifiable undergo a regular review in the annual risk assessment and are addressed by procedural measures and monitoring for early identification.

The risk-bearing capacity statement forms the basis of the quantitative implementation of the ICAAP. It is used to provide evidence of the fact that the risks assumed are sufficiently covered by adequate risk covering potentials at all times and to ensure such cover also in future. For this purpose, all relevant individual risks are aggregated on the one hand. On the other hand is the overall risk aligned with the existing and previously defined risk covering potentials. The compliance with the applicable aggregate bank risk limits adopted by the Managing Board is monitored and reported on a quarterly basis.

In determining risk-bearing capacity, different objectives are pursued and are reflected under three perspectives:

- regulatory perspective (compliance with regulatory own funds ratios);
- economic liquidation perspective (gone-concern perspective); and
- economic going-concern perspective.

The regulatory perspective compares the sum of all risks defined by the regulator as covered by capital according to specified risk measurement methods and the defined total capital (based on CRR/CRD IV and the BWG).

The main focus of the gone concern perspective is to protect creditors' claims in the event of liquidation. In this perspective, the available economic capital is used as the available financial resources. This is based on the regulatory definition of Total Capital, but also includes further components such as e.g. interim net profit/loss, hidden reserves and liabilities. For determining the total risk position, all material and quantifiable risks are calculated based on internal methods, usually value at risk ("VaR"). To quantify risk in the gone concern perspective, a confidence level of 99.9% is used with a holding period of one year. The main focus of the going concern perspective is to ensure the continuation of normal business operations. Minor, highly probable risks can be accommodated without jeopardising ongoing business operations. Therefore, the risk-covering capital, essentially comprising hidden reserves and liabilities, net profit/loss generated in the current year and the planned profit/loss for the next 12 months, are used in the risk coverage.

Credit, market and liquidity risks undergo regular stress tests on Association of Volksbanks level. The crisis scenarios are designed in such a way that the occurrence of very unlikely but plausible events is simulated and they are tailored to the business model.

In addition to these stress tests and sensitivity analyses for specific risk types, stress tests are regularly carried out across the risk types for the calculation of a stressed risk-bearing capacity analysis and a stressed CET 1 ratio. This process initially involves defining macroeconomic stress scenarios and deriving the impact on profit and loss positions for the individual risk categories and segments from it. In addition, an increase in the risk weighted assets is considered. The effects are then compiled in a stressed risk-bearing capacity analysis and stressed CET 1 and capital ratio and are analysed. Main risk drivers are identified and recommendations for action are derived. Part of this stress testing package is the conduction of reverse stress tests and sensitivity analysis. The overall results are presented in a stress test report and discussed in the Stress Test Committee, the Managing Board as well as the Supervisory Board.

4.6.8 Credit risk

Credit risk is defined as the risk of losses sustained or profits foregone due to the default of a counterparty. It is a quantifiable material risk and includes the sub-risk types of credit default risk, issuer risk, counterparty risk, country risk, credit rating migration risk and real estate risk.

The credit risk strategy is derived from the overall risk strategy of the Association of Volksbanks and is embedded in the ICAAP process of the Issuer. The aim is to ensure the adequate structural risk quality of the credit portfolio. The credit risk strategy defines the credit risk tolerance and sets the specific risk minimization priorities.

The Issuer makes use of quantitative and qualitative risk management tools that give decision-makers clear guidance on both portfolio level management and on decisions for individual transactions.

The quantitative credit risk strategy aims at limiting risks with regard to poorer credit standing and exposures with high loss-at-default contributions. The risk management

system ensures that the entire portfolio and the sub-portfolios, right down to individual exposure level, are managed consistently and thoroughly on a top down basis.

In addition, qualitative management guidelines in the form of credit policies define the credit business at the Issuer. At the level of individual transactions, they regulate the transaction type and set the risk tools to be used. These credit policies are firmly embedded in the credit process: transactions which do not meet the requirements are escalated through a predefined competence regulation. In addition, all material decisions on individual transactions involve the strictly separated functions of the Sales Manager and the Operation Risk Manager, complying with the "four eyes principle". Rating systems and limit systems play an important role in this context, as they provide a framework for the decision-makers in the individual business units.

The development of models, systems and processes is tailored to the bank specific portfolio and enables accurate measurement and control of credit risk.

Credit Ratings

The Issuer's rating systems, which are used for all credit exposures, form the basis for measuring default risk. The calibration of the models and the calculation of the loss ratios for all material credit portfolio segments are based on an analysis of historical data from the Issuer's portfolio. The rating systems are validated annually and whenever necessary recalibrated so that they reflect the latest projections and remain in line with the actually observed defaults.

The Issuer's rating method comprises of 20 rating classes for credit exposures not in default and five default classes. The underlying Master Rating Scale allocates a non-overlapping range of probabilities of default that are stable over time to each rating class across all portfolios. This ensures comparability of the creditworthiness both across different portfolios as well to the credit ratings of the external rating agencies.

Regulatory Capital and Economic Capital for credit risk

The management of the Issuer takes into account both pillars of the capital adequacy regulations. The Issuer uses the standardized approach for credit risk (Pillar I) as per the provisions of CRR/CRD IV and BWG as a basis for calculating the total capital to be employed for the credit portfolio. The economic capital for credit risk (Pillar II) is computed in parallel and allocated to the relevant sub-portfolios down to the individual transactions. The economic capital allocations are incorporated in the loan pricing mechanism at the Issuer, thus ensuring that the lending decisions are made in a risk sensitive way.

The calculation of the economic capital is done with the Credit Value-at-Risk ("CVaR") method. The Issuer uses a comprehensive, forward-looking simulation approach to evaluate the joint impact of multiple economic variables, such as interest rates, GDP growth or real estate prices, to the portfolio credit risks.

Standardized credit risk reporting

The standardized credit risk reporting takes place monthly and provides a detailed view of the credit risk at the Issuer and at the Association of Volksbanks. The reports include

all relevant quantitative credit risk ratios and are supplemented by a qualitative assessment by the Issuer's credit risk experts.

4.6.9 Collateral management in derivatives trading

As part of the Issuer's internal risk controlling, transactions concluded on the basis of framework agreements of the International Swaps and Derivatives Association (ISDA) and Credit Support Annex (CSA) agreements, are subject to a daily comparison of market values of the derivative transactions with the counterparties. If the fair values exceed or fall below certain contractually agreed thresholds, such excess amounts must be covered by collateral. Repo transactions (sale and buyback arrangements) are also reviewed in respect of the amount of securities. After the reconciled margin calls (additional funding obligation), the transfer of securities is usually effected in the form of cash or selected government bonds denominated in euro.

4.6.10 Market risk

Market risk is the risk of losses in on- and off-balance sheet positions arising from adverse movements in market prices. The Issuer distinguishes the following subgroups of market risk:

- interest rate risk in the investment book;
- credit spread risk;
- market risk in the trading book; and
- foreign exchange risk (open FX positions).

Interest rate risk in the banking book

Interest rate risks in the banking book arise mainly from term transformation, which means that the maturities of fixed interest rate assets and liabilities are not matched. Term transformation can be a source of income for a bank.

The Asset Liability Committee ("**ALCO**") is responsible for controlling the interest rate position of the Issuer within the scope of risk limits defined by the Managing Board within ALCO. The monthly ALCO is the central body for the management of interest rate risks. The asset liability management ("**ALM**") department within treasury is responsible for the ALCO and for managing the interest rate position within the limits. The aim is to create a positive term transformation. Effects on both income and present value are considered in managing the interest rate position.

Responsible for the design of risk limits and for the monthly risk reporting is the risk controlling department. It is also responsible for risk modelling and the relevant parametrisation of IT systems.

The basis for risk measurement are interest rate gaps (net position of the volumes of assets, liabilities and off balance sheet positions per maturity band, with each position being allocated to one maturity band according to its contractual or modelled fixed interest rate). Positions with indefinite interest rates (e.g. in the form of sight and savings deposits, current account facilities) are accounted by replication assumptions. The

assumptions are determined on the basis of statistical analyses, supplemented by expert opinions. They are regularly reviewed for validity and validated in a group that is independent from the modelling. Several risk figures and sensitivities are calculated based on the interest rate gaps.

Credit spread risk

The credit spread is defined as additional charge on the risk-free (or low risk) interest rate. Credit spread risk is the risk of losses in assets arising from adverse movements in credit spreads.

The positions relevant to credit spread risk are basically bonds and minor volumes in funds, credit default swaps (CDS) and promissory notes. For these positions, a credit spread value-at-risk and credit spread sensitivities are calculated. Not included are loans and advances to customers.

In line with the investment strategy the bonds are mainly high-liquid assets of the public sector and covered bonds with a high credit rating. It is primarily held as a liquidity buffer and mainly eligible for the regulatory liquidity coverage ratio ("**LCR**").

Responsible for the design of risk limits and for the monthly risk reporting is the risk controlling department. It is also responsible for risk modelling and the relevant parametrisation of IT systems.

Market risk in the trading book

The market risk in the trading book is the risk of losses in on- and off-balance sheet positions assigned to the trading book arising from adverse movements in market prices, market volatilities, etc.

The regulatory capital adequacy requirements of the trading book are calculated using the standard approach. There is currently no internal model for market risk in place at the Issuer. The limit structure reflects the risk and treasury strategy and has been approved by the Managing Board.

A VaR is calculated daily for the purpose of risk monitoring. Apart from VaR, a series of other risk indicators are calculated daily and used for limitation. They essentially comprise interest rate sensitivities and option risk indicators (delta, gamma, vega, rho). Additionally, there are management action triggers and stop-loss limits.

Responsible for the design of risk limits and for the daily and monthly risk reporting is the risk controlling department. It is also responsible for risk modelling and the relevant parametrisation of IT systems. The CSA management is also in responsibility of risk controlling department.

Foreign exchange risk from open FX positions

The foreign exchange risk from open FX positions (ODP) arises due to changes of the value of outstanding receivables and liabilities in foreign currencies through exchange rate fluctuations.

4.6.11 Liquidity risk

Liquidity risk is distinguished between illiquidity risk and funding cost risk:

Illiquidity risk

Illiquidity risk is the risk to be unable to settle payment obligations when they are due. In case of illiquidity risk, additional subcategories, e.g. refinancing risk (roll over risk), call risk and market liquidity risk are distinguished. For the Issuer as a retail bank, illiquidity risk typically consists in the risk of a bank run. This occurs when customers withdraw large deposit volumes and at the same time funding sources are not accessible.

Funding cost risk

Funding cost risk occurs due to potential future increases of refinancing costs on the money and capital markets as well as in the customer market. This risk is taken into account in the risk-bearing capacity calculation within the scope of the ICAAP. It is of minor importance at the Issuer, as the company is hardly dependent on the capital market, and little price sensitivity is observed in customer deposits.

Responsible for the design of risk limits and for the weekly and monthly risk reporting is the risk controlling department. It is also responsible for risk modelling and the relevant parametrisation of IT systems. The main risk figures are the regulatory LCR and the internal liquidity stress testing.

The ALCO is the central body for the management of liquidity risk. It is responsible for controlling the liquidity position of the Issuer within the scope of risk limits.

Responsible for the operational liquidity management is the treasury department. It is the central unit at the Issuer and within the Association of Volksbanks for matters regarding the pricing of liquidity, the central management of collateral across the Association of Volksbanks, the determination of the funding structure, the daily disposal of available liquid funds, and compliance with the refinancing strategy.

4.6.12 Operational risk

The Issuer defines operational risk as the risk of losses occurring as a result of the inappropriateness or failure of internal procedures, people, systems or of external events. Moreover, the legal risk is also taken into account within operational risk. The calculation of regulatory capital adequacy requirements is effected consistently acc. to the standard approach. For the economic presentation the "In House OpRisk Modell" is taken into account which considers historical operational risk-losses as well as the results of the quantitative risk assessment. At the Issuer, line management is responsible for the management of operational risks. It is supported in this function by centrally- or decentrally-based experts from the spheres of operational risk and internal control system. The aim is to optimise processes in order to reduce the probability of the occurrence of operational risks and/or to reduce the effect of operational losses. Moreover, close cooperation with security, safety and insurance management shall allow for optimal, comprehensive control of operational risks.

Within the scope of operational risk management, both quantitative and qualitative methods are used. Quantitative elements comprise, for instance, the execution of risk

assessment, the performance of stress tests, the determination and monitoring of risk appetite and of the risk indicators, as well as the loss data collection. Qualitative elements are reflected in the implementation of trainings, awareness-building measures, business continuity plans and risk assessment, the loss data collection incl. analysis of causes, the implementation of uniform internal control system (ICS) checks, data and information security management, as well as the analysis of the risk reports.

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

4.6.13 Other risks

In addition to the most significant financial risk types (credit risk, market risk, liquidity risk and operational risk), the Issuer is exposed to further risk types. These are the participation risk in all its forms, as well as the macroeconomic risk, which are measured monthly and taken into consideration quarterly in the risk-bearing capacity calculation. However, these risk types are not considered to be material and therefore no separate risk strategies are created for these risks. A description of the measurement methods used for risk assessment of these risk types can be found in the manual Risk-bearing Capacity and Limitation.

Additionally to these risks, there are also other types of risk that have been identified as significant for the Issuer, in particular the following: The non-financial risks include the reputational risks, conduct risks, compliance risks, legal risks, model risks, IT and system risks. This risk types are taken into account and treated by the compliance framework and the operational risk framework. These non-financial risks are controlled by means of internal rules and procedural measures of close monitoring and trough setting of measures in case of deviations.

Overview of financial risks

- **Business risk** is the risk arising from the volatility of earnings and the corresponding inability to (fully) cover residual fixed costs.
- **Direct real estate risk** is the risk that negative value changes in the real estate portfolio (real estate in the Issuer's own balance sheet or the balance sheet of a subsidiary) will occur.
- **Capital risk** is the risk of an unbalanced structure of the Issuer's internal capital with regard to its type and size, or the inability of quickly absorbing additional capital in the event of a need.

Overview of non-financial risks

- **Compliance risk** is defined as existing or future business or capital risk arising from violation or non-compliance with laws, regulations, legislation, mandatory practices or ethical standards. It may lead to fines, damages and/or nullity of contracts and damage the reputation of the Issuer.
- **Reputational risk** is defined as the risk arising from a possible damage to the reputation of the Issuer or the Association of Volksbanks a result of a negative

perception in the public (e.g. for customers, business partners, shareholders, employees, rating agencies or authorities). The corrupted reputation / trust may result in losses, declining income, rising costs, reduction in new business, decreasing liquidity or reduced capital, and have an impact on brand strength, access to capital markets and attractiveness of the Issuer as an employer.

- **Strategic risk** is the risk of negative effects on capital and earnings due to business-policy decisions or insufficient adjustment to changes of the economic environment.

