

# **HYPO NOE Landesbank für Niederösterreich und Wien AG**

(incorporated as a joint-stock corporation (*Aktiengesellschaft*) in the Republic of Austria)



**Euro 6,000,000,000**

## **Debt Issuance Programme**

**for the issue of the Notes (including Pfandbriefe and fundierte  
Bankschuldverschreibungen) (the "Programme")**

**SUPPLEMENT NO. 1**

**dated 24 August 2018**

**to the Base Prospectus dated 15 June 2018**

This supplement No. 1 (the "**Supplement No. 1**") constitutes a prospectus supplement pursuant to Article 13 of the Luxembourg Act on Securities Prospectuses (*loi relative aux prospectus pour valeurs mobilières*) of 10 June 2005 (the "**Luxembourg Prospectus Act**") which implements Article 16 of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 as amended (the "**Prospectus Directive**"). This Supplement No. 1 is supplemental to, and should be read in conjunction with the base prospectus (the "**Original Prospectus**") dated 15 June 2018 of HYPO NOE Landesbank für Niederösterreich und Wien AG ("**HYPO NOE**" or the "**Issuer**") relating to the Programme.

The Original Prospectus has been approved on 15 June 2018 by the *Commission de Surveillance du Secteur Financier* ("**CSSF**") of the Grand-Duchy of Luxembourg ("**Luxembourg**") in its capacity as competent authority under the Luxembourg Prospectus Act.

The Issuer has requested the CSSF to provide the competent authorities in the Republic of Austria, the Federal Republic of Germany, the United Kingdom and the Netherlands with a certificate of approval attesting that this Supplement No. 1 has been drawn up in accordance with the Commission Regulation (EC) 809/2004 of 24 April 2004, as amended from time to time (the "**Notification**").

**In accordance with Article 16 of the Prospectus Directive and Article 13.2 of Chapter 1 of Part II of the Luxembourg Prospectus Act, investors who have agreed to subscribe for Notes, including Pfandbriefe and fundierte Bankschuldverschreibungen (the "Notes") after the occurrence of the significant new factors described in this Supplement No. 1 but before the publication of this Supplement No. 1 have a right to withdraw their acceptances within two banking days after the date of publication of this Supplement No. 1. The withdrawal period ends on 28 August 2018.**

*Arranger and Dealer*

**BNP Paribas**

Terms used in this Supplement No. 1 shall have the same meaning as given to them in the Original Prospectus. In the case of discrepancies between the information in this Supplement No. 1 and information in the Original Prospectus or in documents incorporated by reference, the information contained in this Supplement No. 1 shall prevail.

This Supplement No. 1 has been published in electronic form on the website of the Luxembourg Stock Exchange under "www.bourse.lu" and on the website of the Issuer under "www.hyponoe.at " and will be available free of charge at the specified office of the Issuer and the Fiscal Agent, BNP Paribas Securities Services, Luxembourg Branch, at 60 avenue J.F. Kennedy, L-2085 Luxembourg, Luxembourg.

No person has been authorised to give any information which is not contained in, or not consistent with, this Supplement No. 1 or any other document entered into in relation to the Programme or any information supplied by the Issuer or such other information as in the public domain and, if given or made, such information must not be relied upon as having been authorised by the Issuer, the Dealer or any of them.

Neither the Arranger nor any Dealer nor any other person, excluding the Issuer, is responsible for the information contained in this Supplement No. 1, and accordingly, and to the extent permitted by the laws of any relevant jurisdiction, none of these persons accepts any responsibility for the accuracy and completeness of the information contained in this Supplement No. 1.

This Supplement No. 1 reflects the status as of its date of approval. The delivery of this Supplement No. 1 and the offering, sale or delivery of any Notes may not be taken as an implication that the information contained in this Supplement No. 1 is accurate and complete subsequent to its date of approval or that there has been no adverse change in the financial situation of the Issuer since that date or that any other information supplied in connection with the Programme is accurate at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Supplement No. 1 and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Supplement No. 1 comes are required to inform themselves about and observe any such restrictions. For a description of restrictions applicable in the United States of America, Japan, the European Economic Area, the Republic of Italy and the United Kingdom see "Subscription and Sale" in the Original Prospectus. In particular, the Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, and are subject to the tax law requirements of the United States of America; subject to certain exceptions, Notes may not be offered, sold or delivered within the United States of America or to U.S. persons.

**This Supplement No. 1 may only be used for the purpose for which it has been published. This Supplement No. 1 may not be used for the purpose of an offer or solicitation by and to anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.**

This Supplement No. 1 does not constitute an offer or an invitation to subscribe for or purchase any of the Notes.

The Issuer has published its unaudited Semi-Annual Financial Report 2018 which is by way of this Supplement No. 1 incorporated by reference into the Original Prospectus. Thus, the following changes are made to the Original Prospectus:

**1. In the section "SUMMARY OF THE PROSPECTUS" commencing on page 3 of the Original Prospectus, in Element B.12 "Selected historical key financial information:" on page 5 of the Original Prospectus, in the right column the following table shall be added at the end:**

"

	<b>IFRS 9 30 June 2018</b>	<b>IAS 39 31 December 2017</b>
Total equity and liabilities	13,908,482	14,368,013
Total equity (incl. non-controlling interests)	648,470	676,401
	<b>IFRS 9 30 June 2018</b>	<b>IAS 39 30 June 2017</b>
Net interest income	56,037	56,176
Net interest income after risk provisions	63,845	57,874
Profit before tax	25,841	11,196
Profit for the period	20,197	9,003
Profit attributable to owners of the parent	19,986	8,608

Source: Unaudited Semi-Annual Financial Report 2018"

**2. In the section "SUMMARY OF THE PROSPECTUS" commencing on page 3 of the Original Prospectus, in Element B.12 "Significant changes in the financial or trading position of the Issuer:" on page 5 of the Original Prospectus, in the right column the second sentence shall be replaced by the following sentence:**

"There are no significant changes in the financial or trading position of the HYPO NOE Group which occurred subsequently to the period covered by the historical financial information, which means as of 30 June 2018."

**3. In the section "SUMMARY OF THE PROSPECTUS" commencing on page 3 of the Original Prospectus, in Element B.13 "Description of any recent events particular to the Issuer which are to a material extent relevant to the evaluation of the Issuer's solvency:" on page 5 of the Original Prospectus, in the right column the first paragraph shall be deleted and the second paragraph shall be replaced by the following paragraph:**

"There are no recent events particular to the Issuer which are to a material extent relevant to the evaluation of the Issuer's solvency."

**4. In the section "GERMAN TRANSLATION OF THE SUMMARY OF THE PROSPECTUS DEUTSCHE ÜBERSETZUNG DER ZUSAMMENFASSUNG DES PROSPEKTS" commencing on page 25 of the Original Prospectus, in Element B.12 "Ausgewählte wesentliche historische Finanzinformationen:" commencing on page 26 of the Original Prospectus, in the right column the following table shall be added at the end:**

"

	<b>IFRS 9 30. Juni 2018</b>	<b>IAS 39 31. Dezember 2017</b>
Summe Aktiva	13.908.482	14.368.013
Eigenkapital (inkl. Fremdanteile)	648.470	676.401
	<b>IFRS 9 30. Juni 2018</b>	<b>IAS 39 30. Juni 2017</b>
Zinsüberschuss	56.037	56.176
Zinsüberschuss nach Risikovorsorge	63.845	57.874
Periodenüberschuss vor Steuern	25.841	11.196
Periodenüberschuss nach Steuern	20.197	9.003
Konzernüberschuss dem Eigentümer zurechenbar	19.986	8.608

Quelle: Ungeprüfter Halbjahresfinanzbericht 2018"



**5. In the section "GERMAN TRANSLATION OF THE SUMMARY OF THE PROSPECTUS DEUTSCHE ÜBERSETZUNG DER ZUSAMMENFASSUNG DES PROSPEKTS" commencing on page 25 of the Original Prospectus, in Element B.12 "Wesentliche Veränderung der Finanzlage oder Handelsposition der Emittentin:" on page 27 of the Original Prospectus, in the right column the second sentence shall be replaced by the following sentence:**

"Es gab keine anderen wesentlichen Veränderungen hinsichtlich der Finanzlage oder Handelsposition des HYPO NOE Konzerns, die nach dem von den historischen Finanzinformationen abgedeckten Zeitraum, das heißt nach dem 30.6.2018, eingetreten sind."

**6. In the section "GERMAN TRANSLATION OF THE SUMMARY OF THE PROSPECTUS DEUTSCHE ÜBERSETZUNG DER ZUSAMMENFASSUNG DES PROSPEKTS" commencing on page 25 of the Original Prospectus, in Element B.13 "Beschreibung aller Ereignisse aus jüngster Zeit in der Geschäftstätigkeit der Emittentin, die für die Bewertung ihrer Zahlungsfähigkeit in hohem Maße relevant sind:" on page 27 of the Original Prospectus, in the right column the first paragraph shall be deleted and the second paragraph shall be replaced by the following paragraph:**

"Es gibt keine Ereignisse aus jüngster Zeit in der Geschäftstätigkeit der Emittentin, die für die Bewertung ihrer Zahlungsfähigkeit in hohem Maße relevant sind."

**7. In the section "DESCRIPTION OF HYPO NOE LANDESBANK FÜR NIEDERÖSTERREICH UND WIEN AG" commencing on page 370 of the Original Prospectus below the heading "Trend Information" on page 384 of the Original Prospectus, the first paragraph shall be deleted.**

**8. In the section "DESCRIPTION OF HYPO NOE LANDESBANK FÜR NIEDERÖSTERREICH UND WIEN AG" commencing on page 370 of the Original Prospectus the paragraph below the heading "Significant change in HYPO NOE's financial or trading position" on page 389 of the Original Prospectus shall be replaced by the following paragraph:**

"There are no other significant changes in the financial or trading position of the HYPO NOE Group which occurred subsequently to the period covered by the historical financial information, which means as of 30 June 2018."

**9. In the section "Documents on Display" commencing on page 392 of the Original Prospectus below the heading "Other Documents" on page 393 of the Original Prospectus the following bullet point shall be added at the end:**

"8. financial information with regard to the Issuer in the form of the unaudited semi-annual financial report 2018 (in the English and the German language)"

**10. In the section "DOCUMENTS INCORPORATED BY REFERENCE" commencing on page 394 of the Original Prospectus, after the table regarding the Audited Consolidated Financial Information for the Year 2017 on page 394 of the Original Prospectus the following table shall be added:**

**"Unaudited Consolidated Financial Information for the First Half Year 2018 – Unaudited Semi-Annual Financial Report 2018 - (IFRS) (binding version in German language)**

Consolidated Statement of Comprehensive Income ( <i>Gesamt-Ergebnisrechnung</i> )	24-25
Consolidated Statement of Financial Position ( <i>Konzernbilanz</i> )	26
Consolidated Statement of Changes in Equity ( <i>Konzerneigenkapital-Veränderungsrechnung</i> )	27

**11. In the section "DOCUMENTS INCORPORATED BY REFERENCE" commencing on page 394 of the Original Prospectus, the second paragraph after the table regarding the Audited Consolidated Financial Information for the Year 2017 on page 394 of the Original Prospectus shall be replaced by the following paragraph:**

"Any document incorporated by reference (i.e. the Annual Reports of HYPO NOE for the financial years 2017 and 2016 and the Unaudited Semi-Annual Financial Report 2018, respectively, as specified in the tables above under "*Documents Incorporated by Reference*") into this Prospectus will be available for inspection at the specified office of the Issuer and the Fiscal Agent, during normal business hours, as long as any of the Notes are outstanding and on the website of the Luxembourg Stock Exchange under "[www.bourse.lu](http://www.bourse.lu)".

**12. In the section "DOCUMENTS INCORPORATED BY REFERENCE" commencing on page 394 of the Original Prospectus, after the table regarding the Audited Consolidated Financial Information for the Year 2017 on page 395 of the Original Prospectus the following table shall be added:**

**"Unaudited Consolidated Financial Information for the First Half Year 2018 – Unaudited Semi-Annual Financial Report 2018 - (IFRS) (non-binding English language version)**

Consolidated Statement of Comprehensive Income	22-23
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## **RESPONSIBILITY STATEMENT**

HYPO NOE Landesbank für Niederösterreich und Wien AG, with its registered office at 3100 St. Pölten, Hypogasse 1, Austria, is solely responsible for the information given in this Supplement No. 1. The Issuer hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Supplement No. 1 for which it is responsible is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

St. Pölten, 24 August 2018

**HYPO NOE Landesbank für Niederösterreich und Wien AG**





**HYPO NOE**

# **SEMI-ANNUAL FINANCIAL REPORT 2018**

**130 YEARS  
LANDESBANK  
1888-2018**







# Group FINANCIAL HIGHLIGHTS

EUR '000	IFRS 9 30 Jun. 2018	IAS 39 30 Jun. 2017	IAS 39 31 Dec. 2017
<b>Total assets</b>	<b>13,908,482</b>	<b>15,909,013</b>	<b>14,368,013</b>
<b>Total eligible capital in accordance with CRR/CRD IV</b>	<b>613,353</b>	<b>622,446</b>	<b>646,015</b>
Tier 1 capital ratio in accordance with Art. 92(2) point b) CRR	19.03% <sup>1</sup>	17.28%	19.89%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR - fully loaded	19.03% <sup>1</sup>	17.51%	20.17%
Total capital ratio in accordance with Art. 92(2) point (c) CRR	19.03% <sup>1</sup>	17.54%	19.89%
Total capital ratio in accordance with Art. 92(2)(c) CRR - fully loaded	19.03% <sup>1</sup>	17.77%	20.17%
Return on equity (ROE) before tax	7.9%	3.5%	6.2%
Operating ROE before tax	12.0%	8.2%	8.6%
ROE after tax	6.1%	2.8%	4.7%
Cost/income ratio (CIR)	78.0% <sup>2</sup>	87.7%	78.5%
Operating CIR	61.1%	67.7%	67.1%

The intrayear indicators are annualised on a daily basis.

<sup>1</sup> The Tier 1 capital ratio in accordance with Article 92(2) point (b) CRR and the total capital ratio in accordance with Art. 92(2) point (c) CRR as at the end of the reporting period were identical with the fully loaded ratios.

<sup>2</sup> CIR as at 30 June 2018 includes the entire cost of the special financial stability contribution, and the contributions to the deposit insurance and resolution funds, in 2018. Pro forma, on an accruals basis CIR would have been 73.4%.

## Current rating

Standard & Poor's: 'A/A-1' (positive) issuer credit rating

# Foreword by the **MANAGEMENT BOARD**

Dear reader,

We continued to pursue our successful strategy in the first half of 2018. Although the operating environment for banks remained testing, the HYPO NOE Group generated solid profit for the period attributable to owners of the parent of EUR 20.0m (H1 2017: EUR 8.6m). The statutory contributions to the resolution and deposit insurance funds and the Austrian stability contribution, totalling EUR 13.5m for the full year, were recognised in full in the first six months of the year.

Thanks to our clear positioning and sustainable business policies, we posted steady core operating earnings during the period under review. In spite of record-low interest rates, net interest income was virtually unchanged year on year, at EUR 56.0m (H1 2017: EUR 56.2m). Net fee and commission income rose slightly, reflecting initiatives launched with a view to expanding the service business.

Our efforts to boost efficiency are bearing fruit: there was a marked decrease in administrative expenses, by 5.2% to EUR 63.9m, in the first half. Synergy effects from the merger completed last autumn also supported this development. The Group is systematically implementing the “2020 Fit for Future” internal efficiency programme, which includes targeted investment in the Bank’s digital infrastructure.

HYPO NOE has remained true to its low-risk business model since 1888, in line with its philosophy as a secure state-owned bank with regional roots. This is underscored by the high quality of our loan portfolio – the proportion of non-performing loans (NPLs) was only 1.8% as at 30 June 2018. Strict intensive care management again formed the basis for high net gains on credit provisions, which reached EUR 8.5m in the first half. New business increased by around EUR 600m during the reporting period, while risk-weighted assets (credit risk) rose only slightly, to EUR 2.8bn as at 30 June 2018. In relation to total assets, which amounted to EUR 13.9bn, the rate is very low compared to other Austrian banks.

We performed well in terms of customer deposits, which have almost doubled since 2013, reaching EUR 4.2bn in the first half of this year; this has also enabled us to significantly broaden our funding mix. The successful flotation of a EUR 500m senior unsecured benchmark bond in April 2018 – which enabled the Group to further expand its solid base of domestic and international investors – showed once more that the Bank’s good reputation forms the basis for effective refinancing operations.

Outstanding capital adequacy is another key pillar of our strategy. This enables us to capitalise selectively on business opportunities consonant with the Bank’s low risk profile, and to promptly meet all new regulatory requirements. As at 30 June 2018, the HYPO NOE Group’s Tier 1 capital ratio (CET1) ratio was a robust 19% (31 Dec. 2017: 19.9%), in spite of the first-time application of IFRS 9. In light of this exceptional capital position and the Group’s concerted capital generation activities, in May 2018 Standard & Poor’s upgraded the outlook on HYPO NOE Landesbank’s solid ‘A/A-1’ ratings to positive.

The HYPO NOE Group again won plaudits for its efforts to improve sustainability. The bank for Lower Austria remains among the best in the sector thanks to a Prime rating from leading sustainability rating agency oekom research, and confirmation of the sound bond ratings by imug.

At the 12th Recommender Gala staged in May 2018 by the Austrian Financial Marketing Association (FMVÖ), HYPO NOE Landesbank won the accolade as the year’s ‘rising star’, following a 52.5% jump in customer satisfaction. This confirms that the Group is heading in the right direction with the transformation of its retail operations – more time for personal advice in parallel with the expansion of online and mobile banking services – and that these moves have been very well received by our customers.

## Outlook for the second half of 2018

In upcoming reporting periods, the focus will be on optimising cost efficiency and the balance sheet structure. Another key aim is to increase the granularity of the portfolio in the public sector business. Other clearly defined focuses include the strategic thrusts of profitability, capitalisation and asset quality. In this regard, the HYPO NOE Group can build on foundations of stable and dependable ownership by its sole shareholder, the State of Lower Austria.

After ten successful years at the helm of HYPO NOE Landesbank, Peter Harold will step down as CEO on 30 November 2018. The Management Board will be reduced from three to two members and from 1 December 2018 will comprise Wolfgang Viehauser (Spokesman of the Management Board and Market Board Member) and Udo Birkner (Chief Financial and Chief Risk Officer). This will ensure continuity and further adherence to the Group's successful strategy, based on a regional focus, closeness to customers and sustainability.



**Peter Harold**  
Chairman of the Management Board



**Udo Birkner**  
Member of the Management Board



**Wolfgang Viehauser**  
Member of the Management Board





# **SEMI-ANNUAL OPERATIONAL AND FINANCIAL REVIEW**

FOR THE SIX MONTHS  
TO 30 JUNE 2018

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# Economic climate

## Global economic and financial market trends

As expected, the global economy prospered in the first half of 2018. The fiscal stimulus from the tax reform adopted towards the end of 2017 provided additional impetus for growth in the US economy. The emerging labour shortage in the USA gave a lift to wages and prompted the Federal Reserve to raise interest rates twice. The performance of the eurozone economy was somewhat more subdued. Following quarter-on-quarter growth of only 0.4%, softening leading indicators signalled that there is no prospect of a significant pick-up in activity later this year. Growth in the eurozone appears to have passed its peak at the turn of 2017/2018. Nevertheless, unemployment continued to decline, reaching its lowest point since the end of 2008 in May, at 8.5%.

Inflation was moderate for much of the first half. Not until May did higher commodity prices and a lower euro exchange rate make themselves felt, with the overall inflation rate accelerating towards 2.0%, albeit partly reflecting statistical base effects. However, the core inflation rate, excluding the volatile commodity and food index components, limped along at around 1%. In June, the European Central Bank (ECB) decided to end its asset purchase programme by the end of 2018, but an increase in interest rates appears to be largely ruled out before the summer of 2019.

During the first half of 2018, political events dominated the headlines. The duties imposed by the USA on steel and aluminium imports at the start of the year raised the prospect of a trade war with China and the European Union. In the eurozone, increased volatility on the bond markets accompanied the coalition talks in Italy. While the risk premiums on Italian government bonds briefly hit post-2013 highs, the yield on German bunds slumped to its lowest level since April 2017 due to their function as a “safe haven”.

After an exceptionally bright start to the year, with strong price gains, the mood on the equity markets darkened in February. Despite largely supportive economic and company data, political developments rattled investors and spread caution. The US market has been an exception to the rule. The flourishing economy and swelling corporate profits as a result of the tax cuts have shielded US equities from the mildly negative trend on world stock markets, while record buyback programmes have also helped stabilise shares. The international fixed income markets also experienced wide swings because of political events. While economic optimism and rising oil prices fuelled inflation worries at the start of the year, driving yields to their high for the year to date, from March on risk factors – particularly the US import duties, but also the messages being sent by the new Italian government – increasingly came to the fore. These are weighing on both emerging-market sovereign debt and corporate junk bonds, and a general trend towards climbing risk premiums and falling prices has set in. In general, investors in search of returns faced a testing environment during the first half of 2018.

# Economic trends in the HYPO NOE Group's core markets

## AUSTRIA

The Austrian economy is in the second year of an economic boom that has so far been supported by all the components of growth, with exports leading the way. Real economic growth ran at 3.1% in 2017, and at 1.6% in the first half of 2018. The growth in gross fixed capital formation (replacement and expansion investment) peaked at 4.9% in 2017, and fell back slightly in the first half of 2018. Employment rose by 0.6% in the first quarter of 2018. As a result, the unemployment rate as reported by Eurostat was low compared to that of other countries, standing at 5.0% in March 2018.

The upbeat mood matched the European Commission's business confidence indicators: those for the services, construction and industrial sectors, and consumer confidence all reached ten-year highs in the first half of 2018. This robust sentiment was reflected in a marked increase in lending. In April 2018, loans to households jumped by 3.4% year on year, and those to corporate customers by 6.2%. Both figures were well ahead of the eurozone averages of 2.9% and 3.3% respectively. Within the household lending category, a salient development was a 4.5% rise in housing construction finance in March 2018.

Due to the positive economic situation and a sharp reduction in interest payments, the government debt ratio decreased again, to stand at 78.4% at year-end 2017, and the budget deficit dropped to 0.7%.

## FEDERAL STATES

The pace of growth in all of Austria's federal states has picked up thanks to the current favourable economic conditions. In 2017, the average annual growth rate across the regions doubled to 3.0%.

The impetus from export demand, which mainly affected states with large industrial sectors - Upper Austria, Styria and Vorarlberg - was strongly reinforced in 2017. However, thanks to the strength of private consumption, the economies of states with dominant service sectors also expanded. Lower Austria recorded a growth rate of 2.9%, ahead of Vienna at 2.6%. Lower Austria was the state with the highest export growth in 2017, at 9.1%. Manufacturing output surged by 8.0% to EUR 9.6bn, while industrial employment climbed by 4.6%.

Lower Austria and Vienna - the HYPO NOE Group's core markets - remain the Austrian states with the highest forecast population growth, and still boast the highest average gross income among employed persons. Lower Austria held on to its clear lead in terms of per capita purchasing power, ahead of Vienna and Salzburg. Lower Austria and Vienna remain the states with the highest shares of national GDP, at 16.0% and 26.0% respectively.

## DANUBE REGION

According to Eurostat, in the first quarter of 2018 the HYPO NOE Group's extended core market - the Danube region - again exceeded the average growth performance of the EU-28. Only Germany came in lower. Poland registered the strongest quarter-on-quarter growth at 1.6%, followed by Hungary at 1.2%. Growth in Bulgaria and Slovakia was also well above the EU-28 average in the first quarter of 2018, at 0.9%, while Slovenia's economy expanded by 0.6%. The Czech Republic's first-quarter growth performance equalled the average for the EU-28, at 0.4%. Bringing up the rear was Romania, with zero growth in the first quarter.

The largest contributor to growth in 2017 was private consumption, with average growth of 5.2% - a new record. So far, with the exception of Romania, the public sector has held back on investment, mainly as a result of a hesitant start to the new EU investment plan.

## Banking sector trends in the eurozone and CEE

During the spring of 2018, the European Banking Authority (EBA) published the latest update of its “Risk Dashboard”. This quarterly assessment of the European banking sector is based on a sample made up of the largest banks in the EU and representing about 80% of its banking sector by total assets. The key topics of the report were the trends with regard to capitalisation, asset quality, profitability and refinancing.

EU banks' overall capital ratios continued to improve. The fully phased-in Common Equity Tier 1 (CET1) ratio was up by 20 basis points quarter on quarter at 14.8%, while fully loaded CET1 increased by 30 bps to 14.6%. The Tier 1 capital ratio gained 20 bps to 16.2%, and the total capital ratio advanced by 10 bps to 19.0%. These positive trends were largely driven by a decrease in the credit risk exposures. The EBA highlighted the continued improvement in the quality of loan portfolios. The average ratio of non-performing loans (NPLs) to total loans shrank to 4.0% – its lowest level since the end of 2014. In the EBA's opinion, profitability remains a key challenge, especially for institutions that are heavily dependent on the net interest margin, because of the low interest rate environment. The refinancing and liquidity situations brightened. The loan-to-deposit ratio diminished further, to 116.7%, due to an increase in customer deposits.

Last year, the EBA unveiled its methodology and templates for the 2018 EU-wide stress test. The objective of the stress test is to provide supervisors, banks and other market participants with a common analytical framework to consistently compare and assess the resilience of EU banks. Besides all the relevant risk areas, for the first time the methodology incorporates IFRS 9 accounting standards.

In April 2018, the Oesterreichische Nationalbank (OeNB) published its latest report on the consolidated net profits of Austrian banks. In the past, earnings have often been impacted by exceptional effects, but in 2017 profits were generally unaffected by such factors. Austrian banks are profiting from the favourable economic environment, and enjoying historically low credit provisions and increased profitability. Their capital adequacy has improved significantly since the outbreak of the 2008 financial crisis. The CET1 ratio of 15.1% at the end of 2017 was close to the EU average. Loan quality was boosted by the buoyant economy. Both the consolidated NPL ratio and the ratio for domestic business fell further, to 3.8% and 2.8% respectively. The action on foreign-currency loans taken by the Austrian banking supervisor continued to have a positive effect, as shown by the 68% decline in such lending since 2008.

The banking sector in the Danube region is performing solidly, and has stabilised. Positive trends in new lending are apparent, particularly in the Czech Republic, Romania and Slovakia. The burgeoning economic environment has been reflected in a significant improvement in loan quality. A large part of the stock of non-performing loans has been worked off in recent years, and the consolidated NPL ratio in the CEE region is well under 10%. The steady rise in deposits has resulted in a comfortable loan-to-deposit ratio of well below 100%. In terms of profitability, CEE banks are outperforming their West European competitors. While the return on equity in the eurozone banking sector is hovering around the 5-6% mark, the average for Danube region banks is about 10%. They are also making progress with digitalising their business models.

# Financial review

## Key developments in the first half of 2018

### EARNINGS (IFRS)

Group profit attributable to owners of the parent was up significantly year on year, at EUR 20.0m (H1 2017: EUR 8.6m). This does not include non-accruable, one-off expenses (EUR 13.5m) and gains on disposal of consolidated subsidiaries relating to the sale of a real estate project company (EUR 8.3m).

Net interest income was EUR 56.0m – down EUR 0.2m year on year (H1 2017: EUR 56.2m).

The risk provisions for “hold to collect” assets, calculated for the first time according to the new measurement methods under IFRS 9, which entered into effect on 1 January 2018, yielded higher net gains, at EUR 8.5m, than the figure arrived at in the comparative period under IAS 39 (H1 2017: EUR 1.7m). The Group recorded losses of EUR 0.7m on derecognition of financial assets previously accounted for at cost.

Net interest income after risk provisions was EUR 63.8m, for a year-on-year increase of EUR 5.9m or 10.3% on the EUR 57.9m reported in the first six months of 2017.

Net fee and commission income went up by EUR 0.3m to EUR 7.7m.

Net trading income, which under IFRS 9 – in contrast to IAS 39 – includes net gains or losses on all financial instruments mandatorily measured at fair value (net loss of EUR 2.8m), was negative by EUR 2.7m (H1 2017: net gain of EUR 1.7m).