4.7 PRINCIPAL MARKETS

The Issuer's most important geographical markets are the Austrian federal provinces of Vienna, Lower Austria and Burgenland, along with the surrounding area. It is also active throughout Austria with branches of banking activity.

4.8 ORGANISATIONAL STRUCTURE

As of 31 July 2017, the Issuer held a stake of more than 10% in the following companies which therefore are next to the Issuer the main members of VBW Group:

Company	Share in %
VB Rückzahlungsgesellschaft mbH	100.0000%
VBKA-Holding GmbH	100.0000%
VB ManagementBeratung GmbH	100.0000%
VOME Holding GmbH	100.0000%
UVB-Holding GmbH	100.0000%
Immo-Contract Baden Maklergesellschaft m.b.H.	100.0000%
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.	99.5000%
VOBA Vermietungs- und Verpachtungsges.m.b.H.	99.0000%
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH	99.0000%
Gärtnerbank Immobilien GmbH	99.0000%
3V-Immobilien Errichtungs-GmbH	99.0000%
VB Services für Banken Ges.m.b.H.	98.8889%
VB Verbund-Beteiligung Region Wien eG	90.1428%
ARZ-Volksbanken Holding GmbH	73.5597%
IMMO-CONTRACT Weinviertel GmbH	51.0000%
Volksbank Vertriebs- und Marketing eG	34.7791%
Wiener Landwirtschaftliche Siedlungsgesellschaft mit beschränkter Haftung	33.3333%
VB Beteiligungsgenossenschaft Obersdorf-Wolkersdorf-Deutsch-Wagram e.Gen.	32.1846%
ARZ Allgemeines Rechenzentrum GmbH	25.9934%
Volksbank Kärnten eG	25.7404%
Volksbanken - Versicherungsdienst - Gesellschaft m.b.H.	24.8609%
VB Südburgenland Verwaltung eG	21.7985%

VB Verbund-Beteiligung eG	21.1603%
VB-Beteiligungsgenossenschaft der Obersteiermark eG	20.3944%
THL Therme Laa a.d.Thaya-Projektentwicklungs- u.Errichtungsgesellschaft m.b.H.	19.2165%
Austrian Reporting Services GmbH	14.8300%
Volksbanken Holding eGen	14.4687%
Volksbank Einlagensicherung eG	12.8114%
Studiengesellschaft für Zusammenarbeit im Zahlungsverkehr (STUZZA) G.m.b.H.	10.7143%

(Source: information provided by the Issuer)

4.8.1 Association of Volksbanks

Originally a network of cooperative banks the Volksbanks chose a legal structure with possibly the highest degree of integration as described in Article 10 CRR. In this regard different measures ensure a degree of economic integration that allows treating the central organisation and the regional banks for regulatory purposes as if there were one bank. Pursuant to Article 10 CRR the competent authority may waive the requirement to comply with certain prudential requirements on an individual level. A number of regulatory requirements (i.e. capital requirements) have to be met on the Association level and by the central organisation only, the other members of the Association are exempt.

The Issuer, the legally independent Volksbanks and two special credit institutions form an association of credit institutions pursuant to § 30a BWG on the basis of the Association Agreement (the Association of Volksbanks). § 30a BWG refers to, *inter alia*, the criteria set out in Article 10 (1) CRR. The members of the Association of Volksbanks are: (a) the Issuer as central organisation (*Zentralorganisation*) and regional Volksbank as well as (b) the so-called affiliated or member credit institutions (*zugeordnete Kreditinstitute*) affiliated to the Issuer as central organisation. The Association of Volksbanks comprises nine regional Volksbanks (including the Issuer) and two special credit institutions. Therefore, the Issuer is also one of the (in total) nine regional Volksbanks and part of the Association of Volksbanks, but in its role as a central organisation and not as member credit institution. As a result, nine regional Volksbanks and two special credit institutions are members of the Association of Volksbanks.

Following discussions with the ECB, it has been determined that the cooperative holding companies will no longer be included in the prudential consolidation when determining capital ratios of the Association of Volksbanks in the future.

Furthermore, Volksbank Einlagensicherung eG, Volksbank Vertriebs- und Marketing eG and the two credit cooperative banks in liquidation have also signed the Association Agreement and are considered as members of the Association of Volksbanks, though they are not licensed as a credit institution pursuant to the BWG.

Hereinafter the term "**Association of Volksbanks**" refers to the association of credit institutions pursuant to § 30a BWG, consisting of VBW and the member credit institutions, all of which are Austrian credit institutions pursuant to the BWG.

The members of the Association of Volksbanks are also members of the "Volksbank" group at the Österreichischer Genossenschaftsverband (Schulze-Delitzsch) (the "ÖGV"), a federation of cooperatives, and of the professional Association of Volksbanks (*Fachverband der Volksbanken*) at the Austrian Economic Chamber.

The Association of Volksbanks and the individual members of the Association of Volksbanks are subject to direct supervision of the ECB. The Association of Volksbanks is a vertically organised system in which the members of the Association of Volksbanks work together. Based on joint objectives, said members remove certain individual functions from their autonomous area of responsibility and transfer these to other members of the Association of Volksbanks (principle of subsidiarity). This principle governs the relationship between the decentralised units (the individual members of the Volksbanks sector) and the central units, i.e. the central organisation and ÖGV.

4.8.2 The Issuer as part of the Association of Volksbanks

The Issuer (as the central organisation) and the member credit institutions concluded the now-valid version of the Association Agreement on an association of credit institutions (*Kreditinstitute-Verbund*) pursuant to § 30a BWG, which came into effect on 1 July 2016. This Association Agreement has thus formed the new basis of the Association of Volksbanks since this time.

The lasting and homogeneous combination of members of the Association of Volksbanks within the meaning of an association of credit institutions pursuant to § 30a BWG leads to supervisory consolidation on the basis of liability assumptions (*Haftungsverbund* – the "**Joint Liability Scheme**"), combined with the authority of the central organisation to issue instructions to ensure the functionality of the Association of Volksbanks.

The Issuer as central organisation of the Association of Volksbanks has a key role therein. It is responsible for compliance with supervisory regulations of the Association of Volksbanks and must, in particular, ensure and monitor the solvency and liquidity of the Association of Volksbanks (*Liquiditätsverbund* – the "**Liquidity Scheme**"). The Issuer as central organisation is also responsible for the Association's of Volksbanks planning process, for controlling and reporting as well as for an optimization of the IT, marketing and organisation business areas. For the purpose of performing its steering function, the central organisation is able to issue general and individual instructions for the credit institutions included in the Association of Volksbanks. As such, the Association of Volksbanks serves to ensure both the regulated transfer of liquidity between its members and mutual liability, thereby providing an indirect guarantee for the creditors of all members of the Association of Volksbanks.

4.8.3 Liquidity Scheme

The central organisation is obligated to control liquidity in the Association of Volksbanks in such a way to ensure compliance with all material supervisory regulations at all times. The member credit institutions of the Association of Volksbanks are obligated to invest their liquidity at the Issuer in accordance with the general instructions of the Issuer in its function as central organisation. In the event of a Liquidity Scheme emergency, the assets of all member credit institutions of the Association of Volksbanks may be drawn

on to resolve the emergency. Through the Issuer's participation in the Liquidity Scheme, obligations may arise for the Issuer that it is unable to influence. As a regional Volksbank, the Issuer is also subject to the obligation to balance liquidity and must, in the event of a Liquidity Scheme emergency, make assets available.

4.8.4 Joint Liability Scheme

The key elements of the Joint Liability Scheme are the Issuer as the central organisation (decision-making authority of the Managing Board, control by means of instructions, exercising of control functions vis-à-vis the member credit institutions) on the one hand, and the Trust Fund as a trust fund within the scope of consolidation on the other.

On the basis of the Association Agreement and the Trust Agreement, the central organisation takes measures to avert a threatening deterioration in the business, financial condition and results of operations, including the liquidity situation, in the regulatory and economic capital, in credit defaults or cluster risks, in one or more members. For covering CET 1 shortfalls the central organisation has access to the Trust Fund. The current endowment of EUR 60 million will gradually increase to at least EUR 100 million by 2020.

A threatening deterioration in the business, financial condition and results of operations is to be assumed in particular if a member of the Association of Volksbanks is no longer able to meet, on an individual basis, the yellow threshold value plus a supplement defined in the most recent group restructuring plan prepared by the central organisation for the Association of Volksbanks pursuant to the BaSAG for the CET 1 ratio of individual members, or there is a risk that another yellow threshold value defined in the group restructuring plan for the individual members will not be met.

The services provided to the members of the Association of Volksbanks may take the form of:

- equity supply;
- purchase of assets;
- short and medium-term liquidity support;
- guarantees and other liabilities;
- subordinated loans;
- payment of third-party claims;
- recovery funding;
- lost grants (services provided by the central organisation with no repayment obligation); and
- management support, in particular the directors in operational and organisational matters and by providing specialists for the respective fields.

The choice of one or more of these service forms are at the sole discretion of the central organisation although, in the case of services that boost equity, preference is to be given, where possible, to voting instruments of common equity and, when using

resources from the Trust Fund, the stipulations of the Trust Agreement must be adhered to.

The members of the Association of Volksbanks are to provide reinsurance for these obligations. The assets in the Trust Fund endowed pursuant to the Trust Agreement by members of the Association of Volksbanks may be used by the central organisation to provide support. In the event that there are insufficient funds for the central organisation in the Trust Fund in isolated cases, the members of the Association of Volksbanks must make contributions in accordance with a key defined in the Association Agreement, with the obligation to make such payments being unlimited for every member at all times. However; in the case of the central organisation it is limited to the point where the central organisation still has to fulfill regulatory capital requirements and in the case of the other members to the point where any member would come close to a point of non viability.

Every service to be provided by the central organisation shall be provided on the basis of an agreement to be concluded between the central organisation and the member concerned, which must regulate the form, scope, duration, conditions and any repayment of the service as well as the costs to be borne by the respective employee (*Leistungsvertrag*, the "**Benefit Agreement**"). The central organisation is entitled, within the framework of its due discretion, to unilaterally define the content of the Benefit Agreement in consideration of the restructuring plans with a binding effect for the member concerned. The Benefit Agreement takes effect upon receipt of notification by the member concerned from the central organisation concerning the content thereof, without the need for any further explanation or legal action.

The Benefit Agreement must contain suitable conditions such as:

- (a) The right of the central organisation to require changes to the statutes and, where necessary, the rules of procedure of the bodies of the member concerned;
- (b) the right of the central organisation to dispatch a representative to be determined by the central organisation or a third-party expert with or without voting rights to meetings of the Managing Board and, where necessary, of the supervisory board of the member concerned;
- (c) the replacement of the board of directors of the member concerned and the appointment of the board of directors approved by the central organisation, or the right of the central organisation to effect the replacement of the board of directors of the member concerned;
- (d) information and cooperation duties of the member concerned vis-à-vis the central organisation or one of the representatives sent by the central organisation; and
- (e) conditions and repayment obligations of the member concerned for the event that the member concerned leaves or is excluded from the Association of Volksbanks.

The choice of requirements is, as with the entire content of the Benefit Agreement, at the sole discretion of the central organisation.

If the member concerned violates a condition stipulated in the Benefit Agreement, the member loses any right to further services under the Association Agreement.

Furthermore, the central organisation may resolve on sanctions vis-à-vis the relevant member, e.g. the immediate return of received and repayable services, contractual penalties of up to 0.2% of the total assets of the member concerned and – as the *ultima ratio* – the exclusion of the relevant member from the Association of Volksbanks.

The conclusion of the Association Agreement therefore had far-reaching consequences for the members, notably the widening of the mutual liability of the members of the Association of Volksbanks to an unlimited liability, and material intervention rights of the central organisation. The participation of the Issuer in the Joint Liability Scheme may therefore result in obligations for the Issuer that it cannot influence and that may have a negative impact on Issuer's business, financial condition and results of operations.

The Joint Liability Scheme does not provide any direct claims or safety features for Tier 2 investors. However, Tier 2 investors benefit indirectly from the mandatory mutual financial support of the members of the Joint Liability Scheme to defend a threatening bankruptcy of one of the members.

4.8.5 Member of the Issuer in the Austrian Federation of Cooperatives

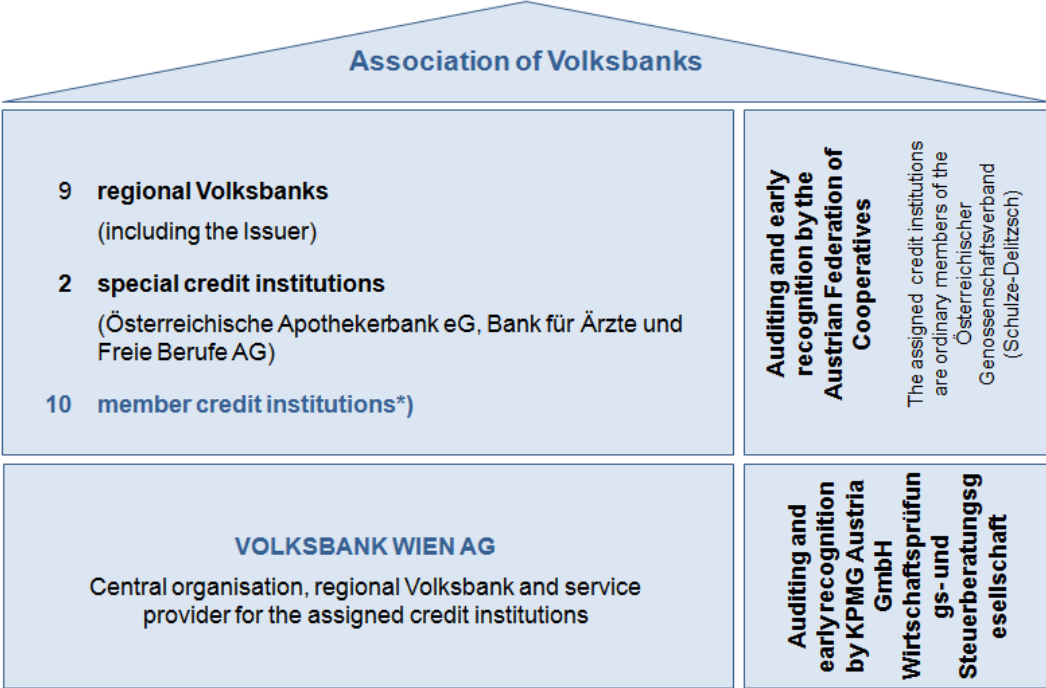
The ÖGV was founded in 1872 and is the statutory auditing association of the Austrian Volksbanks with the exception of the Issuer, VOLKSBANK VORARLBERG e. Gen and Bank für Ärzte und Freie Berufe Aktiengesellschaft. Every credit institution within the Association of Volksbanks is a member of the ÖGV, with cooperatives outside the finance sector (from industry and trade) also being members thereof.