Administrative expenses fell by 5.2% or EUR 3.5m compared to the like period of 2017, to EUR 63.9m (H1 2017: EUR 67.4m). This decline was due to staff costs (down EUR 0.7m) and to other administrative expenses (down EUR 2.9m). The total financial stability contribution, including the current levy, was EUR 7.4m (H1 2017: EUR 8.2m). Administrative expenses also include the statutory contributions to the deposit insurance and resolution funds, amounting to EUR 7.4m (H1 2017: EUR 8.4m). It should be noted that this will not impose any additional burden on the next two quarters' earnings.

Net other operating income stood at EUR 12.1m (H1 2017: EUR 14.5m). This decline was mainly due to lower net gains on currency translation, and to one-off expenses related to a project implemented during the reporting period.

Net gains on disposal of consolidated subsidiaries include a substantial one-off gain attributable to a share deal involving a property near the centre of Vienna, which reflected a change in the Bank's branch concept.

Net gains on investments accounted for using the equity method amounted to EUR 1.2m (H1 2017: net gains of EUR 2.3m), primarily as a result of an increase in value in use at the EWU non-profit subgroup, as well as gains from the valuation of a property management company and a data services company.

The net gains on financial assets of EUR 1.3m (H1 2017: net losses of EUR 0.5m) mainly arose from sales of securities.

The net losses on hedges of EUR 2.0m (H1 2017: EUR 4.7m) were largely attributable to the different discount rates applied to hedges and the related underlying transactions, as well as early repayments.

Operating income was EUR 81.9m – up by EUR 5.0m (H1 2017: EUR 76.9m). This was mainly due to one-time gains on deconsolidation during the reporting period (EUR 8.3m), as well as net losses of EUR 2.8m on financial instruments mandatorily measured at fair value in accordance with IFRS 9, which were recognised for the first time in 2018.

In sum, these changes led to a profit before tax of EUR 25.8m, compared to EUR 11.2m in the first half of 2017. This was reflected in the following financial performance indicators:

		Q2 2018	Q2 2017	2017	2016
Return on equity (ROE) before tax**	Profit or loss for the period before tax/ave. equity	7.9%	3.5%	6.2%	15.2%
Operating ROE before tax**	ROE before tax excl. financial stability and resolution fund contributions, and regulatory costs/ave. equity adjusted for financial stability and resolution fund contributions, and regulatory costs	12.0%	8.2%	8.6%	18.5%
ROE after tax**	Profit or loss for the period/ave. equity	6.1%	2.8%	4.7%	11.4%
Cost/income ratio (CIR) <sup>1</sup>	Operating expenses/operating income*	78.0%	87.7%	78.5%	56.0%
Operating CIR	CIR excl. financial stability and resolution fund contributions, and regulatory costs	61.1%	67.7%	67.1%	46.3%
Risk/earnings ratio	Credit provisions/net interest income A negative indicator signifies income and a positive indicator signifies expenses in credit provisions	-15.2%	-3.0%	-8.3%	6.3%

\*Operating expenses include administrative expenses. These comprise staff costs, other administrative expenses and depreciation, amortisation and impairment. Operating income comprises net interest income, net fee and commission income, net trading income, net other operating income, net gains or losses on investments accounted for using the equity method, net gains or losses on financial assets, net gains or losses on hedges and net gains or losses on other financial investments

\*\*Intrayear indicators annualised on a daily basis. 1CIR as at 30 June 2018 includes the entire costs of the annual financial stability contribution, as well as contributions to the deposit insurance fund and resolution fund for 2018. Pro forma, on an accruals basis CIR would have been 73.4%.

## Changes in total assets and consolidated equity (IFRS)

The HYPO NOE Group's total assets fell by around EUR 0.5bn or 3.3% compared with year-end 2017 (in accordance with IAS 39), to EUR 13.9bn as at 30 June 2018 (in accordance with IFRS 9). This included a reduction of EUR 0.3bn in cash reserves, a EUR 0.8bn increase in loans and advances to customers, and a fall of EUR 0.2bn in other assets, which was mainly attributable to future finance lease assets (down EUR 0.2bn), which have been reported under loans and advances to customers since 1 January 2018. Loans and securities mandatorily measured at fair value for the first time in accordance with IFRS 9 totalled EUR 0.2bn.

On the equity and liabilities side, deposits from customers were up by EUR 0.2bn, while deposits from banks decreased by EUR 0.4bn, and debts evidenced by certificates by EUR 0.1bn.

As at 30 June 2018, IFRS consolidated equity including non-controlling interests was EUR 648.5m - down by only EUR 27.9m on year-end 2017, in spite of mandatory application of the new classification and measurement treatment of financial assets under IFRS 9, which had to be reported as opening balance entries (EUR 39.9m), and despite the decrease in reserves for assets measured at fair value through other comprehensive income (FVTOCI), and EUR 3.5m in dividend payments including minority interests in 2018.

## CHANGES IN CONSOLIDATED ELIGIBLE CAPITAL (CRR/CRD IV<sup>1</sup>)

Regulation (EU) No 575/2013 (CRR), which came into effect on 1 January 2014, requires the calculation of figures for consolidated equity and the consolidated regulatory capital adequacy requirements in accordance with IFRS and with the regulatory scope of consolidation.

Consolidated eligible capital in accordance with the CRR was EUR 613.4m as at 30 June 2018 (31 Dec. 2017: EUR 646.0m). The own funds surplus as at 30 June 2018 was EUR 355.5m (31 Dec. 2017: EUR 386.2m), compared with an own funds requirement of EUR 257.9m (31 Dec. 2017: EUR 259.9m). The Tier 1 capital ratio in accordance with Article 92(2) point (b) CRR and the total capital ratio in accordance with Article 92(2) point (c) CRR were 19.0% as at 30 June 2018 (31 Dec. 2017: both ratios 19.9%), and were identical with the fully loaded ratios (31 Dec. 2017: both fully loaded ratios 20.2%).

<sup>1</sup> CRD IV: Capital Requirements Directive IV; CRR: Capital Requirements Regulation



# Operational review

This report on the HYPO NOE Group was prepared by the Group's parent, HYPO NOE Landesbank für Niederösterreich und Wien AG (HYPO NOE Landesbank), Austria's oldest and one of the country's largest state-owned regional banks. Founded in 1888, it has a long tradition in the banking and financial services sector. HYPO NOE Landesbank is wholly owned by the State of Lower Austria, meaning that it rests on foundations of stable and dependable ownership. Based on a regional focus, closeness to customers and sustainability, HYPO NOE Landesbank's strategy has stood the test of time and the Bank remains strongly committed to it.

The HYPO NOE Group is principally active in its core market of Lower Austria and Vienna, one of Austria's most dynamic regions, as well as in selected countries in the neighbouring Danube region. The Group's aspiration and mission is to act as a secure and reliable partner to its public sector and real estate clients, large corporates, and retail and corporate customers. Infrastructure, real estate, corporate, project and structured finance are central to its business model, as is lending to retail customers, the region's small and medium-sized enterprises, and commercial and non-profit housing developers. The Group has 26 branches in Lower Austria and Vienna, serving 80,000 customers.

In May 2018, rating agency Standard & Poor's reaffirmed its solid 'A/A-1' ratings for HYPO NOE Landesbank, and upgraded its outlook to positive in view of the sustained increase in the Bank's capital. This could potentially open the door to an upgrade in HYPO NOE Landesbank's issuer credit rating, if the Bank maintains its focus on higher cost efficiency and capital generation. Moody's high 'Aa1' ratings on HYPO NOE Landesbank's public sector and mortgage cover pools have also remained unchanged. With regard to sustainability, the bank for Lower Austria is among the leaders in the sector. An excellent rating with Prime status from oekom research is testimony to HYPO NOE Landesbank's outstanding commitment to environmental and social affairs.

## Public Sector

### Public Finance

The Public Finance unit offers financing solutions to local and regional authorities, public agencies and infrastructure businesses. In the first half of 2018 it focused on operations in Austria's eastern federal states (Lower Austria, Vienna, Upper Austria, Styria and Burgenland) and on growing its business with enterprises linked to the federal and state governments. In line with the Bank's Danube region strategy, public finance solutions were directly marketed to national, regional and metropolitan authorities across the Danube region on a highly selective basis. Public Finance has gone from strength to strength as a provider of expertise and services, and works with other parts of the Group to create integrated, sustainable financing solutions for customers.

Funding extended to public authorities in the first half of 2018 mainly related to investments in education, administrative facilities, and water supply and wastewater infrastructure.

Close customer relationships and the provision of high-quality advice are essential in today's market environment, so the Group attaches great importance to in-service training for its customer relationship managers, carried out in cooperation with partners such as the Lower Austria Community Management Academy and Danube University Krems. In this regard, Group employees gave a presentation as part of the Lower Austrian mayors' day event, and an information event on current local government finance issues is due to be staged in collaboration with the Community Management Academy in November 2018.

Within Public Finance, HYPO NOE Leasing GmbH and its project companies look after the leasing business with the public sector, in particular the Lower Austrian state government and public agencies. Its core competency is complex lease agreements connected with real estate projects. It also offers business management and real estate project management services.

Against the backdrop of changing financing requirements among state governments and local authorities, demand is increasing for special financing models for public sector construction projects, such as operating leases in the meaning of the European system of accounts (ESA) and public-private partnership solutions. In response to increased market demand, HYPO NOE Leasing GmbH has intensified its focus on developing such products. The company will continue to systematically pursue this strategy, and such forms of financing will become a key line of business in the medium term.



A number of projects in the education and health sectors were successfully implemented under the leadership of HYPO NOE Leasing GmbH during the reporting period. Performance in the first six months of 2018 was encouraging in terms of both earnings and the value of contracts concluded. This was supported by development of the company's product portfolio.

### Religious Communities, Interest Groups and Agriculture

Finance for social facilities and emergency services dominated activity in Religious Communities, Interest Groups and Agriculture (KIA) in the reporting period. KIA acquired and financed construction projects undertaken by religious communities and church-related customer groups in the greater Vienna area, Lower Austria and, selectively, in other federal states. These projects are scheduled for completion and opening over the next few years.

KIA continued its support for numerous church and social initiatives and projects. Noteworthy projects included the major renovation of Sonntagberg basilica – an iconic landmark in Lower Austria's Mostviertel region – and contributions to campaigns and events organised by other religious agencies.

KIA's product portfolio includes finance for the renovation and revitalisation of churches and church buildings, as well as for social and public infrastructure owned by religious institutions, such as care and social centres and educational, health and tourism facilities. There is also an emphasis on finance for agriculture businesses and farms in the region. Investment products – in the shape of cover pools and time deposits – complete the specialised product range.

Despite extremely low interest rates, deposits in the money market business remained high during the period under review. HYPO NOE Landesbank's consistently strong credit rating, which was further enhanced by Standard & Poor's decision to upgrade its outlook to positive, played a significant part in this.

### Public Loan Management

The Lower Austrian government has mandated HYPO NOE Landesbank to handle the administration of state-subsidised home-building loans, and the Bank fields queries from recipients regarding account management, account balances and repayments. The Bank provides cheap and efficient loan management services to Lower Austrian owner-builders and the province's numerous housing cooperatives, which are also entitled to apply for such loans. Besides its loan management function, HYPO NOE Landesbank handles accounting for many Lower Austrian state government grants, such as those to schools and kindergartens.

The number of loans handled on behalf of the Lower Austrian state government is constantly growing. HYPO NOE Landesbank has over 321,000 direct loans, totalling about EUR 6.4bn, under management for the state government. Subsidised home loans account for the lion's share of this total, at some EUR 6.1bn.

HYPO NOE Landesbank assists the Lower Austrian state government with the technical and organisational implementation and the fine-tuning of the large-scale home loan subsidy scheme, which provides funding in the form of guaranteed loans. The Bank also acts as a point of contact for questions regarding administrative matters from the various banks involved in disbursements. By mid-2018, 14 tranches of Lower Austria's new high-volume home loan scheme had been processed in nine tendering rounds.

## Real Estate & Large Corporates

### Real Estate Finance

As a specialist in finance for real estate and real estate projects, Real Estate Finance's key strengths lie in the wide range of products it offers, its ability to structure bespoke finance solutions and the expertise of its staff.

In the first half of 2018 the unit continued to focus on its defined target markets, in particular Austria, the Czech Republic, Germany, Poland, Romania and Slovakia. Lending limits and conditions in Germany and other target markets are monitored closely, and financing projects are only implemented on terms that are in line with the HYPO NOE Group's business policies. Maintaining a balanced risk profile across the whole portfolio is essential to the selective expansion of the unit's activities.

Low interest rates and record low returns on alternative investments have led to sharp increases in demand across most real estate categories, especially city centre rental apartment buildings. Central Europe's commercial and residential property markets are still among the most attractive in the world for foreign investors. Real Estate Finance pays particular attention to earnings potential and achieving an adequate risk-return ratio, and selectively acquires new customers among institutional investors, funds and property developers.

Real Estate Finance's business model is based on financing for the office, shopping centre, retail park, housing, logistics and city hotel asset classes. Portfolios of mixed-use properties in various locations, with a wide range of tenants, also serve to significantly diversify risk. With regard to risk allocation in connection with individual properties, there is still a particular emphasis on assessing location, suitability for disposal to third parties or reletting, and the experience of customers and partners. In 2018, operations have again centred on the Austrian and German markets, as well as on neighbouring EU member states. Real Estate Finance is keeping a close watch on current macroeconomic developments and regional property market trends in its target markets outside Austria.

## Housing Development

As a specialist for commercial and cooperative housing construction, the Housing Development unit provides a wide range of products and flexible finance solutions. Other key areas are investments and payment transactions.

Operations in the reporting period focused again on the core markets of Lower Austria and Vienna, although the non-profit housing association segment also continued its pursuit of selective expansion into Upper Austria and Styria. There is increasing demand for owner-occupied apartments – especially due to population growth – particularly in urban areas. Vienna's population is growing faster than that of any other federal state in Austria, while Lower Austria is around mid-table.

The availability of needs-based, affordable housing is a key priority of Lower Austria's housing construction and subsidies policy. Housing Development will continue to support this policy in the future by providing tailored financing solutions.

The volume of financing relating to commercial housing construction increased year on year in the first half of 2018. The unit maintained a strong focus on optimising earnings potential and achieving a balanced risk-return ratio. The level of finance provided to non-profit housing associations grew significantly during the period under review.