4.8.6 Membership of the Issuer in Volksbank Einlagensicherung eG

Every credit institution that accepts deposits or provides services in investment and securities subject to compulsory insurance is, due to EU directives, legally obligated to belong to a deposit guarantee scheme in Austria as per the Austrian Deposit Guarantee and Investor Compensation Act (*Einlagensicherungs- und Anlegerentschädigungsgesetz* – "ESAEG").

As an Austrian credit institution, every member of the Association of Volksbanks, which therefore also means the Issuer, is unreservedly subject to the provisions of the ESAEG as an Austrian credit institution and is a member of the Volksbanks statutory deposit guarantee scheme, Volksbank Einlagensicherung eG ("**VEG**"), with its offices at Kolingasse 14-16, 1090, Vienna, Austria. VEG can only be called upon if the mutual support scheme has failed to ensure the viability of the Association of Volksbanks and, in contrast to Trust Fund, only protects eligible deposits up to EUR 100,000 per depositor. VEG monitors the financial position of its members based on the same early-warning system that the central organisation uses for the mutual support scheme.

4.8.7 Position of the Issuer within the Association of Volksbanks and the VBW Group



*) Note: The Issuer is a regional Volksbank but not a member credit institution. The number of member credit institutions therefore does not include the Issuer. The number of member credit institutions and special credit institutions will be reduced as a result of mergers. Furthermore, the dissolution of credit cooperative banks is under way.

(Source: Information provided by the Issuer)

The Issuer and its subsidiaries are included in the consolidated financial statements which fully consolidates all companies which are directly or indirectly controlled by the Issuer. The Issuer is the parent company of the VBW Group. The Issuer is dependent from valuations of and dividends from its subsidiaries and on the other hand from banking services offered by VB Services für Banken Ges.m.b.H.

4.9 TREND INFORMATION

Known trends that have an effect on the outlook of the Issuer and the industry in which it performs its business activities include the challenging macroeconomic environment with falling growth rates and the persistently difficult conditions on the financial and capital markets. These trends have had in the past and may have in the future negative effects on the Issuer's business, financial condition and results of operations, including on its capital costs in particular.

Furthermore, changes in the supervisory environment or initiatives to implement supervisory regulations may have a negative impact on the Issuer. In particular, new laws or supervisory requirements and a change in the requirements for equity, liquidity and debt ratio believed to be necessary may lead to stricter requirements and quotas for equity and liquidity.

Austrian Recovery and Resolution Act

The BRRD has been implemented in Austria by the BaSAG with effect from 1 January 2015. The BASAG provides for, *inter alia*, the application of write-down and conversion instruments as well as the instrument of the bail-in tool.

Single Resolution Mechanism

The SRM assumed full working operations as of 1 January 2016. The aim here is to ensure the orderly resolution of credit institutions in distress within the European Monetary Union. The SRM and the SRB (Single Resolution Board), Europe's central resolution authority based in Brussels, were thus given responsibility for managing and coordinating resolution and restructuring measures for important credit institution or groups of credit institutions with cross-border activities from participating Member States with effect from 1 January 2016. The task of the SRM is, as part of its work to ensure the orderly resolution of credit institutions in distress, to keep the effect on the real economy and the amount of public money required as small as possible. The Association of Volksbanks is also under the SRM, meaning that it is subject to an international, not a national, resolution authority.

4.10 EXPECTED OR ESTIMATED PROFIT

No details are given in the prospectus concerning expected or estimated profit.

4.11 ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

4.11.1 Members of the administrative, management and supervisory bodies

NAME	FUNCTIONS outside the Issuer
MANAGING BOARD	
Gerald Fleischmann Chairman of the Board	Managing Board Volksbank Vertriebs- und Marketing eG Managing Director VB Rückzahlungsgesellschaft mbH Supervisory Board ARZ Allgemeines Rechenzentrum GmbH (Chairman) Volksbank Steiermark AG Volksbanken-Beteiligungsgesellschaft m.b.H. Volksbank Einlagensicherung eG (Chairman) Volksbank Kärnten eG ERGO Versicherung Aktiengesellschaft Vice-President of the "Volksbank" group Österreichischer Genossenschaftsverband (Schulze-Delitzsch)

Josef Preissl
Member of the Board

Managing Board
Volksbanken Holding eGen
Managing Director
VB Rückzahlungsgesellschaft mbH
Supervisory Board
VB Regio Invest AG
Volksbanken-Beteiligungsgesellschaft m.b.H
Volksbank Einlagensicherung eG
VB Verbund-Beteiligung eG
VB Verbund-Beteiligung Region Wien eG

Dr. Rainer Borns
Member of the Board

Supervisory Board
Bank für Ärzte und Freie Berufe Aktiengesellschaft
(Chairman)
VB-Beteiligungsgenossenschaft der Obersteiermark
eG
Volksbanken-Beteiligungsgesellschaft m.b.H.

SUPERVISORY BOARD

Heribert Donnerbauer
Chairman of the Supervisory
Board

Managing Board
Volksbank Vertriebs- und Marketing eG
Managing Director
DO & DO Gastronomie- und Tourismus GmbH
Donnerbauer & Hübner Rechtsanwälte GmbH
KommReal Hardegg GmbH
Supervisory Board
Volksbank Einlagensicherung eG
VB Donau-Weinland Beteiligung e.G.
Volksbank Niederösterreich AG
VB Regio Invest AG (Chairman)
Volksbanken-Beteiligungsgesellschaft m.b.H.
Shareholder
Alternativ Energie Hardegg-Thayatal GmbH
DO & DO Gastronomie- und Tourismus GmbH
Donnerbauer & Hübner Rechtsanwälte GmbH
Mayor
Hardegg municipality

Martin Holzer
1st Deputy chairman

Managing Board
VOLKSBANK LANDECK Holding eG
Volksbank Tirol AG

Dr. Rainer Kuhnle
2nd Deputy chairman

Managing Board
VB Wien Beteiligung eG (Chairman)
VB Krems-Zwettl Beteiligung e.G.
Volksbank Vertriebs- und Marketing eG
Volksbank Niederösterreich AG (Chairman)

	Volksbanken Holding eGen (Chairman)
	Managing Director VB - REAL Volksbank Krems-Zwettl Immobilien- und Vermögensstreuhandgesellschaft m.b.H.
	Supervisory Board VB Regio Invest AG Volksbanken-Beteiligungsgesellschaft m.b.H. Volksbank Verbund-Beteiligung eG Volksbanken Versicherungsdienst – Gesellschaft m.b.H.
Susanne Althaler Member	Managing Director Austrian Advisory Services GmbH Supervisory Board paybox Bank AG Allianz Investmentbank Aktiengesellschaft
Hermann Ehinger Member	-
Franz Gartner Member	Supervisory Board Volksbank Baden Beteiligung e.Gen (Chairman)
Mag. Eva Hieblinger-Schütz Member	Shareholder SMART LIVING GmbH
Markus Hörmann Member	Managing Board HAGEBANK TIROL Holding, registered cooperative Volksbank Vertriebs- und Marketing eG Volksbank Tirol AG (Chairman) Volksbanken Holding eGen Managing Director Meinhardgarage Gesellschaft m.b.H. Meinhardgarage Gesellschaft m.b.H. & Co. KG. Volksbank Tirol Versicherungsservice GmbH Supervisory Board VB Regio Invest AG Volksbanken-Beteiligungsgesellschaft m.b.H.
Hans Lang Member	-
Harald Nograsek Member	Managing Board Österreichisches Verkehrsbüro Aktiengesellschaft (Managing Director) Managing Director Verkehrsbüro Finanzmanagement GmbH Verkehrsbüro Touristik GmbH Supervisory Board DDSG - BLUE DANUBE SCHIFFFAHRT GMBH

		Eurotours Gesellschaft m.b.H. (function deleted) Motel One Austria GmbH Verkehrsbüro Hotellerie GmbH (function deleted) Verkehrsbüro-Ruefa Reisen GmbH (function deleted)
Rainer Obermayer Member	-	
Michaela Pokorny Member	-	
Dr. Monika Wildner, LL.M (NYU) Member	Supervisory Board	AMIC Energy Management GmbH (function deleted)
Manfred Worschiscek Member	-	
Otto Zeller, MBA Member	Managing Board Managing Director	Schulze-Delitzsch Privatstiftung in Liqu. Domus IC Leasinggesellschaft m.b.H.
	Supervisory Board	ARZ Allgemeines Rechenzentrum GmbH

The business address of all members of the Managing Board and the Supervisory Board is Kolingasse 14-16, 1090 Vienna, Austria.

On 19 September 2017, the Supervisory Board has resolved on the appointment of Dr. Thomas Uher as fourth member of the Managing Board. The function period of Dr. Uher shall commence on 15 October 2017.

4.11.2 Conflicts of interest

The members of the Managing Board, the Supervisory Board and the senior management of the Issuer from time to time hold other functions in addition to their respective functions at the Issuer. It cannot be ruled out that dual functions of members of the Managing Board, the Supervisory Board and/or the senior management of the Issuer in other organisations and companies result in conflicts of interest that lead to decisions that are not in the interest of the Issuer and/or the holders of securities.

In respect of the individuals listed above, the Issuer has no knowledge of conflicts of interest between the formers' obligations towards the Issuer and their private or other interests.

4.12 SHARE CAPITAL

As of 30 June 2017, the share capital of the Issuer comprises 1,354,001 registered shares (*Namensaktien*) with a nominal value of in total TEUR 126,938. At the time of the approval of the prospectus, the share capital of the Issuer comprises 1,417,534

registered shares with a nominal value of total TEUR 132,894 due to a capital increase entered in the Austrian companies register on 17 August 2017.

4.13 MAJOR SHAREHOLDERS

As a stock corporation, the Issuer is owned by its shareholders. The shareholders may exercise influence over the Issuer through legal regulations both in the annual general meeting and through their representatives on the Supervisory Board and its committees.

Shareholders of the Issuer (as at the date of approval of the prospectus)	%
Republic of Austria	25.00
VB Wien Beteiligung eG	10.85
VB Baden Beteiligung e.Gen.	8.47
Volksbank Tirol AG	7.38
VB Ost Verwaltung eG	6.66
VB Niederösterreich Süd eG	5.47
Volksbank Steiermark AG	5.29
Volksbank Salzburg eG	4.64
VB Verbund-Beteiligung eG	3.94
VB Südburgenland Verwaltung eG	3.22
Volksbank Niederösterreich AG	3.19
VB Weinviertel Verwaltung eG	2.90
Volksbank Oberösterreich AG	2.86
VOLKSBANK VORARLBERG e.Gen.	2.43
Volksbank Kärnten eG	2.30
VB Beteiligungsgenossenschaft Obersdorf-Wolkersdorf-Deutsch-Wagram eG	1.34
Bank für Ärzte und Freie Berufe Aktiengesellschaft	1.08
Verwaltungsgenossenschaft Gärtnerbank e.Gen.	0.98
Volksbanken Holding eGen	0.64
Waldviertler Volksbank Horn registrierte Genossenschaft mit beschränkter Haftung	0.48
Österreichische Apothekerbank eG	0.42
SPARDA AUSTRIA Verwaltungsgenossenschaft eGen	0.27
Marchfelder Bank eG	0.19

(Source: information provided by the Issuer)

Given its share of 25% + one (1) share, the Republic of Austria is accorded rights of control and influence. Furthermore, with a share of over 10%, VB Wien Beteiligung eG has a qualified shareholding. Outside of the shareholder structure presented above, there are no direct or indirect shareholdings or controlling stakes in the Issuer.

From the perspective of the Managing Board, measures to prevent control abuse are not required, aside from Austrian stock corporation law. In addition to this, the Issuer is not aware of any agreements that, when exercised, may lead to a change in the control of the Issuer at a later point in time.

4.14 FINANCIAL INFORMATION

4.14.1 Historical financial information of the VBW Group

The most recently audited financial information derives from the Issuer's audited consolidated financial statements according to IFRS as of 31 December 2016, which is incorporated into the prospectus by means of a reference.

The following positions of the statement of financial position and the income statement ("P&L") have been taken from the audited consolidated financial statements according to IFRS as of 31 December 2016 and the unaudited interim condensed consolidated financial statements of the VBW Group according to IFRS for the first half year ended 30 June 2017.

in EUR thousands	30 Jun 2017	31 Dec 2016	31 Dec 2015 (restated)
Statement of financial position			
Loans and advances to credit institutions (gross)	1,763,418	2,196,042	2,794,241
Loans and advances to customers (gross)	4,285,495	4,351,134	3,722,212
Amounts owed to credit institutions	3,633,478	3,338,048	4,071,299
Amounts owed to customers	4,907,833	4,691,373	3,992,500
Debts evidenced by certificates	484,156	725,217	798,362
Equity *)	497,500	471,147	382,434
Total assets	10,210,410	10,007,692	10,003,739

in EUR thousands	1-6/2017	1-12/2016	1-6/2016 (restated)	1-12/2015 (restated)
Statement of comprehensive income				
Net interest income	62,864	99,681	50,444	70,062
Risk provisions	9,680	-13,645	-2,819	13,758
Net fee and commission income	24,605	41,120	17,378	30,060
Net trading income	5,036	4,896	-2,695	7,080
General administrative expenses	-106,768	-174,394	-96,751	-121,516
Other operating result	42,555	38,997	45,620	1,317
Income from financial investments	-5,018	1,740	7,727	8,510
Result (for the period) before taxes	32,817	11,705	20,618	2,420
Result (for the period) after taxes	32,802	25,024	15,632	15,049
Result attributable to shareholders of the parent company (consolidated net result)	32,794	23,625	15,630	15,029

(Source: Audited Consolidated Financial Statements 2016 of the Issuer and Unaudited Interim Condensed Consolidated Financial Statements First Half Year 2017. Figures have been rounded to the nearest thousand euro.)

*) Equity is calculated as the sum of subscribed capital, capital reserve, retained earnings, reserves available for sale and non-controlling interests.

4.14.2 Historical financial information of the Association of Volksbanks

The most recently audited financial information on the Association of Volksbanks derives from the Association of Volksbanks audited consolidated financial statements according

to IFRS rules with certain exceptions as of 31 December 2016, which are incorporated into the prospectus by reference.