## Corporate & Structured Finance

This unit provides corporate finance and structured finance solutions to the Group's large corporates. As well as project finance, it offers structured finance solutions for specialised corporate situations, such as acquisitions, leveraged buyouts and business succession. The focus is on further strengthening customer relationships. The unit aims to participate in club deals or loan syndicates for major transactions. Its overriding objective is to be an expert, long-term partner to leading Lower Austrian businesses.

There has been a noticeable rise in activity in Corporate & Structured Finance's core market in the past few months, while excess liquidity persists among banks and this has increased the pressure on margins, especially in conventional corporate finance. Consequently, in the first six months of 2018 Corporate & Structured Finance maintained its focus on implementing complex bespoke finance solutions, and deepening existing customer relationships.

Thanks to its consistent business policies, the unit recorded further successes in supporting German businesses entering the Austria market. In view of the HYPO NOE Group's solid liquidity position, the focus in the time deposits business is on boosting earnings. In this connection, customers value the Group's strong credit rating, reliable ownership and long-term perspective.

## Retail and Corporate Customers

The HYPO NOE Group's branches provide outstanding service to retail, self-employed and corporate customers in the Group's core market of Lower Austria and Vienna.

The segment has defined "finance and housing", "saving and investment" and "accounts and cards" as its core competences. In spite of strict regulatory requirements, the Group performed well in savings and investments. This was courtesy of a concentrated and attractive product portfolio, as well as advice on both savings and investment from HYPO NOE Landesbank's securities experts.

In view of rising property prices and the resulting financial burden when taking out a housing construction loan, customers are offered long-term interest rate hedging products or fixed-interest financing, so that they can lock in low interest rates over the long term. Close cooperation with the State of Lower Austria enables the Group to offer end-to-end support on loans and subsidies, ensuring informed advice and efficient processing.

The Group constantly analyses and fine-tunes its branch network, online services and product range in response to changing customer behaviour. Internal processes are also adapted, enabling customers to benefit from streamlined, made-to-

measure solutions. A new account package, which includes comprehensive account protection and insurance for newly purchased goods, was launched in May 2018.

Corporate customers in Lower Austria and Vienna are served by competence centres in St. Pölten and Vienna. Business customer advisors have also been available in the Bank's larger branches since 2017, further expanding face-to-face service. Advice can also be provided to selected companies in other federal states.

Corporate business grew steadily in the first half of 2018, with new business well in excess of EUR 100m, which reflects successful implementation of the unit's growth strategy. HYPO NOE Landesbank was once again a driver of the Lower Austrian and Viennese economy. In the second half, the Bank intends to increase export and foreign trade financing for corporate customers. To this end, the partnership with Oesterreichische Kontrollbank (OeKB) will be intensified. Another objective is to increasingly support companies' investment activities and - with interest rates still low - offer tailored securities solutions.

As a result of the strategic realignment of HYPO NOE Versicherungsservice GmbH (HVS), corporate customers will have access to experts on all aspects of company insurance, in particular pension schemes.

## Treasury & ALM

### Treasury and Funding

Issuance activity was lively on the international capital markets in the opening few months of the reporting period in particular. HYPO NOE Landesbank took advantage of the window following publication of its 2017 results and its Europe-wide series of roadshows to prepare the issue of unsecured bonds.

The Bank extended its impressive track record among institutional investors with a benchmark, EUR 500m paper with a maturity of 5.5 years. The bond was oversubscribed by EUR 150m (excluding orders from the joint lead managers) and the order book comprised 119 investors. This enabled a substantial downward adjustment in the spread, with the result that the bond performed well on the secondary market.

Deposits from institutional investors remained high. HYPO NOE Landesbank has continually expanded its refinancing base in recent years. It makes use of standard repo transactions and ECB tenders, as well as drawing its liquidity from the conventional capital market and deposits business. The Bank also obtains refinancing from development banks such as the European Investment Bank (EIB) and Kreditanstalt für Wiederaufbau (KfW).

### Nostro

The Group purchased selected, newly issued government bonds and covered bonds with attractive spreads in the course of its active management of the liquidity portfolio. The average volume-weighted rating of the purchased securities was equivalent to 'AA'.

### ALM

The objective of Asset Liability Management (ALM) is to centrally manage the Bank's interest position, based on interest rate expectations and the appetite for risk, in order to safeguard the Bank's success and achieve positive structural contributions. Earnings are stabilised by means of long-term, rolling equity investments.

### Institutional Customers

Close cooperation with institutional customers is central to HYPO NOE Landesbank's business model. The Bank nurtures these long-established, trust-based partnerships on an ongoing basis by actively servicing its direct customer relationships with other banks, insurance companies, pension funds, utilities and investment companies. The resulting focus is on relations with European partners, although in recent years there has been growing interest from investors in certain countries outside Europe.

### Investor Relations

Ensuring prompt, comprehensive and transparent financial market communications is a leading priority for HYPO NOE Landesbank. Investors and analysts are regularly informed of the Bank's performance and the latest events. This commu-

nication takes place face-to-face as well as by means of extensive online resources (<https://www.hyponoe.at/en/ihre-hyponoe/investor-relations>).

Preparations for the successful issue of the EUR 500m benchmark bond shaped activities in the first half of 2018. The Bank gave investors the opportunity to obtain information directly at a number of roadshows held across Europe. International investors and analysts were also invited to take part in an earnings call on publication of the 2017 results. At an investor breakfast held in Vienna, financial market partners from Austria and abroad took the opportunity to talk directly with the members of HYPO NOE Landesbank's Management Board.

Periodic and ad hoc publications are posted in the investor relations section of the HYPO NOE website. These include the regular consolidated reports as well as presentations and factsheets for investors, information on the current lending, covered bond and sustainability ratings, and HYPO NOE Landesbank's issuance activities. In addition, the investor relations newsletter keeps subscribers up-to-date on current events.

## Real Estate Services

HYPO NOE Immobilien Beteiligungsholding GmbH, which comprises operating companies HYPO NOE Real Consult GmbH and HYPO NOE First Facility GmbH, has overall responsibility for the HYPO NOE Group's real estate business. These companies operate under a single brand, HYPO NOE Immobilien. In line with the primary goal of providing a one-stop shop for the entire real estate management value chain, the holding company manages facility and property management, real estate sales and brokerage services, cross-selling functions, and project development and management.

HYPO NOE's real estate businesses maintained their focus on quality management and compliance in the first six months of 2018. All three companies are certified in accordance with the ISO 50001:2011 Energy management, ISO 37001:2016 Anti-bribery management systems, and ISO 19600:2014 Compliance management systems standards. One of the first facility management services companies in Austria, HYPO NOE First Facility GmbH has obtained the German Facility Management Association's highest certification for integrated process responsibility for facility management (GEFMA 730 ipv® FM Excellence). The company also has ISO 9001:2015 Quality management systems and ISO 14001:2015 Environmental management systems certification. The market situation in the CEE countries remained largely unchanged in the period under review. Fierce price competition is accelerating the consolidation process in asset, property and facility management. With this in mind, steps were taken to reorganise the businesses in the reporting period, with a view to increasing their competitiveness and bolstering their market position. The second half will see a critical assessment of all of the options for a revised participation structure.

## Corporate Center

Commercial activities that are not allocated to other segments are included in the Corporate Center, which also reports consolidation effects from intra-group transactions, where these cannot be recognised in other segments.

### Participations

HYPO NOE Landesbank holds investments that support its strategy. The Bank only enters into and retains such investments if they are compatible with the Group's primary business objectives.

In its capacity as a shareholder representative, the Bank promotes, guides and assists investees' strategic business development. The Bank constantly strives to maintain a clear overview of the equity investment portfolio in terms of risk management, financial control and governance.

Details can be found in Note 2. Changes in the scope of consolidation as at 30 June 2018. The interim financial statements do not contain all of the information required for full annual financial statements, and should therefore be read in conjunction with the consolidated annual financial statements as at 31 December 2017.

### Foreign branches, representative offices and branches

The HYPO NOE Group had no foreign branches in the first half of 2018, but operated representative offices in Bucharest, Budapest, Prague and Sofia.

The Group has operated a branch at Wipplingerstrasse 4, 1010 Vienna since 2008.

As at 30 June 2018, the HYPO NOE Group had 26 branches in Lower Austria and Vienna.

# Risk report

The objectives and methods of risk management and the explanations of material risks form part of the notes (see Note 6.5 Risk management).

# Group outlook for 2018

## Outlook for Group performance

With strong roots in its core Lower Austrian and Viennese market, the HYPO NOE Group sees itself as a secure and reliable partner to the public sector, real estate customers, large corporates, and retail and corporate customers.

Public Finance will respond to the changing financing requirements of states and municipalities by continuing to develop special financing models, such as operating lease and public-private-partnership solutions. Implementation will take place at Group level, with HYPO NOE Leasing GmbH playing a significant role. Beyond pure financing, the HYPO NOE Group will be increasingly involved in structuring transactions.

The initiatives successfully introduced to further optimise the structure of the balance sheet will be extended to future reporting periods. The main priority will be selectively reducing receivables from public-sector bodies, with a view to further enhancing the granularity of the portfolio.

The Group will aim to boost the volume of its lending business in the low-risk housing development business in future reporting periods. The HYPO NOE Group is responding to the growing trend towards home ownership in its core market of Lower Austria and Vienna by developing flexible financing solutions for non-profit and commercial housing developers. Steps will also be taken to further expand the payments and investment solutions available to developers.

The Group will continue to systematically implement its growth strategy in the corporate customer segment in the course of this year. This will involve redoubling efforts to acquire new customers and extending the product portfolio. A further objective for the second half is to boost export and foreign trade financing for corporate customers. Additional earnings will be generated and the earnings base further strengthened by means of cross-selling and collaboration with HYPO NOE Versicherungsservice GmbH.

In the retail segment, the Group will retain its focus on personal service, which will be supported by the optimised structure of the branches, some of which have already been turned into service branches. In parallel, online and mobile services will be steadily expanded to keep step with changing customer requirements as effectively as possible. In addition to developing the HYPO NOE online banking site and HYPO NOE PLUS app to feature additional services and an optimised user interface, innovative payment products and further mobile services are also scheduled for introduction in the second half of 2018.

The HYPO NOE Group is committed to expanding its services business with a view to widening its earnings base. The aim is to strengthen sources of profit other than interest income, by generating increased fee and commission income. At the same time, we will press ahead with the initiatives launched in order to enhance cost efficiency.

The bulk of the refinancing budgeted for the current year was raised in the first half, thanks to the successful issue of a senior unsecured benchmark bond. Issuance in the remainder of 2018 will primarily focus on individual private placements through the capital markets. Customer deposits have risen steadily and the Group aims to maintain this strong and stable growth, in order to safeguard its highly diversified, long-term refinancing structure in future.

In the course of 2018, the HYPO NOE Group will again upgrade its IT infrastructure, processes and methodologies, in order to be capable of meeting future regulatory requirements (Basel IV, IFRS 9, MREL, NSFR, funding plans, leverage ratio and rating models). This will also ensure that HYPO NOE's risk control systems remain compatible with the permitted level of risk tolerance and the Group's business objectives.

The second half will see a critical assessment of all of the options for a revised participation structure at HYPO NOE Immobilien Beteiligungsholding GmbH. With this in mind, restructuring initiatives were implemented during the reporting period, with a view to increasing the company's competitiveness and bolstering its market position.

## Economic environment

In spite of certain risk factors, not least in connection with international trade relations, global economic growth prospects for 2018 and 2019 remain fundamentally positive. The diametrically opposed trends in US and eurozone interest rates will probably persist until the middle of 2019. Although the Federal Reserve is likely to lift its headline interest rate by 25 bp virtually every quarter, initial tentative increases in euro area rates are not expected before September next year. On the stock markets, the outlook is for modest price increases combined with substantially higher volatility.

Although the economies of the Group's core markets are seen losing ground slightly in 2018, growth is still expected to remain relatively high. Austrian growth is forecast to reach 2.8%, and that of the Danube region should average 3.8%. As the business cycle nears its end, growth in Austria is predicted to slow in 2019 and 2020, to 2.1% and 1.7% respectively, although the rate will probably remain above the eurozone average over the next few years.

According to Eurostat, as things stand, unemployment is set to remain low in 2018, at 5.0%. The OeNB's forecasts show inflation falling back to around 1.9% by 2020, after reaching a peak in 2017 and 2018.

The extended phase of household income growth looks set to continue, with real disposable income expected to increase sharply between 2018 and 2020.

In view of the continuing favourable economic climate and low interest rates, a balanced budget is forecast in 2018. The latest forecasts point to a decline in government debt, to 67.5% of GDP by 2020.

St Pölten, 17 August 2018

The Management Board



**Peter Harold**  
Chairman of  
the Management Board



**Udo Birkner**  
Member of  
the Management Board



**Wolfgang Viehauser**  
Member of  
the Management Board

# INTERIM FINANCIAL STATEMENTS

## FOR THE SIX MONTHS TO 30 JUNE 2018

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# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Earnings are reported as positive amounts and expenses as negative amounts in the statement of comprehensive income.

Profit or loss (EUR '000)	(Notes)	IFRS 9 H1 2018	IAS 39 H1 2017
Interest and similar income	(3.1)	120,891	167,950
Interest on assets measured at amortised cost, or not measured at fair value through profit or loss	(3.1)	104,739	94,812
Interest and similar expense	(3.2)	-169,594	-206,586
<b>Net interest income</b>		<b>56,037</b>	<b>56,176</b>
Risk provisions for "hold to collect" assets	(3.3)	8,533	1,698
Gains/losses on derecognition of financial assets previously accounted for at amortised cost	(3.3)	-724	N/A
<b>Net interest income after risk provisions</b>		<b>63,845</b>	<b>57,874</b>
Fee and commission income		9,095	8,888
Fee and commission expense		-1,360	-1,407
<b>Net fee and commission income</b>	<b>(3.4)</b>	<b>7,735</b>	<b>7,481</b>
Net gains or losses on financial instruments mandatorily measured at fair value (net trading and non-trading income)	(3.5)	-2,724	1,698
Administrative expenses	(3.6)	-63,882	-67,418
Net other operating income	(3.7)	12,074	14,471
Net gains on disposal of consolidated subsidiaries	(3.8)	8,286	0
Net gains on investments accounted for using the equity method	(3.9)	1,215	2,280
Net gains or losses on available-for-sale financial assets	(3.10)	N/A	-520
Net gains on financial assets measured at fair value through other comprehensive income (FVTOCI) (debt instruments)	(3.10)	1,130	N/A
Net gains or losses on financial assets designated as at fair value through profit or loss	(3.11)	-84	65
Net gains on financial assets measured at amortised cost	(3.12)	200	N/A
Net losses on hedges	(3.13)	-1,983	-4,703
Net gains or losses on other financial investments	(3.15)	28	-32
<b>Profit before tax</b>		<b>25,841</b>	<b>11,196</b>
Income tax expense	(3.15)	-6,156	-2,239
<b>Profit for the period from continuing operations</b>		<b>19,685</b>	<b>8,957</b>
Earnings from discontinued operations	(3.16)	512	46
<b>Profit for the period</b>		<b>20,197</b>	<b>9,003</b>
Non-controlling interests	(3.17)	-211	-395
<b>Profit attributable to owners of the parent</b>		<b>19,986</b>	<b>8,608</b>

<b>Other comprehensive income (EUR '000)</b>	<b>IFRS 9 H1 2018</b>	<b>IAS 39 H1 2017</b>
<b>Profit attributable to owners of the parent</b>	<b>19,986</b>	<b>8,608</b>
<b>Items that will not be reclassified to profit or loss</b>		
<i>Change in equity instruments measured at FVTOCI (before tax)</i>	67	N/A
<i>Change in actuarial gains or losses (before tax)</i>	452	-192
<i>Change in deferred tax</i>	-130	48
<b>Items that may be reclassified subsequently to profit or loss</b>		
<i>Change in available-for-sale financial instruments (before tax)</i>	N/A	394
<i>Change in available-for-sale financial instruments reclassified to profit or loss (before tax)</i>	N/A	1,823
<i>Change in debt instruments measured at FVTOCI (before tax)</i>	-6,653	N/A
<i>Change in hedges presented in OCI (before tax)</i>	-152	N/A
<i>Change in deferred tax</i>	1,701	-554
<b>Total other comprehensive income</b>	<b>-4,715</b>	<b>1,519</b>
<b>Total comprehensive income attributable to owners of the parent</b>	<b>15,271</b>	<b>10,126</b>

Other comprehensive income is entirely attributable to owners of the parent.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Items are reported as positive amounts on both the assets and liabilities sides; negative amounts result in a reduction in total assets.

<b>Assets (EUR '000)</b>	<b>(Notes)</b>	<b>IFRS 9 30 Jun. 2018</b>	<b>IAS 39 31 Dec. 2017</b>
Cash and balances at central banks	(4.1)	148,449	456,197
"Hold to collect" loans and advances to banks	(4.2)	796,380	860,821
"Hold to collect" loans and advances to customers	(4.3)	10,996,537	10,230,232
Financial assets measured at FVTOCI (debt instruments)	(4.4)	774,603	N/A
Risk provisions for "hold to collect" assets	(4.5)	-82,280	-75,270
Financial instruments mandatorily measured at fair value (assets held for trading and non-trading assets)	(4.6)	694,285	476,252
Positive fair value of hedges (hedge accounting)	(4.7)	382,889	405,229
Available-for-sale financial assets	(4.4)	N/A	1,593,005
Financial assets designated as at fair value through profit or loss	(4.8)	18,928	19,474
Investments accounted for using the equity method	(4.9)	27,106	26,238
Investment property	(4.10)	40,538	41,382
Intangible assets	(4.11)	631	932
Property, plant and equipment	(4.12)	68,022	69,672
Current tax assets	(4.13)	11,087	20,659
Deferred tax assets	(4.13)	3,447	4,076
Other assets	(4.14)	26,361	226,827
Non-current assets held for sale (IFRS 5)	(4.15)	1,499	12,287
<b>Total assets</b>		<b>13,908,482</b>	<b>14,368,013</b>

<b>Equity and liabilities (EUR '000)</b>	<b>(Notes)</b>	<b>IFRS 9 30 Jun. 2018</b>	<b>IAS 39 31 Dec. 2017</b>
Deposits from banks	(4.16)	948,496	1,365,168
Deposits from customers	(4.17)	4,248,351	4,049,846
Debts evidenced by certificates	(4.18)	6,765,840	6,893,636
Liabilities held for trading	(4.19)	409,722	432,716
Negative fair value of hedges (hedge accounting)	(4.20)	664,211	705,616
Provisions	(4.21)	40,893	40,908
Current tax liabilities	(4.22)	9,888	19,349
Deferred tax liabilities	(4.22)	27,149	43,075
Other liabilities	(4.23)	144,009	139,845
Subordinated capital	(4.24)	1,453	1,453
Equity (incl. non-controlling interests)*	(4.25)	648,470	676,401
Equity attributable to owners of the parent - share capital		51,981	51,981
Equity attributable to owners of the parent - reserves		587,899	616,035
Non-controlling interests		8,590	8,385
<b>Total equity and liabilities</b>		<b>13,908,482</b>	<b>14,368,013</b>

\* A detailed presentation is given in the consolidated statement of changes in equity, overleaf.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 Jun. 2018, EUR '000	Balance at 1 Jan. 2018 (IAS 39)	Remeas- urement	Balance at 1 Jan. 2018 (IFRS 9)	Profit/loss for the year	Divi- dends paid	Other comprehen- sive income	Balance at 30 Jun. 2018 (IFRS9)
Share capital	51,981	0	51,981	0	0	0	51,981
Capital reserves	191,824	0	191,824	0	0	0	191,824
Retained earnings	383,334	-18,099	365,235	19,986	-3,500	0	381,721
IAS 19 reserve	-5,191	0	-5,191	0	0	339	-4,852
Available-for-sale reserve	46,121	-46,121	N/A	N/A	N/A	N/A	N/A
FVTOCI debt instrument reserve	N/A	24,407	24,407	0	0	-4,990	19,417
FVTOCI equity instrument reserve	N/A	-94	-94	0	0	50	-44
Revaluation surplus - non-current assets held for sale and discontinued operations	-53	0	-53	0	0	0	-53
Remeasurement reserve - hedges (time value, forward elements and foreign currency basis spread)	N/A	0	0	0	0	-114	-114
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	<b>668,016</b>	<b>-39,907</b>	<b>628,109</b>	<b>19,986</b>	<b>-3,500</b>	<b>-4,715</b>	<b>639,880</b>
Non-controlling interests	8,385	-6	8,379	211	0	0	8,590
<b>TOTAL EQUITY</b>	<b>676,401</b>	<b>-39,913</b>	<b>636,488</b>	<b>20,197</b>	<b>-3,500</b>	<b>-4,715</b>	<b>648,470</b>

30 Jun. 2017, EUR '000	Balance at 1 Jan. 2017 (IAS 39)	Profit/loss for the year	Divi- dends paid	Other comprehen- sive income	Balance at 30 Jun. 2018 (IAS 39)
Share capital	51,981	0	0	0	51,981
Capital reserves	191,824	0	0	0	191,824
Retained earnings	359,380	8,608	-7,000	0	360,988
IAS 19 reserve	-5,484	0	0	-144	-5,628
Available-for-sale reserve	41,301	0	0	1,663	42,964
FVTOCI debt instrument reserve	N/A	N/A	N/A	N/A	N/A
FVTOCI equity instrument reserve	N/A	N/A	N/A	N/A	N/A
Remeasurement reserve - non-current assets held for sale and discontinued operations	-53	0	0	0	-53
Remeasurement reserve - hedge (time value, forward elements and foreign currency basis spread)	N/A	N/A	N/A	N/A	N/A
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	<b>638,949</b>	<b>8,608</b>	<b>-7,000</b>	<b>1,519</b>	<b>642,076</b>
Non-controlling interests	8,419	395	0	0	8,814
<b>TOTAL EQUITY</b>	<b>647,368</b>	<b>9,003</b>	<b>-7,000</b>	<b>1,519</b>	<b>650,890</b>

See Note 4.25 Equity for more detailed information on the statement of changes in equity.

The dividend payment to a domestic corporation with a material interest was not subject to a corporation tax deduction under Austrian tax law.

No after-tax gains on FVTOCI debt instruments (after tax available-for-sale financial instruments as at 30 Jun. 2017: EUR 1,368thsd) were recycled from other comprehensive income to profit or loss.

# CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	IFRS 9 30 Jun. 2018	IAS 39 31 Dec. 2017
<b>Profit for the period (before non-controlling interests)</b>	<b>20,197</b>	<b>31,119</b>
Non-cash comprehensive income items		
Amortisation, depreciation, impairment and write-ups	3,412	8,566
Allocations to and reversals of provisions and risk provisions	459	-2,831
Losses on disposal of financial assets and property, plant and equipment	-8,677	-2,978
Measurement losses on assets (FVTPL) and liabilities held for trading	-99,248	N/A
Measurement gains on assets measured using the fair value option (FVO)	546	N/A
Other adjustments	30,636	-63,377
Changes in assets and liabilities due to operating activities after adjustments for non-cash components		
Loans and advances to banks	N/A	137,596
Loans and advances to customers	N/A	472,372
Available-for-sale financial assets	N/A	379,857
"Hold to collect" loans and advances to banks	40,252	N/A
"Hold to collect" loans and advances to customers	-205,896	N/A
Financial assets measured at FVTOCI	73,249	N/A
Other operating assets	33,109	116,708
Deposits from banks	-416,140	-89,119
Deposits from customers	218,329	222,279
Debts evidenced by certificates	-5,664	-674,557
Other operating liabilities	4,275	2,313
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>-311,164</b>	<b>537,948</b>
Proceeds from sale of/redemption of:		
participations	0	100
property, plant and equipment, intangible assets and investment property	45	13,534
Purchase of:		
other investments	0	-17
property, plant and equipment, intangible assets and investment property	-541	-1,742
Proceeds from disposal of subsidiaries	8,641	0
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>8,145</b>	<b>11,874</b>
Dividends paid	-3,500	-7,200
Subordinated debt - outflows	0	-200,786
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>-3,500</b>	<b>-207,986</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>-1,200</b>	<b>-50,228</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD</b>	<b>456,167</b>	<b>164,587</b>
Cash flows from operating activities	-311,164	537,948
Cash flows from investing activities	8,145	11,874
Cash flows from financing activities	-3,500	-207,986
Effect of exchange rate changes on cash and cash equivalents	-1,200	-50,228
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>148,449</b>	<b>456,197</b>

EUR '000	IFRS 9 30 Jun. 2018	IAS 39 31 Dec. 2017
<b>PAYMENTS FOR TAXES, INTEREST AND DIVIDENDS (in cash flows from operating activities)</b>		
Income taxes refunded/paid	-2,812	-11,192
Interest received	225,826	500,090
Interest paid	-168,523	-391,294
Dividends on FVTOCI participations received	609	810
Dividends received from associates	505	566
Dividends received from joint ventures	342	297

## Changes in liabilities arising from financing activities

EUR '000	IFRS 9 1 Jan. 2018	Cash flows	Non-cash changes	IFRS 9 30 Jun. 2018
Subordinated debt	1,453	0	0	1,453
<b>Liabilities from financing activities</b>	<b>1,453</b>	<b>0</b>	<b>0</b>	<b>1,453</b>

EUR '000	IAS 39 1 Jan. 2017	Cash flows	Non-cash changes	IAS 39 31 Dec. 2017
Subordinated debt	202,381	-200,786	-142	1,453
<b>Liabilities from financing activities</b>	<b>202,381</b>	<b>-200,786</b>	<b>-142</b>	<b>1,453</b>



# NOTES

## TO THE INTERIM FINANCIAL STATEMENTS AND GOVERNING BODIES

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# 1. Significant accounting policies

The condensed interim financial statements of HYPO NOE Landesbank für Niederösterreich und Wien AG (hereafter “the HYPO NOE Group”) as at 30 June 2018 were drawn up in accordance with the International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs) issued by the International Accounting Standards Board (IASB), as well as the interpretations issued by the Standing Interpretations Committee (SIC) and the IFRS Interpretations Committee (IFRIC).

These financial statements have been prepared in accordance with the IFRS/IAS standards and interpretations thereof adopted and published by the European Union, and applicable to the business activities of the HYPO NOE Group.

IAS 34 was applied to preparation of this interim report. Essentially the same accounting policies were applied to this HYPO NOE Group interim report as to the annual report as at 31 December 2017, but taking account of new standards which are mandatory for financial years beginning on or after 1 January 2018.

The consolidated interim financial statements do not contain all of the information required for full annual financial statements, and should therefore be read in conjunction with the consolidated annual financial statements as at 31 December 2017. The interim financial statements were neither audited nor reviewed by the independent auditors.

At the start of the year the method for calculating the present value of margins in hedged transactions (hedge accounting) was improved in that the cost and risk components are now accounted for directly, by adjusting the hedged fixed interest rate, instead of using the valuation premium as before. This flattens out the fluctuations in hedge fair values induced by market interest rate movements. The change in the method, introduced on 1 January 2018, affects about 60 fair value interest rate microhedges, mostly with underlyings originated by Funding (own issues). It will lead to better hedge adjustments in the statements of financial position and profit or loss from 2018 onwards, and will not result in any significant transition effects.

## IFRS 2 SHARE-BASED PAYMENT

The amendments to IFRS 2 which entered into force on 1 January 2018 clarify the accounting treatment of some forms of share-based payment, and provide guidance on cash-settled share-based payments, the classification of share-based payment transactions with net settlement features, and modifications of share-based payment transactions from cash-settled to equity-settled. These amendments have no material effects on the consolidated financial statements.

## IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The accounting standard for the recognition of revenue from contracts entered into effect on 1 January 2018. It does not apply to revenue related to financial instruments, which falls within the scope of IFRS 9. This change has no material effects on the consolidated financial statements.

## IFRS 16 LEASES - MANDATORY IN THE EU FOR REPORTING PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019

This standard supersedes the current standards on leases (IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). The Group plans to apply IFRS 16 from 1 January 2019. A project to implement IFRS 16 was launched at the start of 2018. As part of this, 145 IFRS leases relevant to IFRS 16, in which the Group is the lessee, were identified; most involve real estate. Initial analysis did not point to any significant effects on the Group's total assets from its role as a lessee. Neither, at first sight, does IFRS 16 seem likely to have any impact on the Group as a lessor.