The following positions of the Association of Volksbanks' statement of financial position and the income statement ("**P&L**") have been taken from the audited consolidated financial statements of the Association of Volksbanks according to IFRS rules with certain exceptions as of 31 December 2016 and the unaudited consolidated financial statements of the Association of Volksbanks according to IFRS rules with certain exceptions for the first half year ended 30 June 2017.

in EUR thousands	30 Jun 2017	31 Dec 2016	31 Dec 2015
Statement of financial position			
Loans and advances to credit institutions (gross)	653,630	642,866	619,223
Loans and advances to customers (gross)	19,455,258	19,385,588	22,619,294
Amounts owed to credit institutions	668,766	421,995	438,457
Amounts owed to customers	20,802,201	20,017,714	22,323,653
Debts evidenced by certificates	674,811	966,345	1,748,116
Total assets	25,183,552	24,465,822	27,814,543

in EUR thousands	1-6/2017	1-6/2016	1-12/2016	1-12/2015 (restated)
Statement of comprehensive income				
Net interest income	209,665	216,115	423,095	488,637
Risk provisions	8,994	-10,697	-91,983	-52,909
Net fee and commission income	130,040	120,306	239,833	229,040
Net trading income	9,449	-2,058	8,866	13,506
General administrative expenses	-308,848	-327,863	-615,191	-642,597
Other operating result	331	21,026	-28,211	27,326
Income from financial investments	-6,566	477	-8,558	6,643
Result (for the period) before taxes	42,616	25,201	-84,445	-105,777
Result (for the period) after taxes	37,567	14,370	-79,493	-67,182
Result attributable to shareholders of the parent company (consolidated net result)	37,560	14,360	-79,521	-68,806

(Source: Audited Consolidated Financial Statements of Association of Volksbanks 2016 and Unaudited Interim Condensed Consolidated Financial Statements of Association of Volksbanks First Half Year 2017. Figures have been rounded to the nearest thousand euro.)

4.14.3 Regulatory capital of the VBW Group Credit Institution Group

As of 30 June 2017, the own funds of the VBW credit institution group calculated pursuant to CRR (the "**VBW Credit Institution Group**") amounted to TEUR 438,758 (31 December 2016: TEUR 455,654), with TEUR 432,378 being attributable to Common Equity Tier 1 (CET 1) (31 December 2016: TEUR 448,562) and TEUR 6,380 to Tier 2 (31 December 2016: TEUR 7,092). On this date, the Tier 1 capital ratio was 13.37% (31 December 2016: 13.88%) and the equity ratio 13.57% (31 December 2016: 14.10%) (each relating to overall risk). The leverage ratio (using a transitional definition of Tier 1 capital) was 3.53% (31 December 2016: 3.79%).

On a "fully loaded" basis as of 30 June 2017, the own funds of the VBW Credit Institution Group amounted to TEUR 440,270 (31 December 2016: TEUR 458,111), with

TEUR 425,136 being attributable to Common Equity Tier 1 (CET 1) (31 December 2016: TEUR 442,670) and TEUR 15,134 to Tier 2 (31 December 2016: TEUR 15,441). On this date, the Tier 1 capital ratio was 13.16% (31 December 2016: 13.71%) and the equity ratio 13.63% (31 December 2016: 14.18%) (each relating to overall risk). The leverage ratio (using a fully phased-in definition of Tier 1 capital) was 3,48% (31 December 2016: 3.74%).

(Source: Audited Consolidated Financial Statements 2016 of the Issuer, Unaudited Interim Condensed Consolidated Financial Statements First Half Year 2017 and information of the Issuer.)

4.14.4 Capital increases

The share capital of the Issuer comprises 1,417,534 registered shares with a nominal value of total TEUR 132,894 due to a capital increase entered in the Austrian companies register on 17 August 2017. As at the balance sheet date of 31 December 2016, the share capital of the Issuer was increased from TEUR 107,477 to TEUR 126,938.

4.14.5 Regulatory capital of the Association of Volksbanks

As of 30 June 2017, the total own funds – TC (T1 + T2) of the Association of Volksbanks amounted to TEUR 1,951,499 (31 December 2016: TEUR 2,003,404), with EUR 1,588,618 being attributable to Common Equity Tier 1 (CET 1) (31 December 2016: TEUR 1,641,690) TEUR 15,401 to Additional Tier 1 (AT 1) (31 December 2016: TEUR 0) and TEUR 347,481 to Tier 2 (31 December 2016: TEUR 361,714). On this date, the Tier 1 capital ratio was 12.10% (31 December 2016: 12.38%) and the total equity ratio 14.72% (31 December 2016: 15.10%). The leverage ratio (using a transitional definition of Tier 1 capital) was 6.08% (31 December 2016: 6.43%).

On a "fully loaded" basis (i.e. without taking into account any transitional provisions) as of 30 June 2017, the total own funds – TC (T1 + T2) of the Association of Volksbanks amounted to TEUR 1,714,042 (31 December 2016: TEUR 1,759,674), with TEUR 1,563,246 being attributable to Common Equity Tier 1 (CET 1) (31 December 2016: TEUR 1,596,383) TEUR 17,003 to Additional Tier 1 (AT 1) (31 December 2016: TEUR 17,003) and TEUR 133,793 to Tier 2 (31 December 2016: TEUR 146,288). On this date, the Tier 1 capital ratio was 11.92% (31 December 2016: 12.16%) and the equity ratio 12.93% (31 December 2016: 13.26%). The leverage ratio (using a fully phased-in definition of Tier 1 capital) was 5.99% (31 December 2016: 6.31%).

(Source: Audited Consolidated Financial Statements of Association of Volksbanks 2016, Unaudited Interim Condensed Consolidated Financial Statements of Association of Volksbanks First Half Year 2017 and information of the Issuer.)

4.14.6 Merger of SPARDA BANK AUSTRIA eGen into the Issuer

In August 2017 the banking activities of SPARDA BANK AUSTRIA eGen were integrated into the Issuer by universal succession pursuant to § 92 BWG.

As a result of the merger of SPARDA BANK AUSTRIA eGen into the Issuer, the total assets of the Issuer have increased by almost EUR 840 million to approximately EUR 10.9 billion (approximately 7%). The primary deposits (liabilities to customers) have

increased by more than EUR 800 million and the loans and advances to customers by approximately EUR 340 million. For this reason, the funding basis could be diversified with customer deposits (liabilities to customers). The Issuer is expecting positive effects for the financial results due to the merger, in particular by raising synergy potentials during the subsequent years.

4.14.7 Funding structure of the VBW Group

As of 30 June 2017, the funding of the group of the Issuer is structured as follows:

TEUR 4,907,833¹ (amortised cost) of amounts owed to customers, TEUR 3,633,478¹ (amortised cost) of amounts owed to credit institutions and TEUR 484,156¹ (amortised cost) of debts evidenced by certificates. Amounts owed to customers are divided into TEUR 1,929,396¹ of savings deposits, EUR 1,443,124² corporate deposits, EUR 1,349,240² retail deposits and TEUR 186,072² from public entities. Amounts owed to credit institutions are divided into TEUR 147,190¹ owed to central banks and TEUR 3,486,289¹ owed to other credit institutions. All of the TEUR 484,156¹ of debts evidenced by certificates derives from bond issues.

(Source: ¹Unaudited Interim Condensed Consolidated Financial Statements First Half Year 2017 of the Issuer and ²Information of the Issuer.)

4.14.8 Funding structure of the Association of Volksbanks

As of 30 June 2017, the funding of the Association of Volksbanks is structured as follows:

TEUR 20,802,201¹ of amounts owed to customers, TEUR 668,766¹ of amounts owed to credit institutions and TEUR 674,811¹ of debts evidenced by certificates. Amounts owed to customers are divided into TEUR 9,358,836¹ of savings deposits, TEUR 4,226,364² corporate deposits, TEUR 6,155,120² retail deposits, TEUR 1,003,207² from public entities and TEUR 58,674² from investment firms. Amounts owed to credit institutions are divided into TEUR 147,190¹ owed to central banks and TEUR 521,576¹ owed to other credit institutions. Debt evidenced by certificates is divided into TEUR 486,321² of bond issues, TEUR 150,053¹ of medium-term notes and TEUR 38,437² of other instruments.

(Source: ¹Unaudited Interim Condensed Consolidated Financial Statements of Association of Volksbanks First Half Year 2017 and ²Information of the Issuer.)

4.14.9 Significant changes in the Issuer's financial position

Save for the effects of the Merger of SPARDA BANK AUSTRIA eGen into the Issuer (as described in 4.14.6), there has been no significant change in the financial position of VBW Group since the date of the last published audited consolidated financial statements.

The Issuer has not seen any material changes in its financial situation or trading positions since the last financial year.

4.14.10 Audit opinion

The audit opinions of the auditors on the audited consolidated financial statements for the business years 2016 and 2015 have been incorporated into this Prospectus by reference.

The auditor, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, with its business address at Porzellangasse 51, 1090 Vienna, Austria, has audited the audited consolidated financial statements of the Issuer as of 31 December 2016 and 31 December 2015 jointly with Österreichischer Genossenschaftsverband (Schulze-Delitzsch), and provided an unqualified audit opinion (*Bestätigungsvermerk*).

KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft is a member of the Chamber of Public Accountants.

4.15 LEGAL AND ARBITRATION PROCEEDINGS

According to the spin-off agreement (*Spaltungsvertrag*) dated 1 June 2015 (the "**Spin-off Agreement**"), the Issuer has assumed the "central organisation and central institution function" operations from VBAG. Following this spin-off, claims for damages were filed against Immigon. the Issuer is a co-defendant in these proceedings on the basis of § 15(1) of the Austrian De-Merger Act (*Spaltungsgesetz* - "**SpaltG**"); the liability of the Issuer is limited in terms of amount to the net assets assumed through the de-merger (within the meaning of § 15(1) SpaltG) in the amount of EUR 7 million (de-merger capital pursuant to the transfer balance sheet of Volksbank Wien-Baden AG as of 1 January 2015). The total amounts in dispute from complaints under § 15(1) SpaltG are EUR 6,041,731.80 at the time of approval of the prospectus. The obligations underlying the claims for damages are attributed to Immigon in the Spin-off Agreement. The Issuer has indemnification claims towards Immigon, especially as agreed in the Spin-off Agreement, if the Issuer is itself subject to any such claims. Based on the semi-annual result of Immigon published as at 30 June 2017, the Issuer expects Immigon to be in a position to service its liabilities. Should any economic stress of the Issuer occur nevertheless, it would not have to cope with this on its own, but – according to agreements made within the Association of Volksbanks – *pro rata* together with the other members of the Association of Volksbanks.

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

There are no additional governmental, judicial or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) that have existed or were completed/passed within the last twelve months at least and have any significant effect on the Issuer and or the Group's financial position or profitability, or have recently had such an impact.

4.16 MATERIAL CONTRACTS

The Issuer has not concluded any material contracts outside of its scope of normal business operations, aside from the agreements listed below.

Association Agreement (*Verbundvertrag*)

In order to ensure a sustainable Association of Volksbanks retaining the core competency as a regionally based financial services provider that ensures the comprehensive supply of financing to the economy and regional financial support for customers, the primary institutions of the Austrian Volksbanks sector, which includes the regional Volksbanks belonging to the Association of Volksbanks at that time, the special credit institutions, the credit cooperative banks and a building society (start:bausparkasse), decided, by means of a resolution in principle dated 2 October 2014, on the strategic restructuring of the Association of Volksbanks.

The restructuring of the Association of Volksbanks involves establishing a leaner target structure, in addition to establishing the new Association of Volksbanks (on the basis of the Association Agreement). This is to comprise up to eight regional Volksbanks (including the Issuer) and up to three special credit institutions to be implemented by 31 December 2017.

In order to secure and sustainably reinforce the existence and performance of the Austrian Association of Volksbanks, the Issuer (as the central organisation) concluded the Association Agreement with the member credit institutions of the Austrian Volksbanks sector, which came into effect in the current version on 1 July 2016. This Association Agreement forms the foundation of the Association of Volksbanks, serving both to ensure the regulated transfer of liquidity between the members (Liquidity Scheme) and the provision of other services between the members (Liability Scheme), thereby providing an indirect guarantee for the creditors of all members (see also risk factor: "association risk"). In doing so, the central organisation is obligated, on the one hand, to manage liquidity in the Association in such a way that ensures compliance at all times with all relevant supervisory regulations and, on the other, is entitled, in the event of a liquidity emergency or violation by an member credit institution of general instructions concerning the transfer of liquidity, to take enforcement action.

On the basis of the Association Agreement as the Trustor, the central organisation provides services to avert a threatening deterioration in the business, financial condition and results of operations, including the liquidity situation, in the regulatory and economic capital, in credit defaults or cluster risks, in one or more members of the Association of Volksbanks. A need to avert a threatening deterioration in the business, financial condition and results of operations is to be assumed in particular if a member of the Association of Volksbanks is no longer able to meet, on an individual basis, the yellow threshold value plus a supplement defined in the most recent group restructuring plan prepared pursuant to BaSAG for the CET 1 ratio of individual members, or there is a risk that this may happen.

The obligation to promptly provide service only exists, however, if this is required to avert the above-mentioned threatening deterioration in the business, financial condition and results of operations and the services are covered by the sum of the resources available in the Trust Fund and/or by the amounts that can be expected to be contributed by members of the

Association of Volksbanks according to the binding estimation by the central organisation for all members, and these are enough to prevent the occurrence of these circumstances for a reasonable period of time in the view of the central organisation.

The central organisation may issue general and individual instructions to the member credit institutions to fulfil its management function. The competence to issue general instructions serves to fulfil general requirements (such as in the areas of compliance with supervisory regulations, notably the solvency and liquidity of the Association; administrative, technical and financial supervision or risk assessment) for the entire Association of Volksbanks. Individual instructions serve to substantiate the rights and obligations following from the general instructions, and may be issued by the central organisation in the event of a violation of general instructions to restore the contractual and legal condition in the Association of Volksbanks vis-à-vis the individual credit institutions.

The Association Agreement contains the following points to achieve the target structure in particular:

- comprehensive governance regulations;
- widening of the liability of the members of the Association of Volksbanks to an unlimited liability;
- indefinite duration of the Agreement; the right of members to leave the Association of Volksbanks by terminating the Association Agreement is largely excluded until 2025 (minimum contractual period); any remaining legally required rights of members to terminate the Agreement may only be exercised with a notice period of two years starting at the end of a calendar year and only with effect for the terminating member (not for the other contracting parties); and
- granting of additional rights of the central organisation to issue instructions to members of the Association of Volksbanks.

Trust Agreement Trust Fund (*Treuhandvertrag Leistungsfonds*)

In order to cover the measures to be taken by the central organisation, set out in the Association Agreement, to avert a threatening deterioration in the business, financial condition and results of operations, including the liquidity situation, in the regulatory and economic capital, in credit defaults or cluster risks, in one or more members of the Association of Volksbanks, the Issuer, as the central organisation, concluded the Trust Agreement Trust Fund with its member credit institutions for an indefinite period of time and which came into effect on 1 July 2016.

The Trust Fund is set up as earmarked trust assets of the contracting institutions held by the central organisation as the trustor and endowed in accordance with this Agreement. By 2020, the aim is to have a target endowment amount on the basis of the average risk position of the contracting parties, but no less than EUR 100 million, with initial endowment amounting to a minimum of EUR 50 million. The current endowment of EUR 60 million will gradually increase to at least EUR 100 million by 2020. The Issuer (as the central organisation) calculates the Trust Fund's target endowment based on the primary banks' average risk position.

If, according to the Association Agreement, it occurs that the central organisation is entitled to call on member contributions, it shall take these first from the Trust Fund. The resources from the Trust Fund are to be used to purchase assets that may be recognised on the balance sheet. In the event that, in isolated cases, there are no longer any resources in the Trust Fund for the central organisation to use, the central organisation shall retrieve the missing amount as ad hoc contributions from the individual contracting institutions in accordance with the proportions arising from the Association Agreement.

Cooperation Agreement (*Zusammenarbeitsvertrag*)

In the course of restructuring the Association of Volksbanks, Volksbank Vertriebs- und Marketing eG concluded a cooperation agreement (the "**Cooperation Agreement**") with the members of the Association of Volksbanks, including the Issuer for an indefinite period of time and which came into effect on 1 July 2016. According to the Cooperation Agreement, Volksbank Vertriebs- und Marketing eG is authorised to make binding decisions for the members of the Association of Volksbanks so as to harness synergies in the Association of Volksbanks and to establish the planned target structure of the Association of Volksbanks, consisting of up to eight regional Volksbanks (including the Issuer) and up to three special credit institutions, until the end of 2017.

Unless covered by the instruction remit of the central organisation as per the Association Agreement, the Cooperation Agreement regulates the following areas:

- Mergers of companies or banking activities of member credit institutions pursuant to § 92 BWG;
- cross-association sales and marketing measures;
- optimisation and standardisation of operating processes;
- services through the association, including setting transfer prices; and
- association benchmarking.

The competence conferred to Volksbank Vertriebs- und Marketing eG includes the power to pass resolutions to limit the interests or individual or several members of the Association of Volksbanks. The resolutions passed by the Managing Board of Volksbank Vertriebs- und Marketing eG are binding for the contracting parties.

Agreement on the division of association costs (*Vereinbarung über die Tragung der Verbundkosten*)

In order to form the new Association of Volksbanks, the Issuer (as the central organisation) and the credit institutions member to it concluded an agreement to spread the costs incurred for the Issuer as the central organisation that are to be borne jointly by the members of the Association of Volksbanks. These costs include, among others, personnel service costs and material expenses for Association marketing, Association organisation, Association purchasing and the costs of all supervisory authorities. The costs are allocated using an allocation key defined in the agreement.

**Restructuring Agreement 2015 / Implementation Agreement
(*Restrukturierungsvereinbarung 2015 / Umsetzungsvereinbarung*)**

The Issuer, VBAG, Volksbanken Holding eGen, the Federal Government and FIMBAG Finanzmarkteteiligung Aktiengesellschaft of the Federal Government (the "**FIMBAG**") concluded a restructuring agreement on 30 June 2015 (the "**Restructuring Agreement 2015**"). The Restructuring Agreement 2015 consists mainly of the following points for the Association of Volksbanks:

- The obligations of Volksbanken Holding eGen to transfer 9.3% of the shares of Immigon to GPVAUBEOE Beteiligungen GmbH (the transfer has already happened) and to forward all amounts and assets received on the Immigon shares it holds as dividends or a share of the income from liquidation to the Federal Government for as long as and to the extent that the total amount of compensation going to the Federal Government does not exceed EUR 250 million;
- the obligation of the members of the Association of Volksbanks to only to a limited extent distribute profits from the scope of consolidation of the Association of Volksbanks or any equal measures to shareholders/members or holders of participation notes;
- the agreement of the Issuer via its wholly owned company VB Rückzahlungsgesellschaft mbH to issue the Federal Government's participation right (the issue has already occurred) and the agreement of the Issuer not to take any action or conclude any legal transactions that increase the risk of the Federal Government not being served by the Federal Government's participation right; and
- an acquisition ban (with certain exceptions) for the members of the Association of Volksbanks.

**Framework agreement concerning the placement of receivables in the cover pool
(*Rahmenvereinbarung betreffend Einstellung von Forderungen in den Deckungsstock*)**

The Issuer has concluded trust agreements with the members of the Association of Volksbanks regarding the inclusion of mortgages of these credit institutions in the cover pool of the Issuer for an indefinite period of time pursuant to § 1(6) sentence 2 of the Austrian Act on Covered Bank Bonds (*Gesetz betreffend fundierte Bankschuldverschreibungen – FBSchVG*). The trust agreement may be terminated by either contracting party with a notice period of ten days on the last day of the month. However, for the receivables already included in the cover pool on the basis of the trust agreement up to the time of its termination, the provisions of the trust agreement continue to apply until the associated covered bonds of the Issuer have been repaid.

If the trust is ended by the respective member credit institution, e.g. by terminating the trust agreement, the permission from the respective member credit institution to include the receivables in the cover pool of the Issuer and the provisions of the trust agreement will remain unaffected thereby. The respective member credit institution is therefore not entitled to request the transfer of the receivable in question as long as the receivable is included in the cover pool of the Issuer.

In the course of spinning off, the central organisation and central institution functions from VBAG to the Issuer, the cover pool and the legal relationships arising out of this trust agreement are transferred by universal succession to the Issuer pursuant to § 17 in conjunction with § 1(2) sentence 2 SpaltG.

4.17 DOCUMENTS ON DISPLAY

The Issuer's articles of association, the Audited Consolidated Financial Statements 2016, the Audited Consolidated Financial Statements 2015 and the Unaudited Interim Condensed Consolidated Financial Statements as of 30 June 2017 are available free of charge to be viewed at the offices of the Issuer during normal business hours for twelve months from the day of approval of this prospectus. This Prospectus and any supplements thereto are available free of charge to be viewed at the offices of the Issuer during normal business hours for twelve months from the day of approval of this Prospectus, and electronically on the Issuer's website under www.volksbankwien.at/basisprospekt.

5. TERMS AND CONDITIONS OF THE NOTES

§ 1

CURRENCY, DENOMINATION, FORM, CERTAIN DEFINITIONS

(1) *Currency, Denomination.* This tranche (the "**Tranche**") of fix-to-fix subordinated notes (the "**Notes**") is being issued by VOLKSBANK WIEN AG (the "**Issuer**") in Euro ("**EUR**") in the aggregate principal amount of EUR 400,000,000 (in words: four hundred million) in the denomination of EUR 100,000 (the "**Specified Denomination**").

(2) *Form.* The Notes are being issued in bearer form.

(3) *Permanent Global Note.* The Notes are represented by a permanent global note (the "**Permanent Global Note**" or the "**Global Note**") without coupons; the claim for interest payments under the Notes is represented by the Permanent Global Note. The Permanent Global Note shall be signed by authorised representatives of the Issuer. The Permanent Global Note shall be issued in classic global note format. Definitive Notes and coupons will not be issued.

(4) *Clearing System.* The Global Note(s) will be kept in custody by or on behalf of a Clearing System until all obligations of the Issuer under the Notes have been satisfied. "**Clearing System**" means each of OeKB CSD GmbH, Strauchgasse 1-3, 1011 Vienna, Austria ("**OeKB CSD**"), Clearstream Banking, S.A., Luxembourg, 42 Avenue J.F. Kennedy, 1855 Luxembourg, Grand Duchy of Luxembourg ("**CBL**") and Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium ("**Euroclear**") and any successor in such capacity.

(5) *Holder of Notes.* "**Holder**" means any holder of a proportionate co-ownership or other comparable right in the Global Note which may be transferred to a new Holder in accordance with the provisions of the Clearing System.

(6) *Business Day.* "**Business Day**" means a calendar day (other than a Saturday or a Sunday) on which the Trans-European Automated Real-time Gross Settlement Express Transfer System 2 or its successor ("**TARGET**") is open.

§ 2

STATUS

(1) *Ranking.* The Notes constitute direct, unsecured and subordinated obligations of the Issuer and shall constitute Tier 2 Instruments (as defined below).

(2) In the insolvency or liquidation of the Issuer, the obligations of the Issuer under the Notes will rank:

- (a) junior to all present or future: (i) unsubordinated instruments or obligations of the Issuer; and (ii) all other instruments or obligations of the Issuer ranking or expressed to rank subordinated to unsubordinated obligations of the Issuer (other than instruments or obligations of the Issuer ranking or expressed to rank *pari passu* with or subordinated to the Notes);

- (b) *pari passu*: (i) among themselves; and (ii) with all other present or future: (x) Tier 2 Instruments; and (y) other subordinated instruments or obligations of the Issuer ranking or expressed to rank *pari passu* with the Notes (other than subordinated instruments or obligations of the Issuer ranking or expressed to rank junior to the Notes); and
- (c) senior to all present or future: (i) AT 1 Instruments (as defined below); (ii) ordinary shares of the Issuer and any other CET 1 Instruments (as defined below); and (iii) all other subordinated instruments or obligations of the Issuer ranking or expressed to rank: (x) subordinated to the obligations of the Issuer under the Notes; or (y) *pari passu* with AT 1 Instruments, ordinary shares of the Issuer and any other CET 1 Instruments, including the Existing Participation Capital Instruments (as defined below).

(3) *No Set-off, Netting or Security*. Claims of the Issuer are not permitted to be set-off or netted against payment obligations of the Issuer under the Notes, and no contractual collateral may be provided by the Issuer or any third person for the liabilities constituted by the Notes. The Notes are neither secured nor subject to a guarantee that enhances the seniority of the claims under the Notes. The Notes are not subject to any arrangement, contractual or otherwise, that enhances the seniority of the claims under the Notes in insolvency or liquidation.

(4) *Definitions*. In these Terms and Conditions:

"AT 1 Instruments" means any (directly or indirectly issued) capital instruments of the Issuer that qualify as Additional Tier 1 instruments pursuant to Article 52 CRR, including any capital instruments that qualify as Additional Tier 1 instruments pursuant to transitional provisions under the CRR.

"CET 1 Instruments" means any capital instruments of the Issuer that qualify as Common Equity Tier 1 instruments pursuant to Article 28 CRR, including any capital instruments that qualify as Common Equity Tier 1 instruments pursuant to transitional provisions under the CRR.

"CRR" means the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (*Capital Requirements Regulation*), as amended or replaced from time to time, and any references in these Terms and Conditions to relevant Articles of the CRR include references to any applicable provisions of law amending or replacing such Articles from time to time.

"Existing Participation Capital Instruments" means the (directly or indirectly issued) capital instruments of the Issuer with the following ISIN: (i) QOXDB4408833; (ii) QOXDB4408908; (iii) QOXDB4409005; (iv) QOXDB4409039; (v) QOXDB4409120; and (vi) QOXDB4409195.

"Tier 2 Instruments" means any (directly or indirectly issued) capital instruments of the Issuer that qualify as Tier 2 instruments pursuant to Article 63 CRR, including any capital instruments that qualify as Tier 2 instruments pursuant to transitional provisions under the CRR.

§ 3 INTEREST

(1) *Fixed Interest*.

- (a) *Fixed Rate of Interest and Fixed Interest Payment Dates*. The Notes shall bear interest on their outstanding aggregate principal amount at the rate of 2.75 *per cent. per annum* (the

"**First Rate of Interest**") from, and including, 6 October 2017 (the "**Interest Commencement Date**") to, but excluding, 6 October 2022 (the "**Interest Rate Reset Date**") (the "**First Period**") and at the Second Rate of Interest (as determined according to § 3(2)) from, and including, the Interest Rate Reset Date to, but excluding, the Maturity Date (as defined in § 5(1)) (the "**Second Period**"). Interest shall be payable annually in arrear on 6 October in each year (each such date, a "**Fixed Interest Payment Date**"), commencing on 6 October 2018 and ending on 6 October 2027. Fixed Interest Payment Dates are subject to adjustment in accordance with the provisions set out in § 4(3).

- (b) *Calculation of Amount of Interest.* If the amount of interest payable under the Notes is required to be calculated for any period of time of less or more than a full year in the First Period such amount of interest shall be calculated by applying the First Rate of Interest to the Specified Denomination and if the amount of interest payable under the Notes is required to be calculated for any period of time of less or more than a full year in the Second Period such amount of interest shall be calculated by applying the Second Rate of Interest to the Specified Denomination, multiplying such sum by the applicable Fixed Day Count Fraction (as defined below), and rounding the resultant figure to the nearest sub-unit of EUR, half of such sub-unit being rounded upwards or otherwise in accordance with the applicable market convention.
- (c) *Fixed Day Count Fraction.* "**Fixed Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (the "**Calculation Period**"):
- (i) if the Calculation Period is equal to or shorter than the Determination Period (as defined below) during which the Calculation Period ends, the number of calendar days in such Calculation Period divided by the product of: (x) the number of calendar days in such Determination Period; and (y) the number of Determination Dates (as specified below) that would occur in one calendar year; or
 - (ii) if the Calculation Period is longer than the Determination Period during which the Calculation Period ends, the sum of
 - (A) the number of calendar days in such Calculation Period falling in the Determination Period in which the Calculation Period begins divided by the product of: (x) the number of calendar days in such Determination Period; and (y) the number of Determination Dates that would occur in one calendar year; and
 - (B) the number of calendar days in such Calculation Period falling in the next Determination Period divided by the product of: (x) the number of calendar days in such Determination Period; and (y) the number of Determination Dates that would occur in one calendar year.

"**Determination Period**" means the period from, and including, a Determination Date to, but excluding, the next Determination Date (including, where the Interest Commencement Date is not a Determination Date, the period commencing on the first Determination Date prior to the Interest Commencement Date, and where the final Fixed Interest Payment Date is not a Determination Date, the first Determination Date falling after the final Fixed Interest Payment Date, as the case may be).

"Determination Date" means the date on which interest is determined. The number of interest determination dates per calendar year is 1 (one).

(2) *Determination of the Second Rate of Interest.*

- (a) *Second Rate of Interest.* The rate of interest for the Second Period (the **"Second Rate of Interest"**) shall be the 5 (five) Years Mid-Swap Rate *per annum* (the **"Reference Rate"**) plus the Margin (as defined below). Such Reference Rate shall be the swap rate (expressed as a percentage rate *per annum*) for swap transactions in EUR with a term of five years which appears on the Screen Page (as defined below) as of 11:00 a.m. (CET) on the Reset Determination Date (as defined below), all as determined by the Calculation Agent (as specified in § 6(1)). Where:

"5 (five) Years Mid-Swap Rate" means the mean of the bid and offered rates for the fixed leg of a fixed-for-floating rate swap transaction in EUR where the floating leg is equivalent to 6 (six)-month EURIBOR.