## IFRS 9 FINANCIAL INSTRUMENTS

The International Accounting Standards Board published the final version of IFRS 9 Financial Instruments in July 2014. First-time application by the HYPO NOE Group took place as of 1 January 2018. IFRS 9 embodies new classification and measurement approaches to financial assets. These reflect the business models in which assets are held, as well as the characteristics of their cash flows. The first-time application effect on IFRS equity in the IFRS 9 consolidated statements was a reduction of EUR 39.8m. The main factors behind this are the impairment recognition required by the standard and the reclassification of the nostro portfolio.

### The HYPO NOE Group's business models

The designation and assessment of business models is on a portfolio basis. The classification of the portfolios is not arbitrary, but must be based on control of the business activities concerned and objectively supportable. IFRS 9 must normally be applied retrospectively, but in the case of the business model test there is an exception to this rule. Business models may be designated not at the time of initial recognition of the individual financial instruments, but at the time of initial application of IFRS 9 (1 January 2018).

#### **"Hold to collect" business model**

The HYPO NOE Group's lending business and investments are essentially aimed at holding assets to maturity. However, this business model permits a modicum of disposals. In principle, it is consistent with minor asset sales, as well as instances of significant sales transactions provided that these are incidental and rare. Compliance with this rule is enforced by the regular meetings of the ALM board.

In the Group's securities business, the "hold to collect" business model is likewise geared to holding the assets concerned to maturity. The focus is on period-oriented net interest income management. The debt instrument business of all the strategic operations other than Treasury & ALM is likewise devoted to this business model since the intention, as with the lending business, is to hold to maturity.

#### **"Hold to collect and sell" business model**

The goals of the "hold to collect and sell" business model in the securities business are both to collect contractual cash flows by holding the financial assets concerned and to sell. Under this business model, significant and regular sales are neither incidental nor unexpected, but are an integral part of the asset management approach. Hence, under this business model there is no compulsion to hold financial assets to maturity.

Securities are purchased with the intention of holding most of them for three years or longer, and one year at the least.

Financial assets qualify for this business model if their sale is aimed at maximising cash flows. Here, the objective is the active sale of financial assets in order to realise profits from the change in fair value. The collection of contractual cash flows is not typically the prime component of this business strategy. One of the key criteria for attribution to this business model is the expected frequency and value of sales. Sales in "stress case" scenarios do not count.

Portfolio management prioritises attainment of the performance targets - change in present value, liquidity through sales, customer interest contribution and mismatch contribution. This makes it possible to respond effectively to market developments, or changed market expectations and assessments.

At the start of each financial year, a plan is drawn up for the securities portfolios held within the "hold to collect and sell" business model. This is based on forecast trends in credit ratings, credit spreads and interest rates.

As evidence of adherence to the “hold to collect and sell” business model with regard to significant sales, the Bank has flagged an annual 5% of the FVTOCI portfolio as the internal warning level for the value of annual financial asset sales. The HYPO NOE Group currently has no loans held within the “hold to collect and sell” business model; if such a designation occurs similar arrangements to those for securities will be made. Monitoring is performed by the ALM board. The FVTOCI portfolio is regularly assessed and documented with regard to the frequency of sales of assets subject to the “hold to collect and sell” business model.

## Classification

IFRS 9 specifies three categories for the classification of financial assets: measured at amortised cost; at fair value through profit or loss (FVTPL); and at fair value through other comprehensive income (FVTOCI). Embedded derivatives where the underlying is a financial asset are never accounted for separately under IFRS 9. Instead, the entire hybrid instrument is assessed for the purpose of classification.

The portfolios in question were classified on this basis, in accordance with the relevant business strategies. Most of the loans and advances to banks and customers (EUR 10,837,793thsd) are measured at amortised cost. The business model test identified only 2.3% (EUR 253,260thsd) of these assets that do not meet the classification criteria (solely payments of principal and interest [SPPI]) or, in the case of fixed interest rates that deviate from the standard, failed the internal benchmark test, and consequently cannot be carried at amortised cost.

The business models in which other debt instruments are held were classified on the basis of the business strategies pursued. Part of the portfolio is held for earnings diversification purposes, and to reinvest equity (“hold to collect” business model). However, most of it consists of liquid assets, used to manage the liquidity buffer so as to maintain short- and medium-term liquidity (“hold to collect and sell” business model). In consequence, 40.6% of the nostro portfolio (EUR 646,145thsd) is classified as measured at amortised cost, 53.6% (EUR 854,642thsd) as measured at FVTOCI, and 5.8% (EUR 92,218thsd) as measured at FVTPL. About half of the effect of the changeover of profit reporting to the CRR own funds ratio is due to the reclassification of the financial instruments; the undisclosed reserves embodied by the latter are no longer shown as CRR equity.

As regards financial liabilities, IFRS 9 generally retains the existing classification method. Under IFRS 9, all changes in fair value are presented as follows:

- Change in credit risk: shown in other comprehensive income (OCI)
- Other changes: recognised in profit or loss

The HYPO NOE Group has not designated any financial liabilities as measured at fair value through profit or loss, and does not plan to do so in future. As at 30 June 2018, the Bank’s portfolio contained no liabilities arising from embedded derivatives requiring separation from the host contract.

The HYPO NOE Landesbank für Niederösterreich und Wien AG Management Board has decided to classify all the existing equity investments as at FVTOCI with no recycling. The reason for this decision was that no significant increase in the value of these holdings is to be expected, and that such strategic investments are not held for sale.

As of 1 January 2018, all the investments were divided into five groups: material; immaterial; non-profit; put-call; and leasing. The table below sets out the main characteristics of each group:

Group	Classification criteria	Measurement method	Remeasurement cycle	Number of investments	Fair value at 1 Jan. 2018	Pre-tax transition effect on equity as at 1 Jan. 2018	Key parameters
Material	Investments that do not form part of another asset group (non-profit, put-call or leasing) and do not belong to the "immaterial" group.	Dividend discount model, adjusted net asset valuation model, liquidation value.	Individual valuation; measurement on initial recognition and every three years (remeasurement cycle). Remeasurement during the remeasurement cycle in the event of significant changes in input factors must be tested annually. Remeasurement needed when the input factors point to a value change that could exceed 20% of the materiality threshold for statement of financial position items.	IFRS and CRR: 3 CRR: 1	IFRS and CRR: EUR 1,773thsd CRR: EUR 3,827thsd	IFRS and CRR: EUR -299thsd CRR: EUR 2,357thsd	Adjusted net asset value model (IFRS and CRR): dependent on IFRS capital; ratio of average operating expenses to cost of equity: 8.73%.  Dividend discount model (CRR): levered beta factor: 1.00; cost of equity: 8.76%.
Immaterial	Investments that do not belong to another asset group, and whose IFRS carrying amounts, both individually and together with the other investments in this group as well as the IFRS carrying amounts of the "non-profit" group, are below the reduced IFRS materiality threshold (applying the 50% haircut).	Cost = fair value.	No remeasurement if the total positive deviations between the equity holding and the IFRS carrying amounts do not exceed the materiality threshold for statement of financial position items (risk of undervaluation). Attention must be paid to the total positive deviations of all immaterial investments. No remeasurement if deviations between the equity holding and the IFRS carrying amounts do not exceed the materiality threshold for statement of financial position items (risk of overvaluation).	IFRS and CRR: 18	IFRS and CRR: EUR 329thsd	IFRS and CRR: nil	None
Non-profit	Investments that are designed to be <b>non-profit</b> .	Cost = fair value.	No valuation. It is assumed that the costs of these investments/ their IFRS carrying amounts correspond to their fair value so long as the equity holdings do not fall significantly below their IFRS carrying amount and the total IFRS carrying amounts are immaterial. The threshold applied is the 20% materiality threshold for statement of financial position items. No remeasurement if the total negative deviations between the equity holding and the IFRS carrying amounts do not exceed the materiality threshold for statement of financial position items (risk of overvaluation).	IFRS and CRR: 4	IFRS and CRR: EUR 60thsd	IFRS and CRR: nil	None

Group	Classification criteria	Measurement method	Remeasurement cycle	Number of investments	Fair value at 1 Jan. 2018	Pre-tax transition effect on equity as at 1 Jan. 2018	Key parameters
Put-call	Investments that are subject to <b>put and call</b> contracts.	Cost = fair value.	No valuation. It is assumed that the costs of these investments/ their IFRS carrying amounts correspond to their fair value.	IFRS and CRR: 9	IFRS and CRR: EUR 104thsd	IFRS and CRR: nil	None
Leasing	Investments that are <b>leasing</b> companies.	In leasing companies, carrying amount/ present value = basis of fair value.	In the HYPO NOE Group, measurement is always based on the assumption that a leasing company's IFRS equity is a reasonable approximation of fair value in accordance with IFRS 13. Measurement takes place upon initial recognition and thereafter at the end of each reporting period.	IFRS and CRR: 11 CRR: 3	IFRS and CRR: EUR 436thsd CRR: EUR 1,189thsd	IFRS and CRR: EUR 174thsd CRR: EUR 249thsd	None

The table below shows the main sensitivities of the investments.

EUR '000	NÖ Bürgschaften und Beteiligungen GmbH		Hypo-Wohnbaubank AG		Total	
Change in cost of equity of +/-50 bp	0	0	+0.9	-1.0	+0.9	-1.0
Change in average operating expenses of +/-50 bp	-19.7	+19.7	-39.4	+39.4	-59.1	+59.1

## Impairment losses

IFRS 9 replaces the incurred losses model employed by IAS 39 by a forward-looking model based on expected credit losses on financial assets and contract assets. This demands considerable judgement regarding the extent to which expected credit losses are influenced by changes in economic factors. For further details on the models used, see Note 6.5 Risk management.

The IFRS 9 impairment model must be applied to financial assets measured at amortised cost or at FVTOCI (with the exception of investments, including equities) and to contract assets.

Impairment is measured on the basis of the following principles:

**Stage 1:** 12-month credit losses: expected credit losses resulting from default events that are possible within the 12 months of the reporting date, based on the expected 12-month risk of default and the actual expected loss in the event of default.

**Stage 2:** Lifetime expected credit losses: the expected credit losses that result from all possible default events over the expected residual life of a financial instrument, also taking into account anticipated deterioration in creditworthiness due to expected macroeconomic conditions.

The main parameters are the specific loss given default (LGD) on collaterals, and the unsecured portion of receivables, as well as the probability of default (PD). The lifetime probability of default is calculated on the basis of the current rating and the modelled migration probabilities, augmented by forward looking macroeconomic scenarios. The expected secured and unsecured recoveries at the expected point of default are calculated, as well as the LGD. The parameters are based on internal data histories where sufficient data is available. Due to the low historic default rates, and hence the statistically insignificant number of exposures, internal data are augmented by external sources. Regular validation is crucial to the reliability of the parameters.

The entire lifetime expected loss must be recognised if the credit risk on a financial instrument has increased significantly since initial recognition. The level of significance can be determined by the entity. Lifetime expected credit losses must be applied to trade receivables.

**Stage 3:** Need to recognise credit impairment: the scenario-weighted impairment loss is calculated on the basis of the expected recoveries, taking the expected realisation of collateral into account.

The Group has used an internal model and a variety of scenarios to calculate the impairment losses. The first-time application effect chiefly depends on the behaviour of the risk parameters, and these will be tested against a range of scenarios in 2018. The effect in 2018 will largely be determined by the evolution of the ratings in the portfolio, the risk parameters (LGD and PD), and the macroeconomic environment. The parameters on which measurement is based will be steadily developed in the course of the year. There are likely to be improvements in the segment-specific, time-dependent PD curves and LGD parameters by the end of the year.

Receivables and securities that are in all probability unrecoverable must be derecognised. Receivables are unrecoverable if at least three attempts at execution have failed, it has not been possible to trace the customer's place of residence for a considerable period, or the customer has no attachable income or has such high liabilities that there is no prospect of collection. Receivables and securities must also be partly or entirely derecognised if they have been partly or entirely waived. This may be the case if there is a rescue or payment plan, or a bank account attachment in connection with bankruptcy, a composition agreement or an instalment agreement.

## Hedges

Since 1 Jan. 2018 there has been an elective right, with regard to the documentation, effectiveness assessment and accounting treatment of microhedges, either to migrate to IFRS 9 or to continue to apply the accounting rules of IAS 39. The HYPO NOE Group has elected to meet the new requirements of IFRS 9.

For some cross-currency swaps subject to hedge accounting, use is also made of the option to recognise the assessment of the FX basis spread as a hedging cost, in OCI.

This means that it will be necessary to ensure that the hedge accounting is consonant with the Group's risk management goals and strategy, and adopt a qualitative and forward-looking approach when assessing hedge effectiveness.

A potential qualitative method for assessing and evidencing the economic relationship between the hedge and underlying in a microhedging relationship is a comparison of their key terms (critical terms match [CTM]). It is sufficient for most of the critical terms to be closely aligned to each other. In particular, matching risk factors create a presumption that this criterion is met. In most cases, the hedges in the Group's portfolio meet the CTM criterion.

Where there is no critical terms match and the economic relationship is not qualitatively supported by other factors, quantitative methods are employed. A quantitative method that is a potential option for the HYPO NOE Group is prospective effectiveness assessment using regression analysis.

In the Group, assessment of the economic relationship takes place on a one-time basis at the time of designation or when significant changes in the hedges occur, and subsequently on an ongoing basis, at least at the ends of reporting periods, using a quantitative method.

## Modifications

If there are modifications to the contractual terms during the lifetime of an investment, IFRS 9 requires a decision as to whether the cash flows have been so significantly modified that a new contractual relationship has effectively come into being. This assessment is on the basis of both quantitative and qualitative criteria.

The quantitative yardstick is whether there has been a modification of the contractual cash flows resulting in a change of more than 10% in the present value, discounted by the effective interest rate of the original cash flow. In a quantitative pre-analysis, the main indicator of such a change in present value is modifications in the terms where these are not contractually provided for.

The main qualitative criteria are significant modifications to the remaining term to maturity, the repayment modalities, or clauses affecting SPPI conformity, even if these do not result in a change of more than 10% in present value.

If such a substantial modification is determined, the existing financial instrument must be derecognised and a new, modified instrument recognised.

If it is decided that the modification is not substantial in terms of the criteria, a modification gain or loss is recognised for the financial instruments measured at amortised cost.

Contractual modifications made in past years were tested for the substantiality of their effects. In particular, non-contractual adjustments to margins and terms were examined in detail, as these give rise to the main quantitative effects associated with modifications in the meaning of paragraph 5.4.3 of IFRS 9.

The effects of first-time retrospective application, amounting to a reduction of EUR 492thsd, were recognised accordingly.

The effects on results for the latest reporting period, other than those of non-contractual modifications to the terms of material investments, were insignificant.

Purchased or originated credit-impaired (POCI) loans are given special treatment by the IFRS 9 standard, especially when a Stage 3 loan is derecognised. In IFRS this is a derecognition and recognition of a "new" asset in the accounts. There is no need for a change in the account number.

In this case, the expected cash flows are discounted at the credit-adjusted effective interest rate (CEIR) and the present value recognised. The change in the present value leads to a positive or negative adjustment. Even if the loan delinquency is resolved, no stage transfer is carried out. The classification of the loan is unchanged. New business in rating class 5 is also classed as POCI

## Notes and regulatory reporting

IFRS 9 requires extensive supplementary note disclosures in conjunction with IFRS 7, particularly with regard to hedge accounting, credit risk and expected credit losses.

The preliminary assessment includes identification of the additional data that will be required. The HYPO NOE Group plans to make the system modifications needed to acquire the necessary data. Implementing the regulatory changes brought about by IFRS 9 will result in a heavy workload, extending into 2018, in connection with generating information for the regulatory accounting and population of the amended FINREP IFRS 9 templates.

Application of the new IFRS 9 risk provisions has reduced the IFRS capital requirements.

## Transitional provisions

The Group has not resorted to the transitional arrangements for initial application of the new CRR impairment rules.

Changes due to IFRS 9 will not be applied retrospectively as the Group has made use of the exception under which it may elect not to adjust comparative data from previous periods to the alterations in classification and measurement (including impairment). Differences between the carrying amounts of financial assets and liabilities resulting from the application of IFRS 9 will normally be recognised in retained earnings and other reserves as at 1 January 2018.

## Transition effect

The purpose of this section is to outline the main effects of the changes brought by the introduction of IFRS 9 with respect to classification, measurement and risk provisions, and summarise their effects. The table below shows the transition effect of IFRS 9, which reduced reported equity, broken down by the main topics.

EUR '000	IFRS 9 transition effect
Investments	-125
Fair value of performing loans	-1,902
Fair value of risk class 5	-7,658
Fair value of reversals of individual impairment allowances	7,485
Modifications	-492
ECL impairment	-23,430
Stage 3 impairment	1,515
Nostro	-28,295
Deferred tax assets	61
Deferred tax liabilities	13,182
Miscellaneous adjustments	-254
<b>IFRS 9 transition effect</b>	<b>-39,913</b>

## Effects of transition on equity and performance indicators

The combined effect of initial application of IFRS 9 in terms of the Tier 1 capital ratio was 0.9%. All the transitional provisions relevant to the HYPO NOE Group expired on 1 January 2018.

Consolidated own funds in accordance with CRR/CRD IV, EUR '000	31 Dec. 2017	1 Jan. 2018
Eligible Tier 1 capital	646,015	613,143
Total eligible capital	646,015	613,143
Risk-weighted exposure to credit risk	2,831,046	2,812,090
Own funds requirements	259,854	258,337
Excess equity	386,161	354,806
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	19,89%	18,99%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR - fully loaded	20,17%	18,99%
Total capital ratio in accordance with Art. 92(2)(c) CRR	19,89%	18,99%
Total capital ratio in accordance with Art. 92(2)(c) CRR - fully loaded	20,17%	18,99%



## Transition effect: reclassification and remeasurement

The analysis below shows a reconciliation of the IAS 39 disclosures in the 2017 Annual Report and the opening balance sheet in accordance with IFRS 9 as at 1 January 2018. The HYPO NOE Group is making use of the transitional provisions of IFRS 9 and has thus made no retrospective adjustments to the figures for the previous reporting periods.

EUR '000	31 Dec. 2017, IAS 39	"Hold to collect" loans and ad- vances to banks	"Hold to collect" loans and advances to customers
Carrying amounts as at 31 Dec. 2017, by IAS 39 categories			
Reclassification of IFRS 9 category =>			
Loans and advances to banks at cost	860,821	705,285	73,791
Loans and advances to customers at cost	10,230,232		10,056,831
IAS 39 risk provisions	-75,270		
Positive fair value of hedges (hedge accounting)	405,229		
Available-for-sale financial assets	1,593,005	134,645	511,500
Financial assets designated as at fair value through profit or loss	19,474		
Deferred tax assets	4,076		
Other assets	239,115		196,092
Accrued and deferred liabilities (processing fees)	-10,844		-10,844
Other liabilities	-232		-232
Negative fair value of derivatives held for trading	747		
Negative fair value of hedges (hedge accounting)	560		
<b>Subtotal after reclassification</b>		<b>839,930</b>	<b>10,827,137</b>
Remeasurement according to IFRS 9 categories, recognised in equity			
Loans and advances to banks at cost		0	0
Loans and advances to customers at cost			-492
IAS 39 risk provisions			
Available-for-sale financial assets		-3,995	-24,301
Financial assets designated as at fair value through profit or loss			
Deferred tax assets			
Other assets			0
Accrued and deferred liabilities (processing fees)			0
Negative fair value of derivatives held for trading			
Negative fair value of hedges (hedge accounting)			0
<b>Carrying amounts as at 1 Jan. 2018, by IFRS</b>		<b>835,935</b>	<b>10,802,344</b>

\*Detailed reconciliation can be found in Note 4.5 Risk provisions for "hold to collect" assets and credit provisions

Financial assets measured at FVTOCI (debt instruments)	IFRS 9 "hold to collect" risk provisions*	Financial instruments mandatorily measured at fair value (assets held for trading and non-trading assets)	Positive fair value of hedges (hedge accounting)	Financial assets designated as at fair value through profit or loss	Deferred tax assets	Other assets
		81,745				
	-3,434	176,621				215
	-75,270					
			405,229			
854,642		92,218				
				19,474		
					4,076	
						43,024
			747			
			560			
854,642	-78,705	350,584	406,536	19,474	4,076	43,239
		-1,777				
	7,485	-7,784				
	-20,827					
-125		0				
				0		
					61	
						1,929
			0			
			0			
854,517	-92,046	341,023	406,536	19,474	4,137	45,168

## RECLASSIFICATION

### Loans and advances to banks at cost

Because of the business model criteria established by IFRS 9 and the need to assess the SPPI criteria, a reclassification project was carried out in 2017.

The new “hold to collect” category includes loans and advances which are measured at amortised cost because they meet the cash flow condition. Loans and advances totalling EUR 81,745thsd were measured at FVTPL as they did not fulfil the cash flow condition.

### Loans and advances to customers at cost

Of the original EUR 10,230,232thsd in loans and advances to customers measured at amortised cost, EUR 10,056,831thsd was classified as “hold to collect” (“hold to collect” business model) and hence measured at amortised cost because it meets the cash flow condition. The EUR 176,621thsd in assets that do not fulfil the SPPI condition was mandatorily designated as at fair value.

A total of EUR 3,434thsd in interest exemptions, which directly reduced the carrying amounts of loans and advances to customers under IAS 39, was reclassified as “hold to collect” risk provisions so as to permit gross presentation.

### IAS 39 risk provisions

The transition effect is discussed below. The next section includes a separate reconciliation that provides a more detailed presentation of the risk provisions.

### Available-for-sale financial assets

The original available-for-sale financial assets category was migrated to the new IFRS 9 categories. Depending on whether they were attributed to the “hold to collect” or “hold to collect and sell” business models, the assets were classified as measured at AC, FVTOCI or FVTPL. Where reclassification to FVTPL took place, any hedging relationships were then de-designated and the related hedging instruments reclassified as held for trading.

The EUR 854,642thsd in reclassified assets includes EUR 2,828thsd in equity instruments which are not designated as measured at fair value through profit or loss (without recycling) as they were not held for trading and the OCI election was made.

### Other assets

The future finance lease assets were transferred from “other assets” to “hold to collect” loans and advances (EUR 196,092thsd). The reclassification results in a presentation that lends itself better to comparing the amounts of the risk provisions and the loans and advances.

### Accrued and deferred liabilities

Accrued and deferred liabilities decreased by EUR 10,820thsd as the processing fees were directly offset against the loans and advances.

### Deposits from customers

In the 2017 financial statements, loans and advances from and deposits from the state government of Lower Austria were presented as gross amounts. They were subsequently netted, reducing the size of the balance sheet by EUR 232thsd.

### **Positive and negative fair value of derivatives**

As three financial instruments which previously formed part of hedging relationships do not meet the SPPI criteria and must thus be accounted for at FVTPL to meet the IFRS 9 classification criteria, in these cases hedge accounting may not be applied.

The fair value of the economically related hedging swaps was reclassified from negative fair value of hedge derivatives (IAS 39) to EUR 747thsd in negative fair value of derivatives held for trading (IFRS 9).

In addition, reporting of gross fair value was introduced. In contrast to the previous net fair value rule, this increased the asset value of the hedging derivatives and concomitantly reduced that of the liabilities by EUR 1,307thsd.

## **REMEASUREMENT**

### **“Hold to collect” loans and advances to banks**

Remeasurement resulted in a reduction of EUR 3,995thsd due to the effect of the changeover from the IAS 39 AFS category (FV) to AC.

### **“Hold to collect” loans and advances to customers**

The effect of the redesignation of available-for-sale financial assets from FV to AC was a decrease of EUR 24,301thsd. The contractual modifications cut the loans and advances to customers by EUR 492thsd.

### **Financial assets measured at FVTOCI**

The negative remeasurement effect of EUR 125thsd is due to the reclassification of the equity instruments which were redesignated from AC to FVTOCI (non-recycling).

### **Risk provisions**

The effect on the risk provisions is separately described in the section on this subject.

### **FVTPL**

The remeasurement of the loans and advances that do not meet the cash flow condition (redesignation from measurement at AC to FV) gives rise to negative effects of EUR 1,777thsd (loans and advances to banks) and EUR 7,784thsd (loans and advances to customers).

### **Positive fair value of hedges**

Under IAS 39, derivatives were already measured at FVTPL, so there is no transition effect here.

### **Deferred tax assets**

Deferred tax assets increased by EUR 61thsd due to the change in the risk provisions.

## Risk provisions

A stand-alone project was mounted to calculate the risk provisions according to IFRS 9 and put a system in place to continue do so in future. A reconciliation between the IAS 39 items as at 31 Dec. 2017 and the IFRS 9 items as at 1 Jan. 2018, including staging, is presented below.

EUR '000	Risk provisions for customers - individual impairment allowances	Risk provisions for customers - collective impairment allowances	Total risk provisions for customers	Credit provisions	Total
31 Dec. 2017, IAS 39	-70,363	-4,907	-75,270	-579	-75,849
<b>Loans and advances at cost - transfers/reclassification according to the stage transfer model</b>					
Stage 1	0	-4,907	-4,907	-579	-5,486
Stage 2	0	0	0	0	0
Stage 3	-70,363	0	-70,363	0	-70,363
<b>Total</b>	<b>-70,363</b>	<b>-4,907</b>	<b>-75,270</b>	<b>-579</b>	<b>-75,849</b>
<b>Reclassification of interest exemptions</b>					
Stage 3	-3,434	0	-3,434	0	-3,434
	<b>-73,789</b>	<b>-4,907</b>	<b>-78,696</b>	<b>-579</b>	<b>-75,849</b>
<b>"Hold to collect" loans and advances at amortised cost - remeasurement</b>					
Stage 1	0	-5,809	-5,809	-638	-6,447
Stage 2	0	-16,762	-16,762	-221	-16,983
Stage 3	1,745	0	1,745	-229	1,515
	<b>1,745</b>	<b>-22,572</b>	<b>-20,827</b>	<b>-1,088</b>	<b>-21,915</b>
<b>FVTPL loans and advances - remeasurement</b>					
Stage 1	0	0	0	0	0
Stage 2	0	0	0	0	0
Stage 3	7,485	0	7,485	0	7,485
	<b>7,485</b>	<b>0</b>	<b>7,485</b>	<b>0</b>	<b>7,485</b>
<b>Carrying amounts as at 1 Jan. 2018</b>					
Stage 1	0	-10,716	-10,716	-1,217	-11,933
Stage 2	0	-16,762	-16,762	-221	-16,983
Stage 3	-64,568	0	-64,568	-229	-64,797
	<b>-64,568</b>	<b>-27,479</b>	<b>-92,046</b>	<b>-1,667</b>	<b>-93,713</b>

### Risk provisions for customers: individual impairment allowances

As a first step, individual impairment allowances were assigned to Stage 3 as they already exhibit credit impairment. The transition effect for these customers is an increase of EUR 1,745thsd. In addition, EUR 7,485thsd. in risk provisions was reversed as these customers were redesignated as FVTPL. As a result, there is a total reclassification effect for formerly individually impaired customers of EUR 9,230thsd.

### Risk provisions for customers: collective impairment allowances

Existing collective impairment allowances were assigned to Stage 1 as there was no information as to whether there had been a significant increase in the default risk or any staging had taken place in the past. During the implementation of the expected credit losses model, the collective impairment allowances were apportioned to Stages 1 and 2. This led to a total increase of EUR 22,572thsd.

### Credit provisions

Existing credit provisions were assigned to Stage 1 as there was no information as to whether there had been a significant increase in the default risk or any staging had taken place in the past. During the implementation of the expected credit losses model, the provisions were apportioned to Stages 1, 2 and 3. This led to a total increase of EUR 1,088thsd.

## 2. Changes in the scope of consolidation

The scope of consolidation of the HYPO NOE Group includes all the subsidiaries that are directly or indirectly controlled by the parent, and are material to the presentation of the Group's assets, finances and earnings. The scope of consolidation is reviewed on an ongoing basis. As was the case at year-end 2017, apart from the parent, HYPO NOE Landesbank für Niederösterreich und Wien AG, the Group comprises a total of 65 Austrian subsidiaries in which the parent meets the criteria for control.

As of 30 June 2018, 34 Austrian companies and one foreign company (31 Dec. 2017: 36 Austrian companies and one foreign entity) were accounted for in the Group's consolidated financial statements using the equity method.