"Margin" means 2.55 *per cent. per annum*.

"Reset Determination Date" means the second Business Day (as defined in § 1(6)) prior to the Interest Rate Reset Date.

"Screen Page" means Reuters ICESWAP2 or the successor page displayed by the same information provider or any other information provider nominated by the Calculation Agent as the replacement information provider for the purposes of displaying the Reference Rate.

If the Screen Page is unavailable or if the Reference Rate does not appear on the Screen Page as at such time on the Reset Determination Date, the Calculation Agent shall request each of the Reference Banks (as defined below) to provide the Calculation Agent with its mid-market swap rate (expressed as a percentage rate *per annum*) at approximately 11:00 a.m. (Frankfurt time) on the Reset Determination Date.

If three or more of the Reference Banks provide the Calculation Agent with such rates, the Reference Rate for the relevant Interest Period shall be deemed to be the arithmetic mean (rounded if necessary to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards) of such rates eliminating the highest rate (or, in the event of equality, one of the highest) and the lowest rate (or, in the event of equality, one of the lowest), all as determined by the Calculation Agent.

If the Reference Rate cannot be determined in accordance with the foregoing provisions of this paragraph, the Reference Rate for the relevant Interest Period shall be deemed to be the rate determined by the Calculation Agent in its sole discretion and reasonable determination; the Calculation Agent shall take general market practice into account when determining such rate.

"Reference Banks" means four major banks in the interbank market of the Euro-zone.

"Euro-Zone" means those member states of the European Union which have adopted the Euro as their currency.

- (b) *Notification of Second Rate of Interest.* The Calculation Agent will cause the Second Rate of Interest to be notified to the Issuer, any stock exchange on which the Notes are from time to time listed (if required by the rules of such stock exchange) and to the Holders in accordance with § 10 as soon as possible after its determination.

- (c) *Determinations Binding.* All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this § 3 by the Calculation Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Fiscal Agent, the Paying Agents and the Holders and, in the absence of the aforesaid, no liability to the Issuer, the Fiscal Agent, the Paying Agents or the Holders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.
- (d) *Minimum Rate of Interest.* If the Second Rate of Interest determined in accordance with the above provisions is less than 0.00 *per cent. per annum*, the Second Rate of Interest shall be 0.00 *per cent. per annum*.
- (3) *Default Interest.* The Notes shall cease to bear interest from the expiry of the calendar day preceding the due date for redemption. If the Issuer fails to redeem the Notes when due, interest shall continue to accrue on the outstanding aggregate principal amount of the Notes from, and including, the due date for redemption to, but excluding, the date of actual redemption of the Notes at the rate of interest specified in § 3(2). This does not affect any additional rights that might be available to the Holders.

§ 4 PAYMENTS

- (1) (a) *Payment of Principal.* Payment of principal on the Notes shall be made, subject to paragraph (2) below, to the Clearing System or to its order for credit to the accounts of the relevant accountholders of the Clearing System.
- (b) *Payment of Interest.* Payment of interest on the Notes shall be made, subject to paragraph (2) below, to the Clearing System or to its order for credit to the accounts of the relevant accountholders of the Clearing System.
- (2) *Manner of Payment.* Subject to applicable fiscal and other laws and regulations, payments of amounts due in respect of the Notes shall be made in EUR.
- (3) *Fixed Payment Business Day.* If the due date for any payment in respect of the Notes would otherwise fall on a calendar day which is not a Fixed Payment Business Day (as defined below), the due date for such payment shall be: postponed to the next calendar day which is a Fixed Payment Business Day. No further interest or other payment will be made as a consequence of the adjustment.
- "Fixed Payment Business Day"** means a calendar day (other than a Saturday or a Sunday): (i) on which the Clearing System is open; and (ii) which is a Business Day (as defined in § 1(6)).
- (4) *References to Principal and Interest.* References in these Terms and Conditions to "principal" in respect of the Notes shall be deemed to include, as applicable: the Redemption Amount of the Notes (as specified in § 5(1)); and any premium and any other amounts (other than interest) which may be payable under or in respect of the Notes. References in these Terms and Conditions to "interest" in respect of the Notes shall be deemed to include, as applicable, any Additional Amounts (as defined in § 7(1)) which may be payable under § 7(1).

§ 5 REDEMPTION

(1) *Redemption at Maturity.* Unless previously redeemed in whole or in part or purchased and cancelled, and subject to adjustment in accordance with the provisions set out in § 4(3), the Notes shall be redeemed at their Redemption Amount on 6 October 2027 (the "**Maturity Date**").

"**Redemption Amount**" in respect of each Note shall be 100.00 *per cent.* of the Specified Denomination.

(2) *No Early Redemption at the Option of a Holder.* The Holders do not have a right to demand the early redemption of the Notes.

(3) *Early Redemption at the Option of the Issuer.* The Issuer may, upon giving notice in accordance with § 5(7), redeem the Notes in whole, but not in part, at the Redemption Amount on the Interest Rate Reset Date. In addition, the Issuer will pay interest if any, accrued on the Principal Amount to but excluding the date of early redemption specified in the notice. Any such early redemption pursuant to this § 5(3) shall not be possible before five years from the date of issuance and shall be made subject to the conditions to early redemption and repurchase laid down in § 5(6).

(4) *Early Redemption for Reasons of Taxation.* If a Tax Event occurs, the Issuer may, upon giving notice in accordance with § 5(7), redeem the Notes in whole, but not in part, at the Redemption Amount at any time on the date of early redemption specified in the notice, provided that the conditions to early redemption and repurchase laid down in § 5(6) are met. In addition, the Issuer will pay interest, if any, accrued on the Principal Amount to but excluding the date of early redemption specified in the notice.

Where:

A "**Gross-up Event**" occurs if there is a change in the applicable tax treatment of the Notes based on a decision of the local tax authority having competence over the Issuer as a result of which the Issuer has paid, or will or would on the next Interest Payment Date be required to pay, any Additional Amounts (as defined in § 7(1)).

A "**Tax Deductibility Event**" occurs if there is a change in the applicable tax treatment of the Notes as a result of which the Issuer, in computing its taxation liabilities in Austria, would not be entitled to claim a deduction in respect of interest paid on the Notes, or such deductibility is materially reduced.

"**Tax Event**" means a change or official clarification of, the applicable tax treatment of the Notes, including without limitation, a Tax Deductibility Event or a Gross-up Event, which is enacted (in the case of a change) or becomes effective on or after the date of issuance of the Notes or in the case of a change, if such change is enacted on or after the date of issuance of the Notes.

(5) *Early Redemption for Regulatory Reasons.* If a Regulatory Event occurs, the Issuer may, upon giving notice in accordance with § 5(7), redeem the Notes in whole, but not in part, at the Redemption Amount at any time on the date of early redemption specified in the notice, provided that the conditions to early redemption and repurchase laid down in § 5(6) are met. In addition, the Issuer will pay interest, if any, accrued on the Principal Amount to but excluding the date of early redemption specified in the notice.

A "**Regulatory Event**" occurs if there is a change in the regulatory classification of the Notes that would be likely to result in their exclusion in full or in part from own funds or reclassification as a lower quality form of own funds.

(6) *Conditions to Early Redemption and Repurchase.* Any early redemption pursuant to this § 5 and any repurchase pursuant to § 9(2) is subject to:

- (a) the Issuer having obtained the prior permission of the Competent Authority (as defined below) for the redemption or any repurchase pursuant to § 9(2) in accordance with Article 78 CRR, if applicable to the Issuer at that point in time, whereas such permission may, *inter alia*, require that:
 - (i) either the Issuer replaces the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or
 - (ii) the Issuer has demonstrated to the satisfaction of the Competent Authority that the own funds of the Issuer would, following such redemption or repurchase, exceed the minimum capital requirements (including any capital buffer requirements) by a margin that the Competent Authority considers necessary at such time; and
- (b) in the case of any redemption prior to the fifth anniversary of the date of issuance of the Notes:
 - (i) due to a Tax Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the applicable change in tax treatment is material and was not reasonably foreseeable as at the date of issuance of the Notes; or
 - (ii) due to a Regulatory Event, the Competent Authority considers such change to be sufficiently certain and the Issuer has demonstrated to the satisfaction of the Competent Authority that the relevant change in the regulatory classification of the Notes was not reasonably foreseeable as at the date of issuance of the Notes.

For the avoidance of doubt, any refusal of the Competent Authority to grant permission in accordance with Article 78 CRR shall not constitute a default for any purpose.

"Competent Authority" means the competent authority pursuant to Article 4(1)(40) CRR which is responsible to supervise the Issuer.

(7) *Redemption Notice; Redemption Amount.* Any notice of redemption in accordance with § 5(3), § 5(4) or § 5(5) shall be given by the Issuer to the Holders in accordance with § 10 observing a notice period of not less than 30 Business Days nor more than 60 Business Days. Such notice shall be irrevocable and shall specify:

- (a) the date of redemption; and
- (b) the Redemption Amount at which the Notes are to be redeemed.

§ 6

FISCAL AGENT, PAYING AGENT AND CALCULATION AGENT

(1) *Appointment; Specified Offices.* The initial fiscal agent (the "**Fiscal Agent**"), the initial principal paying agent (the "**Principal Paying Agent**"), the initial paying agent(s) (the "**Paying Agent(s)**") and the initial calculation agent (the "**Calculation Agent**") and their respective initial specified offices are:

Fiscal Agent and Principal Paying Agent:

VOLKSBANK WIEN AG
Kolingasse 14-16
1090 Vienna
Austria

Where these Terms and Conditions refer to the term "Paying Agent(s)", such term shall include the Principal Paying Agent.

Calculation Agent:

VOLKSBANK WIEN AG
Kolingasse 14-16
1090 Vienna
Austria

The Fiscal Agent, the Paying Agent(s) and the Calculation Agent reserve the right at any time to change their respective specified office to some other specified office in the same city.

(2) *Variation or Termination of Appointment.* The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any Paying Agent or the Calculation Agent and to appoint another Fiscal Agent, additional or other Paying Agents or another Calculation Agent. The Issuer shall at all times maintain: (i) a Fiscal Agent; and (ii) so long as the Notes are listed on a stock exchange, a Paying Agent (which may be the Fiscal Agent) with a specified office in such place as may be required by the rules of such stock exchange or its supervisory authority and (iii) a Calculation Agent. The Issuer will give notice to the Holders of any variation, termination, appointment or any other change as soon as possible upon the effectiveness of such change.

(3) *Agents of the Issuer.* The Fiscal Agent, the Paying Agents and the Calculation Agent act solely as agents of the Issuer and do not have any obligations towards or relationship of agency or trust to any Holder.

(4) *Determinations Binding.* All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of these Terms and Conditions by the Fiscal Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Paying Agents, the Calculation Agent and the Holders and, in the absence of the aforesaid, no liability to the Issuer, the Paying Agents, the Calculation Agent or the Holders shall attach to the Fiscal Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

§ 7 TAXATION

(1) *General Taxation.* All payments of interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Republic of Austria or by any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

In that event, the Issuer shall pay such additional amounts (the "**Additional Amounts**") to the

Holder as shall result in receipt by that Holder of such amounts as would have been received by it had no such withholding or deduction been required, except that no such Additional Amounts shall be payable with respect to any Note:

- (a) to, or to a third party on behalf of, a Holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the Republic of Austria other than the mere holding of the Note; or
- (b) presented for payment more than 30 calendar days after the date on which payment in respect of it first becomes due.

(2) *U.S. Foreign Account Tax Compliance Act (FATCA)*. The Issuer is authorised to withhold or deduct from amounts payable under the Notes to a Holder or beneficial owner of Notes sufficient funds for the payment of any tax that it is required by law to withhold or deduct pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (the "**Code**"), any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental agreement thereto ("**FATCA**") (including under a voluntary agreement entered into with a taxing authority as described in Section 1471(b) of the Code (the "**FATCA Agreement**")). The Issuer will not be required to make any payment of additional amounts for or on account of any withholding tax deducted by the Issuer or an intermediary in compliance with FATCA. For the avoidance of doubt, the withholding or deduction of any amounts which are withheld or deducted pursuant to a FATCA Agreement shall be treated as being required by law.

§ 8

PRESCRIPTION

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within thirty years (in the case of principal) and three years (in the case of interest) upon the relevant due date.

§ 9

FURTHER ISSUES OF NOTES, REPURCHASES AND CANCELLATION

(1) *Further Issues of Notes*. The Issuer may from time to time, without the consent of the Holders, issue further Notes having the same terms as the Notes in all respects (or in all respects except for the issue date, issue price, Interest Commencement Date and/or first Interest Payment Date) so as to be consolidated and form a single series with the Notes.

(2) *Repurchases*. Provided that all applicable regulatory and other statutory restrictions are observed, and provided further that the conditions to early redemption and repurchase laid down in § 5(6) are met, the Issuer may repurchase Notes in the open market or otherwise at any price. Notes repurchased by the Issuer may, at the option of the Issuer, be held, resold or surrendered to the Fiscal Agent for cancellation.

(3) *Cancellation*. All Notes redeemed in full shall be cancelled forthwith and may not be reissued or resold.

§ 10 NOTICES

(1) *Publication.* All notices of facts concerning the Notes shall be published on the website of the Issuer (www.volksbankwien.at). Any notice so given will be deemed to have been validly given on the fifth calendar day following the date of such publication (or, if published more than once, on the fifth calendar day following the date of the first such publication). This does not affect any applicable stock exchange law publication requirements. Legally material notices shall be given to the Holders via the respective institutions which maintain the Holders' security accounts.

(2) *Notification to Clearing System.* If the publication of notices pursuant to paragraph (1) is no longer required by law, the Issuer may, in lieu of publication in the media set forth in paragraph (1), deliver the relevant notices to the Clearing System, for communication by the Clearing System to the Holders. Any such notice shall be deemed to have been given to the Holders on the seventh calendar day after the calendar day on which said notice was given to the Clearing System.

(3) *Form of Notice to Be Given by any Holder.* Notices regarding the Notes which are to be given by any Holder to the Issuer shall be validly given if delivered in writing in the German or English language to the Issuer or the Fiscal Agent (for onward delivery to the Issuer) and by hand or mail. The Holder shall provide evidence satisfactory to the Issuer of its holding of the Notes. Such evidence may be: (i) in the form of a certification from the Clearing System or the Custodian with which the Holder maintains a securities account in respect of the Notes that such Holder is, at the time such notice is given, the Holder of the relevant Notes; or (ii) in any other appropriate manner. "**Custodian**" means any bank or other financial institution of recognised standing authorised to engage in securities custody business with which the Holder maintains a securities account in respect of the Notes and includes the Clearing System.

§ 11 MEETING OF HOLDERS, MODIFICATIONS AND WAIVER

(1) *Amendment of the Terms and Conditions.* In accordance with subsequent provisions the Holders may agree with the Issuer on amendments of these Terms and Conditions with regard to certain matters by resolution with the majority specified below. Majority resolutions of the Holders shall be binding on all Holders alike. A majority resolution of the Holders which does not provide for identical conditions for all Holders is void, unless Holders who are disadvantaged have expressly consented to their being treated disadvantageously.

(2) The Holders may consent, subject to regulatory approval where required, by qualified majority resolution, to the following measures, among others:

- (i) changes in the due date or reduction or cancellation of interest payments;
- (ii) changes in the due date of the principal amount;
- (iii) reduction of the principal amount;
- (iv) subordination of the claims under the Notes (other than, for the sake of clarification, any enhancement of seniority);
- (v) conversion or exchange of the Notes into shares, other securities or other promises of performance;

- (vi) changes in the currency of the Notes;
- (vii) waiver or limitation of the Holders' right of termination;
- (viii) substitution of the Issuer; and/or
- (ix) amendments to or cancellation of ancillary conditions of the Notes.

(3) *Convening a Meeting of Holders.* The Holders' meeting shall be convened by the Issuer or by the Joint Representative of the Holders. It shall be convened if Holders who together hold 5 *per cent.* of the outstanding Notes request such convocation in writing for the purpose of appointing or removing a Joint Representative, passing a resolution in order to render a termination invalid or for any other particular interest in such convocation.

(4) *Contents of the Convening Notice, Publication.* The convening notice shall state the name and the registered office of the Issuer and the time of the Holders' meeting, the agenda and the conditions on which attendance at the Holders' meeting and the exercise of voting rights shall depend. The convening notice shall be published in accordance with § 10.

(5) *Convening Period, Evidence.* The Holders' meeting shall be called at least 14 calendar days before the date of the meeting. As evidence for the entitlement to participate in the Holders' meeting a special confirmation issued by the Clearing System or the Custodian in text form shall be presented.

(6) *Agenda.* The convening party shall include in the agenda a proposed resolution for each subject on which the Holders' meeting is to pass a resolution. The agenda of the Holders' meeting shall be published together with the convening notice. No resolutions may be passed on agenda items that have not been published in the required manner. Holders who together hold 5 *per cent.* of the outstanding Notes may request that new items be published for resolution. Such new items must be published no later than the third calendar day preceding the Holders' meeting. Without undue delay and until the date of the Holders' meeting, the Issuer shall make available to the Holders on its website (www.volksbankwien.at), any counter-motions announced by a Holder before the meeting.

(7) *Quorum.* The Chairperson shall prepare a register of Holders participating in the vote. Such register shall include the Holders' names, their registered offices or places of residence and the number of voting rights represented by each Holder. Such register shall be signed by the Chairperson of the meeting and be made available without undue delay to all Holders. The Holders' meeting shall have a quorum if the persons present represent at least fifty *per cent* of the outstanding Notes by value. If the Holders' meeting does not have a quorum, the Chairperson may convene a second meeting for the purposes of passing the resolution(s) anew. Such second meeting requires no quorum. For resolutions which require a qualified majority the persons present must represent at least 25 *per cent.* of the outstanding Notes. Notes for which voting rights have been suspended shall not be included in the outstanding Notes.

(8) *Majority Requirements.* Resolutions relating to material amendments of these Terms and Conditions, in particular consents to the measures set out in § 11(2)(i) to (ix) above shall be passed by a majority of not less than 75 *per cent.* (Qualified Majority) of the votes cast. Resolutions relating to amendments of these Terms and Conditions which are not material require a simple majority of the votes cast.

(9) *Vote without a Meeting.* All votes will be taken exclusively by vote taken without a meeting.

The vote shall be conducted by the scrutineer. The scrutineer shall be a notary appointed by the Issuer, or the Joint Representative of the Holders if it has requested such vote. The request for voting shall set out the period within which votes may be cast. Such period shall be at least 72 hours. During the voting period, the Holders may cast their votes to the scrutineer in text form. The request shall set out in detail the conditions to be met in order for the votes to be valid. The scrutineer shall ascertain the entitlement to cast a vote by means of the evidence provided and shall prepare a list of Holders entitled to vote. If it is ascertained that no quorum exists, the scrutineer may convene a Holders' meeting, which shall be deemed to be a second Holders' meeting within the meaning of § 11(7). Any resolution passed by the vote shall be recorded in the minutes by a notary. Each Holder participating in the vote may request within one year of the end of the voting period a copy of the minutes and its annexes from the Issuer. Each Holder participating in the vote may object to the result in writing within two weeks of publication of the resolutions. The scrutineer shall decide on any such objection. If it takes remedial action as a result of the objection, it shall publish the result without undue delay. § 11(13) shall apply *mutatis mutandis*. If the scrutineer does not take remedial action as a result of the objection, it shall notify the objecting Holder without undue delay in writing.

(10) *Voting Right*. Each Holder shall participate in votes in accordance with the principal amount of the outstanding Notes held by such Holder. Voting rights are suspended with respect to the shares attributable to the Issuer or any of its Subsidiaries or held for the account of the Issuer or any of its Subsidiaries. The Issuer may not make available Notes for which the voting rights have been suspended to any third party for the purposes of exercising the voting rights in lieu of the Issuer. This shall also apply to any Subsidiaries of the Issuer. Exercise of voting rights for the purposes specified above is prohibited. It is prohibited to offer, promise or grant any advantage as consideration to any person entitled to vote not to vote, or to vote in a particular way, in a Holders' meeting or a vote. No person entitled to vote may require, accept any promise of or accept any advantage or consideration for not voting, or voting in a particular way, in a Holders' meeting or a vote.

(11) *Chair of the Vote*. The vote will be chaired by a notary appointed by the Issuer or, if the Joint Representative has convened the vote, by the Joint Representative (the "**Chairperson**").

(12) *Voting, Minutes*. The provisions of the Austrian Stock Corporation Act (*Aktiengesetz – AktG*) regarding the voting of shareholders in the general meeting shall apply *mutatis mutandis* to the casting and counting of votes. In order to be valid, any resolution passed by the Holders' meeting shall be recorded in minutes of the meeting. The minutes shall be recorded by a notary.

(13) *Publication of Resolutions*. The Issuer shall publish the resolutions passed by the Holders in appropriate form and at its own expense. The resolutions shall be published without undue delay in accordance with § 10. In addition, for a period of at least one month commencing on the calendar day following the Holders' meeting, the Issuer shall make available to the public on its website (www.volksbankwien.at) the resolutions passed by the Holders and, if these Terms and Conditions are amended by a Holders' resolution, the wording of the original Terms and Conditions.

(14) *Implementation of Resolutions*. Resolutions passed by the Holders' meeting which amend or supplement the contents of these Terms and Conditions shall be implemented in such a way that the relevant Global Note is supplemented or amended. If the Global Note has been deposited with a central securities depository, the Chairperson of the meeting or the scrutineer shall forward for this purpose the contents of the resolution recorded in the minutes to the central securities depository, requesting it to add the documents submitted to the existing documents in appropriate

form. It shall affirm to the central securities depository that the resolution may be implemented.

(15) *Joint Representative*. The Holders may by majority resolution appoint a joint representative (the "**Joint Representative**") to exercise the Holders' rights on behalf of each Holder.

The Joint Representative shall have the duties and powers granted by majority resolution of the Holders. The Joint Representative shall comply with the instructions of the Holders. To the extent that the Joint Representative has been authorised to assert certain rights of the Holders, the Holders shall not be entitled to assert such rights themselves, unless explicitly provided for in the relevant majority resolution. The Joint Representative shall provide reports to the Holders on its activities. The Joint Representative shall be liable to the Holders as joint and several creditors for the due performance of its duties. In the performance of its duties, it shall act with the care of a prudent representative. The Joint Representative's liability may be limited by resolution of the Holders. An assertion of compensation claims against the Joint Representative shall be decided by the Holders. The Joint Representative may be removed by the Holders at any time without reason. The Joint Representative may require the Issuer to provide any information that is necessary for the performance of its duties.

(16) *Exclusion of the applicability of the Austrian Notes Trustee Act*. The applicability of the provisions of the Austrian Notes Trustee Act (*Kuratorenengesetz*) and the Austrian Notes Trustee Supplementation Act (*Kuratorenenergänzungsgesetz*) is explicitly excluded in relation to the Notes.

§ 12

APPLICABLE LAW, PLACE OF JURISDICTION AND ENFORCEMENT

(1) *Applicable Law*. The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by, and shall be construed in accordance with, Austrian law except for its conflict of law rules.

(2) *Place of Jurisdiction*. The competent Austrian courts shall have exclusive jurisdiction to settle any disputes that may arise out of or in connection with any Notes (including any legal action or proceedings relating to any non-contractual obligations arising out of or in connection with Notes), to the extent permissible according to applicable mandatory consumer protection legislation.

(3) *Enforcement*. Any Holder of Notes may in any proceedings against the Issuer, or to which such Holder and the Issuer are parties, protect and enforce in its own name its rights arising under such Notes on the basis of: (i) a statement issued by the Custodian with whom such Holder maintains a securities account in respect of the Notes (a) stating the full name and address of the Holder; (b) specifying the aggregate principal amount of the Notes credited to such securities account on the date of such statement; and (c) confirming that the Custodian has given written notice to the Clearing System containing the information pursuant to (a) and (b); and (ii) a copy of the Global Note certified as being a true copy by a duly authorised officer of the Clearing System or a depository of the Clearing System, without the need for production in such proceedings of the actual records or the Global Note representing the Notes. Each Holder may, without prejudice to the foregoing, protect and enforce its rights under the Notes also in any other way which is admitted in the country of the proceedings.

6. TAXATION

The following is a general overview of certain tax considerations relating to the purchasing, holding and disposing of the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. In particular, the discussion does not cover any specific facts or circumstances that may apply to a particular Holder. The discussions that follow for each jurisdiction are based upon the applicable laws in force and their interpretation on the date of this Prospectus. These tax laws and interpretations are subject to change that may occur after such date, even with retroactive effect.

The information contained in this section is limited to taxation issues and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Prospective Holders should consult their own tax advisers as to the particular tax consequences of subscribing, purchasing, holding and disposing the Notes, including the application and effect of any federal, state or local taxes, under the tax laws of the Republic of Austria ("Austria") and each country of which they are residents or citizens.

6.1 AUSTRIA

This section on taxation contains a brief summary of the Issuer's understanding with regard to certain important principles which are of significance in connection with the purchase, holding or sale of the Notes in Austria. This summary does not purport to exhaustively describe all possible tax aspects and does not deal with specific situations which may be of relevance for certain potential investors. The following comments are rather of a general nature and included herein solely for information purposes. They are not intended to be, nor should they be construed to be, legal or tax advice. This summary is based on the currently applicable tax legislation, case law and regulations of the tax authorities, as well as their respective interpretation, all of which may be amended from time to time. Such amendments may possibly also be effected with retroactive effect and may negatively impact on the tax consequences described. It is recommended that potential investors in the Notes consult with their legal and tax advisors as to the tax consequences of the purchase, holding or sale of the Notes. Tax risks resulting from the Notes (in particular from a potential qualification as equity for tax purposes instead of debt) shall in any case be borne by the investor. For the purposes of the following it is assumed that the Notes are legally and factually offered to an indefinite number of persons.

The Issuer assumes no responsibility with respect to taxes withheld at source.

General Remarks

Individuals having a domicile (*Wohnsitz*) and/or their habitual abode (*gewöhnlicher Aufenthalt*), both as defined in § 26 of the Austrian Federal Fiscal Procedures Act (*Bundesabgabenordnung* - *BAO*), in Austria are subject to income tax

(*Einkommensteuer*) in Austria on their worldwide income (unlimited income tax liability; *unbeschränkte Einkommensteuerpflicht*). Individuals having neither a domicile nor their habitual abode in Austria are subject to income tax only on income from certain Austrian sources (limited income tax liability; *beschränkte Einkommensteuerpflicht*).

Corporations having their place of management (*Ort der Geschäftsleitung*) and/or their legal seat (*Sitz*), both as defined in § 27 of the Austrian Federal Fiscal Procedures Act, in Austria are subject to corporate income tax (*Körperschaftsteuer*) in Austria on their worldwide income (unlimited corporate income tax liability; *unbeschränkte Körperschaftsteuerpflicht*). Corporations having neither their place of management nor their legal seat in Austria are subject to corporate income tax only on income from certain Austrian sources (limited corporate income tax liability; *beschränkte Körperschaftsteuerpflicht*).

Both in case of unlimited and limited (corporate) income tax liability Austria's right to tax may be restricted by double taxation treaties.

Income Taxation

Pursuant to § 27(1) of the Austrian Income Tax Act (*Einkommensteuergesetz - EStG*), the term investment income (*Einkünfte aus Kapitalvermögen*) comprises:

- income from the letting of capital (*Einkünfte aus der Überlassung von Kapital*) pursuant to § 27(2) of the Austrian Income Tax Act, including dividends and interest; the tax basis is the amount of the earnings received (§ 27a(3)(1) of the Austrian Income Tax Act);
- income from realised increases in value (*Einkünfte aus realisierten Wertsteigerungen*) pursuant to § 27(3) of the Austrian Income Tax Act, including gains from the alienation, redemption and other realisation of assets that lead to income from the letting of capital (including zero coupon bonds); the tax basis amounts to the sales proceeds or the redemption amount minus the acquisition costs, in each case including accrued interest (§ 27a(3)(2)(a) of the Austrian Income Tax Act); and
- income from derivatives (*Einkünfte aus Derivaten*) pursuant to § 27(4) of the Austrian Income Tax Act, including cash settlements, option premiums received and income from the sale or other realisation of forward contracts like options, futures and swaps and other derivatives such as index certificates (the mere exercise of an option does not trigger tax liability); e.g., in the case of index certificates, the tax basis amounts to the sales proceeds or the redemption amount minus the acquisition costs (§ 27a(3)(3)(c) of the Austrian Income Tax Act).

Also the withdrawal of the Notes from a securities account (*Depotentnahme*) and circumstances leading to a restriction of Austria's taxation right regarding the Notes *vis-à-vis* other countries, e.g. a relocation from Austria (*Wegzug*), are in general deemed to constitute a sale (*cf.* § 27(6)(1) and (2) of the Austrian Income Tax Act). The tax basis amounts to the fair market value minus the acquisition costs (§ 27a(3)(2)(b) of the Austrian Income Tax Act).

Individuals subject to unlimited income tax liability in Austria holding the Notes as non-business assets are subject to income tax on all resulting investment income pursuant to

§ 27(1) of the Austrian Income Tax Act. Investment income from the Notes with an Austrian nexus (*inländische Einkünfte aus Kapitalvermögen*), basically meaning income paid by an Austrian paying agent (*auszahlende Stelle*) or an Austrian custodian agent (*depotführende Stelle*), is subject to withholding tax (*Kapitalertragsteuer*) at a flat rate of 27.5%; no additional income tax is levied over and above the amount of tax withheld (final taxation pursuant to § 97(1) of the Austrian Income Tax Act). Investment income from the Notes without an Austrian nexus must be included in the investor's income tax return and is subject to income tax at the flat rate of 27.5%. In both cases upon application the option exists to tax all income subject to income tax at a flat rate pursuant to § 27a(1) of the Austrian Income Tax Act at the lower progressive income tax rate (option to regular taxation pursuant to § 27a(5) of the Austrian Income Tax Act). The acquisition costs must not include ancillary acquisition costs (*Anschaffungsnebenkosten*; § 27a(4)(2) of the Austrian Income Tax Act). Expenses such as bank charges and custody fees must not be deducted (§ 20(2) of the Austrian Income Tax Act); this also applies if the option to regular taxation is exercised. § 27(8) of the Austrian Income Tax Act, *inter alia*, provides for the following restrictions on the offsetting of losses: negative income from realised increases in value and from derivatives may be neither offset against interest from bank accounts and other non-securitized claims *vis-à-vis* credit institutions (except for cash settlements and lending fees) nor against income from private foundations, foreign private law foundations and other comparable legal estates (*Privatstiftungen, ausländische Stiftungen oder sonstige Vermögensmassen, die mit einer Privatstiftung vergleichbar sind*); income subject to income tax at a flat rate pursuant to § 27a(1) of the Austrian Income Tax Act may not be offset against income subject to the progressive income tax rate (this equally applies in case of an exercise of the option to regular taxation); negative investment income not already offset against positive investment income may not be offset against other types of income. The Austrian custodian agent has to effect the offsetting of losses by taking into account all of a taxpayer's securities accounts with the custodian agent, in line with § 93(6) of the Austrian Income Tax Act, and to issue a written confirmation to the taxpayer to this effect.

Individuals subject to unlimited income tax liability in Austria holding the Notes as business assets are subject to income tax on all resulting investment income pursuant to § 27(1) of the Austrian Income Tax Act. Investment income from the Notes with an Austrian nexus is subject to withholding tax at a flat rate of 27.5%. While withholding tax has the effect of final taxation for income from the letting of capital, income from realised increases in value and income from derivatives must be included in the investor's income tax return (nevertheless income tax at the flat rate of 27.5%). Investment income from the Notes without an Austrian nexus must always be included in the investor's income tax return and is subject to income tax at the flat rate of 27.5%. In both cases upon application the option exists to tax all income subject to income tax at a flat rate pursuant to § 27a(1) of the Austrian Income Tax Act at the lower progressive income tax rate (option to regular taxation pursuant to § 27a(5) of the Austrian Income Tax Act). The flat tax rate does not apply to income from realised increases in value and income from derivatives if realizing these types of income constitutes a key area of the respective investor's business activity (§ 27a(6) of the Austrian Income Tax Act). Expenses such as bank charges and custody fees must not be deducted (§ 20(2) of the Austrian Income

Tax Act); this also applies if the option to regular taxation is exercised. Pursuant to § 6(2)(c) of the Austrian Income Tax Act, depreciations to the lower fair market value and losses from the alienation, redemption and other realisation of financial assets and derivatives in the sense of § 27(3) and (4) of the Austrian Income Tax Act, which are subject to income tax at the flat rate of 27.5%, are primarily to be offset against income from realised increases in value of such financial assets and derivatives and with appreciations in value of such assets within the same business unit (*Wirtschaftsgüter desselben Betriebes*); only 55% of the remaining negative difference may be offset against other types of income.

Pursuant to § 7(2) of the Austrian Corporate Income Tax Act (*Körperschaftsteuergesetz*), corporations subject to unlimited corporate income tax liability in Austria are subject to corporate income tax on income in the sense of § 27(1) of the Austrian Income Tax Act from the Notes at a rate of 25%. Income in the sense of § 27(1) of the Austrian Income Tax Act from the Notes with an Austrian nexus is subject to withholding tax at a flat rate of 27.5%. However, a 25% rate may pursuant to § 93(1a) of the Austrian Income Tax Act be applied by the withholding agent, if the debtor of the withholding tax is a corporation: Such withholding tax can be credited against the corporate income tax liability. Under the conditions set forth in § 94(5) of the Austrian Income Tax Act withholding tax is not levied in the first place. Losses from the alienation of the Notes can be offset against other income.

Pursuant to § 13(3)(1) in connection with § 22(2) of the Austrian Corporate Income Tax Act, private foundations (*Privatstiftungen*) pursuant to the Austrian Private Foundations Act (*Privatstiftungsgesetz*) fulfilling the prerequisites contained in § 13(3) and (6) of the Austrian Corporate Income Tax Act and holding the Notes as non-business assets are subject to interim taxation at a rate of 25% on interest income, income from realised increases in value and income from derivatives (*inter alia*, if the latter are in the form of securities). Pursuant to the Austrian tax authorities' view, the acquisition costs must not include ancillary acquisition costs. Expenses such as bank charges and custody fees must not be deducted (§ 12(2) of the Austrian Corporate Income Tax Act). Interim tax does generally not fall due insofar as distributions subject to withholding tax are made to beneficiaries in the same tax period. Investment income from the Notes with an Austrian nexus is in general subject to withholding tax at a flat rate of 27.5%. However, a 25% rate may pursuant to § 93(1a) of the Austrian Income Tax Act be applied by the withholding agent, if the debtor of the withholding tax is a corporation (*Körperschaft*, which term, *inter alia*, encompasses private foundations). Such withholding tax can be credited against the tax falling due. Under the conditions set forth in § 94(12) of the Austrian Income Tax Act withholding tax is not levied.

Individuals and corporations subject to limited (corporate) income tax liability in Austria are taxable on income from the Notes if they have a permanent establishment (*Betriebsstätte*) in Austria and the Notes as well as the income resulting therefrom are attributable to such permanent establishment (*cf.* § 98(1)(3) of the Austrian Income Tax Act, § 21(1)(1) of the Austrian Corporate Income Tax Act). In addition, individuals subject to limited income tax liability in Austria are also taxable on interest in the sense of § 27(2)(2) of the Austrian Income Tax Act and accrued interest (including from zero coupon bonds) in the sense of § 27(6)(5) of the Austrian Income Tax Act from the Notes

if the (accrued) interest has an Austrian nexus and if withholding tax is levied on such (accrued) interest. This does not apply to individuals being resident in a state with which automatic exchange of information exists. Interest with an Austrian nexus is interest the debtor of which has its place of management and/or its legal seat in Austria or is an Austrian branch of a non-Austrian credit institution; accrued interest with an Austrian nexus is accrued interest from securities issued by an Austrian Issuer (§ 98(1)(5)(b) of the Austrian Income Tax Act). Under applicable double taxation treaties, relief from Austrian income tax might be available. However, Austrian credit institutions must not provide for such relief at source; instead, the investor may file an application for repayment of tax with the competent Austrian tax office.

Inheritance and Gift Taxation

Austria does not levy inheritance or gift tax.

Certain gratuitous transfers of assets to private law foundations and comparable legal estates (*privatrechtliche Stiftungen und damit vergleichbare Vermögensmassen*) are subject to foundation transfer tax (*Stiftungseingangssteuer*) pursuant to the Austrian Foundation Transfer Tax Act (*Stiftungseingangssteuergesetz*) if the transferor and/or the transferee at the time of transfer have a domicile, their habitual abode, their legal seat or their place of management in Austria. Certain exemptions apply in cases of transfers *mortis causa* of financial assets within the meaning of § 27(3) and (4) of the Austrian Income Tax Act (except for participations in corporations) if income from such financial assets is subject to income tax at a flat rate pursuant to § 27a(1) of the Austrian Income Tax Act. The tax basis is the fair market value of the assets transferred minus any debts, calculated at the time of transfer. The tax rate generally is 2.5%, with a higher rate applying in special cases. Special provisions apply to transfers of assets to non-transparent foundations and similar vehicles (*Vermögensstrukturen*) falling within the scope of the Treaty between the Republic of Austria and the Principality of Liechtenstein on Cooperation in the Area of Taxation.

In addition, there is a special notification obligation for gifts of money, receivables, shares in corporations, participations in partnerships, businesses, movable tangible assets and intangibles if the donor and/or the donee have a domicile, their habitual abode, their legal seat or their place of management in Austria. Not all gifts are covered by the notification obligation: In case of gifts to certain related parties, a threshold of EUR 50,000 per year applies; in all other cases, a notification is obligatory if the value of gifts made exceeds an amount of EUR 15,000 during a period of five years. Furthermore, gratuitous transfers to foundations falling under the Austrian Foundation Transfer Tax Act described above are also exempt from the notification obligation. Intentional violation of the notification obligation may trigger fines of up to 10% of the fair market value of the assets transferred.

Further, gratuitous transfers of the Notes may trigger income tax at the level of the transferor pursuant to § 27(6)(1) and (2) of the Austrian Income Tax Act (see above).

7. SUBSCRIPTION AND SALE

Pursuant to a subscription agreement dated 2 October 2017 (the "**Subscription Agreement**") among the Issuer and the Joint Lead Managers, the Issuer has agreed to sell to the Joint Lead Managers, and the Joint Lead Managers have agreed, subject to certain customary closing conditions, to purchase, the Notes on 6 October 2017. The Issuer has furthermore agreed to pay certain commissions to the Joint Lead Managers and to reimburse the Joint Lead Managers for certain expenses incurred in connection with the issue of the Notes.

The Subscription Agreement provides that the Joint Lead Managers will be entitled to terminate the Subscription Agreement under certain circumstances. In such event, no Notes will be delivered to investors. Furthermore, the Issuer has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Notes.

General

No action has been taken or will be taken in any jurisdiction by the Issuer, or any of the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations. Persons into whose hands this Prospectus comes are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

Selling restrictions apply for the United States, the EEA, Canada, United Kingdom, Hong Kong, Japan, Korea, Singapore, Taiwan, and such other restrictions as may be required in connection with the issue of Notes. The Notes to be offered and sold will be subject to the restrictions of Category 2 for the purposes of Regulation S under the Securities Act.

United States of America and its Territories

The Notes have not been and will not be registered under the Securities Act. Except in certain transactions exempt from the registration requirements of the Securities Act, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (the "**Regulation S**")).

Each Joint Lead Manager has represented and agreed that it will not offer, sell or deliver the Notes: (i) as part of their distribution at any time; or (ii) otherwise until 40 days after the later of the commencement of the offering or the closing date within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration

that purchases Notes from it during the distribution compliance period a confirmation or notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons to substantially the following effect:

"The securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons: (i) as part of their distribution at any time; or (ii) otherwise until 40 days after the later of the date of the commencement of the Offering and the Closing Date, except in either case in accordance with the Regulation S under the Securities Act. Terms used above have the meanings given to them in Regulation S."

Terms used in this paragraph have the meaning given to them by Regulation S. In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each Joint Lead Manager has represented and agreed that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Note, and it and they have complied and will comply with the offering restrictions requirement of Regulation S.

Bearer Notes which are subject to U.S. tax law requirements may not be offered, sold or delivered in the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meaning given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder.

Notes having a maturity of more than one year will be subject to the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**") and will be issued in compliance with U.S. Treasury Regulation § 1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended) (the "**TEFRA C**").

European Economic Area

In relation to each Member State of the European Economic Area ("**EEA**") which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Joint Lead Manager has represented and agreed, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus in relation hereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Lead Managers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive or pursuant to any applicable national law of any Relevant Member State;

provided that no such offer of Notes shall require the Issuer or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression "**Prospectus Directive**" means Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC (as amended, by, *inter alia*, Directive 2014/51/EU), and includes any relevant implementing measure in that Relevant Member State.

8. GENERAL INFORMATION

Authorisations

The creation and issue of the Notes is covered by the approval of an annual funding plan by the Issuer's Managing Board (dated 12 September 2017) and by the Supervisory Board (dated 15 September 2017) determining the total annual issuance volume and has been authorised by a resolution of the Issuer's Managing Board on 12 September 2017.

Listing Expenses

The expenses for the listing of the Notes and admission to trading are expected to amount to approximately EUR 2,200.

Clearing System

Payments and transfers of the Notes will be settled through OeKB CSD GmbH, Clearstream Banking, S.A., Luxembourg and Euroclear Bank SA/NV.

The Notes have the following securities codes: ISIN: AT000B121967

Listing and Admission to Trading

Application has been made to the Vienna Stock Exchange for the Notes to be admitted to trading on the Vienna Stock Exchange's Second Regulated Market (*Geregelter Freiverkehr*). The Second Regulated Market of the Vienna Stock Exchange is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC. The Second Regulated Market will only exist until January, 2018. Thereafter, the securities listed in the Vienna Stock Exchange's Second Regulated Market are expected to be automatically transferred in the Official Market (*Amtlicher Handel*).

Yield to Maturity

For the subscribers, the yield of the Notes until the Interest Rate Reset Date is 2.805 *per cent. per annum*, calculated on the basis of the Issue Price. Such yield is calculated in accordance with the ICMA (International Capital Markets Association) Method. The ICMA method determines the effective interest rate on notes by taking into account accrued interest on a daily basis. For the rest of the tenor of the Notes after the Interest Rate Reset Date, the yield cannot be calculated in advance as it depends on the future Reference Rate.

Websites

For the avoidance of doubt the content of any website referred to in this Prospectus does not form part of this Prospectus, except where expressly stated otherwise.

Interests of Natural and Legal Persons Involved in the Issue or the Offering

Save for the fees payable to the Joint Lead Managers and the commercial interests of the Issuer, so far as the Issuer is aware, no person involved in the issue or offering of the Notes has an interest material to the issue or the offering.

Joint Lead Managers transactions with the Issuer

Some of the Joint Lead Managers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's securities, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

9. RESPONSIBILITY STATEMENT OF VOLKSBANK WIEN AG

VOLKSBANK WIEN AG, with its registered office at Kolingasse 14-16, 1090 Vienna, Austria, is responsible for the information given in this Prospectus.

The Issuer hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of the knowledge of the Issuer, in accordance with the facts and contains no omission likely to affect its import.

Vienna, on

VOLKSBANK WIEN AG
as Issuer

Gerald Fleischmann

(Chairman of the Managing Board)

Rainer Borns

(Member of the Managing Board)

ISSUER

VOLKSBANK WIEN AG

Kolingasse 14-16
1090 Vienna
Austria

FISCAL AGENT, PAYING AGENT AND CALCULATION AGENT

VOLKSBANK WIEN AG

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Job Nr.: 2017 - 03 98
Prospekt gebilligt