### Change in the scope of consolidation and disposals

The NOE Immobilien Development GmbH sub-group, which is accounted for using the equity method, sold its Tauchnergasse 1-7 Immobilienentwicklung GmbH subsidiary; the transaction was entered in the company registry on 12 January 2018.

Obere Donaustrasse 61 Liegenschaftserrichtungs- und -verwertungs GmbH, which was previously classified as an IFRS 5 held-for-sale entity, was divested, and the transaction entered in the company registry on 27 April 2018.

From 31 March 2018 on, the parent's holding in Franz-Glaser-Gasse 28 Immobilienentwicklung GmbH was reduced to a 20-50% FVTOCI participation; this interest was sold, and the transaction registered on 31 May 2018.

### Reorganisation

The reorganisation of NOE Immobilien Development AG was registered on 8 June 2018.

### 3. Notes to the statement of comprehensive income

The following tables, in notes 3.1 Interest and similar income, interest measured using the effective interest method, and 3.2 Interest and similar expense (net interest income), show a slight decline of EUR 141thsd in comparison with the like period in the previous year. This reflects the fact that there has been little change in market interest rates of late. Due to the transition from IAS 39 to IFRS 9 on 1 January 2018, interest income and expense are not fully comparable. Expenses arising from the investment of excess liquidity at negative interest rates fell in comparison with the first half of 2017. Meanwhile, premature loan repayments in Real Estate & Large Corporates weighed on interest income.

#### 3.1 Interest and similar income, interest measured using the effective interest method

EUR '000	H1 2018	H1 2017
<b>Interest and similar income from:</b>	<b>120,891</b>	<b>167,950</b>
Impaired loans and advances (unwinding)	685	1,201
Loans and advances mandatorily measured at fair value (non-trading)	1,212	N/A
Available-for-sale (AFS) assets	N/A	23,625
Assets measured using the fair value option (FVO)	378	145
Assets held for trading (HFT)	109	50,605
Interest rate derivatives (economic hedges)	46,344	0
Hedges (hedge accounting)	57,090	80,370
Interest income attributable to other periods	13	72
Net gains or losses on investment property:	378	407
<i>Rental income</i>	1,222	1,258
<i>Depreciation</i>	-844	-851
Current lease income	14,861	12,712
Current origination and commitment fees	N/A	2,719
IFRS 15 revenue	1,938	N/A
Loans and advances with negative interest rates	-2,117	-3,906
<b>Interest on assets measured at amortised cost, or not measured at fair value through profit or loss</b>	<b>104,739</b>	<b>94,812</b>
Loans and receivables (LAR)	N/A	94,812
Amortised cost of "hold to collect" assets (AC)	93,173	N/A
Fair value through other comprehensive income (FVTOCI)	11,566	N/A
<b>Total</b>	<b>225,630</b>	<b>262,762</b>

## 3.2 Interest and similar expense

EUR '000	H1 2018	H1 2017
<b>Interest expense on:</b>		
Financial liabilities measured at cost (LAC)	N/A	-101,604
"Hold to collect" financial liabilities measured at amortised cost (AC)	-74,745	N/A
Financial liabilities held for trading (HFT)	-6	-48,825
Interest rate derivatives (economic hedges)	-45,146	0
Hedges (hedge accounting)	-50,292	-56,377
Deposits with negative interest rates	595	220
<b>Total</b>	<b>-169,594</b>	<b>-206,586</b>

## 3.3 Risk provisions for "hold to collect" assets, derecognition

The risk provisions for on-balance-sheet and off-balance-sheet transactions are made up as follows:

EUR '000	H1 2018	H1 2017
<b>Risk provisions for "hold to collect" assets</b>	<b>8,533</b>	<b>1,698</b>
<b>Allocations to:</b>	<b>-9,060</b>	<b>-8,267</b>
Individual impairment allowances	N/A	-6,923
IFRS 9 stages (4.5)	-8,567	N/A
Collective impairment allowances	N/A	-1,333
Other credit provisions	-493	-11
<b>Reversals</b>	<b>16,046</b>	<b>8,193</b>
Individual impairment allowances	N/A	6,306
IFRS 9 stages (4.5)	15,114	N/A
Collective impairment allowances	N/A	1,610
Other credit provisions	932	277
<b>Receipts from written-off/impaired assets</b>	<b>1,577</b>	<b>1,815</b>
<b>Direct write-offs</b>	<b>-30</b>	<b>-43</b>
<b>Gains or losses on derecognition of financial assets previously accounted for at cost</b>	<b>-724</b>	<b>N/A</b>
Derecognition expenses	-724	N/A
<b>Total</b>	<b>7,809</b>	<b>1,698</b>

The improvement in the reporting period relative to the first half of 2017 stemmed from increased reversals of risk provisions. Additional details of the risk provisions and the various stages can be found in 4.5 Risk provisions for "hold to collect" assets and credit provisions.



### 3.4 Net fee and commission income

EUR '000	H1 2018	H1 2017
<b>Fee and commission income</b>	<b>9,095</b>	<b>8,888</b>
Credit-related	-	593
Securities and custody account business	2,829	2,901
Payment transactions	3,127	2,890
Foreign exchange, foreign notes and coins, and precious metals	77	108
Other services	646	2,084
Diversification	N/A	309
Trust transactions	1	-
Other fee and commission income	2,415	3
<b>Fee and commission expense</b>	<b>-1,360</b>	<b>-1,407</b>
Credit-related	-	-34
Securities and custody account business	-394	-647
Payment transactions	-	-506
Other services	-285	-10
Diversification	N/A	-210
Other fee and commission expenses	-681	-
<b>Total</b>	<b>7,735</b>	<b>7,481</b>

Net fee and commission income for 2018 is broken down into fee and commission categories.

### 3.5 Net trading income and non-trading financial instruments mandatorily measured at fair value

EUR '000	H1 2018	H1 2017
Interest rate transactions	-8	3,176
Foreign exchange transactions	110	-1,575
Equity transactions	0	9
Other transactions	0	88
Net loss on other non-trading financial assets mandatorily measured at fair value	-2,825	N/A
<b>Total</b>	<b>-2,724</b>	<b>1,698</b>

The income contributions of the interest rate transactions were mainly driven by the differing valuations of customer derivatives and the related hedges. The change is attributable to the altered interest rate situation. The impact on earnings of foreign exchange transactions was mainly due to forward foreign exchange operations, and CHF and USD cross-currency interest rate swaps. Net other operating income includes the offsetting effect of foreign exchange transactions.

## 3.6 Administrative expenses

Administrative expenses comprise staff costs, other administrative expenses, and depreciation, amortisation and impairment. These items were as follows:

EUR '000	H1 2018	H1 2017
Staff costs	-31,692	-31,833
Other administrative expenses	-29,715	-32,658
Depreciation, amortisation and impairment	-2,478	-2,928
<b>Total</b>	<b>-63,882</b>	<b>-67,418</b>

### 3.6.1 STAFF COSTS

EUR '000	H1 2018	H1 2017
Wages and salaries	-24,624	-24,398
Social security costs	-5,108	-5,295
Cost of voluntary employee benefits	-579	-543
Retirement benefit costs	-711	-722
Termination benefit costs	-670	-875
<i>of which expenses for provident fund</i>	-266	-291
<b>Total</b>	<b>-31,692</b>	<b>-31,833</b>

	H1 2018	H1 2017
Average number of employees (incl. staff on parental leave)	802	844

### 3.6.2 OTHER ADMINISTRATIVE EXPENSES

EUR '000	H1 2018	H1 2017
Premises	-2,492	-2,480
Office and communication expenses	-640	-632
IT expenses	-4,728	-5,064
Legal and consultancy costs	-1,875	-2,116
Advertising and entertainment costs	-2,382	-2,464
Sundry other administrative expenses	-17,598	-19,902
<i>of which financial stability contribution (bank tax)</i>	-7,429	-8,217
<i>of which deposit insurance fund and resolution fund</i>	-7,376	-8,385
<i>of which expenses for FMA and AFREP</i>	-275	-162
<b>Total</b>	<b>-29,715</b>	<b>-32,658</b>

The year-on-year reduction in administrative expenses is explained by a lower financial stability contribution and lower contributions to the deposit insurance scheme and the resolution fund. IT expenses, legal and consultancy costs, and advertising and entertainment costs also fell.

In addition to the statutory financial stability contribution, in 2016 all banks were required to pay a supplementary one-time stability contribution.

At year-end 2016, the HYPO NOE Group decided to spread the one-off contribution across the four years up to 2020, in accordance with section 5 Stability Contribution Act. As this payment is recognised in full at the beginning of the year and is not accrued by quarter, the contributions impact reported administrative expenses especially severely during the first half of the year.

### 3.6.3 DEPRECIATION, AMORTISATION AND IMPAIRMENT

EUR '000	H1 2018	H1 2017
Depreciation and amortisation	-2,478	-2,928
Intangible assets	-319	-333
Buildings used by Group companies	-909	-969
Equipment, fixtures and furnishings (incl. low value assets)	-1,250	-1,626
<b>Total</b>	<b>-2,478</b>	<b>-2,928</b>

## 3.7 Net other operating income/expenses

EUR '000	H1 2018	H1 2017
<b>Other rental income</b>	<b>128</b>	<b>163</b>
<b>Gains on disposal:</b>	<b>152</b>	<b>2,018</b>
intangible assets, and property, plant and equipment	152	2,018
<b>Net gains on recognition and reversal of provisions</b>	<b>-2</b>	<b>225</b>
<b>Sundry other operating income</b>	<b>11,796</b>	<b>12,065</b>
<i>of which net losses on repurchased liabilities measured at cost</i> (3,14)	-44	-162
Sundry other income	19,166	19,701
Sundry other expenses	-7,370	-7,636
<b>Total</b>	<b>12,074</b>	<b>14,471</b>

Gains on the disposal of intangible assets and property, plant and equipment as at 30 June 2017 chiefly resulted from the sale of a property.

“Sundry other income” includes net income of EUR 654thsd (H1 2017: EUR 2,593thsd) from currency translation (see Note 3.14 Net gains and losses on financial assets and liabilities). This item also includes income of EUR 3,061thsd ((H1 2017: EUR 3,053thsd) from administrative and intermediation fees, and net gains on a debt repurchase

### 3.8 Net gains or losses on disposal of consolidated subsidiaries

Reported net gains or losses on disposal of consolidated subsidiaries are attributable to a share deal involving a property near the centre of Vienna due to a change in the Bank's branch concept (see section 2). Changes in the scope of consolidation as at 30 June 2018.

EUR '000	H1 2018	H1 2017
Loans and advances to banks at cost	554	0
Other assets	11,301	0
<b>Total assets</b>	<b>11,854</b>	<b>0</b>
Deposits from banks	11,500	0
<b>Total liabilities</b>	<b>11,500</b>	<b>0</b>
Proceeds of disposal	8,640	0
- Assets disposed of	-11,854	0
+ Liabilities disposed of	11,500	0
<b>Net gains on disposal of consolidated subsidiaries</b>	<b>8,286</b>	<b>0</b>
Consideration received in cash and cash equivalents	8,640	0
Less cash and cash equivalents sold	0	0
<b>Proceeds from the disposal of subsidiaries</b>	<b>8,640</b>	<b>0</b>
Amount outstanding from the corporate transaction	0	0

### 3.9 Net gains or losses on investments accounted for using the equity method

This item includes net gains or losses relating to one foreign and 35 Austrian associates and joint ventures, and one foreign investment accounted for using the equity method.

EUR '000	H1 2018	H1 2017
Net gains on investments accounted for using the equity method	1,215	2,280
of which Viminal Grundstückverwaltungs Gesellschaft m.b.H.	297	0
of which NOE Immobilien Development AG (consolidated financial statements)	-205	-404
of which EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft (consolidated financial statements)	235	2,452
of which Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	299	255
of which HFF-ae-bewertete	356	29
<b>Total</b>	<b>1,215</b>	<b>2,280</b>

### 3.10 Net gains or losses on available-for-sale financial assets measured at fair value through other comprehensive income (debt instruments)

EUR '000		H1 2018	H1 2017
<b>Income from AFS financial assets</b>		<b>N/A</b>	<b>53</b>
Gains on disposal	(3,14)	N/A	53
<b>Expenses arising from AFS financial assets</b>		<b>N/A</b>	<b>-573</b>
Amortisation and impairment		N/A	-573
<b>Income from FVTOCI financial assets</b>		<b>1,143</b>	<b>N/A</b>
Gains on disposal	(3,14)	1,143	N/A
<b>Expenses arising from FVTOCI financial assets</b>		<b>-13</b>	<b>N/A</b>
Amortisation and impairment		-13	N/A
<b>Income from FVTOCI financial assets</b>		<b>1,130</b>	<b>-520</b>

The gains on disposal during the first half of 2018 related to nostro bonds, which were designated as at FVTOCI.

### 3.11 Net gains or losses on financial assets designated as at fair value through profit or loss

EUR '000		H1 2018	H1 2017
<b>Net gains or losses on financial assets</b>		<b>-84</b>	<b>65</b>
Loans		-84	65
<b>Total</b>		<b>-84</b>	<b>65</b>

### 3.12 Net gains or losses on financial assets measured at amortised cost

EUR '000		H1 2018	H1 2017
<b>Income from financial assets</b>		<b>239</b>	<b>N/A</b>
Gains on disposal/redemption		239	N/A
<b>Expenses arising from financial assets</b>		<b>-61</b>	<b>N/A</b>
Amortisation and impairment		-61	N/A
<b>Modification gain or loss on financial assets measured at amortised cost</b>		<b>21</b>	<b>N/A</b>
<b>Total</b>		<b>200</b>	<b>N/A</b>

### 3.13 Net gains or losses on hedges

EUR '000	H1 2018	H1 2017
<b>Hedge accounting</b>	<b>-1,983</b>	<b>-4,703</b>
Net gains or losses on underlying transactions	-11,724	5,615
Net gains or losses on hedging instruments	9,741	-10,318
<b>Total</b>	<b>-1,983</b>	<b>-4,703</b>

The net loss on hedges is principally attributable to the different discount rates applied to hedges and the related underlying transactions. The different discounting of hedges caused by changed market standards (OIS discounting) gives rise to temporary differences in the results. The derivatives measured at fair value (hedge transactions) mostly form part of closed positions.

### 3.14 Net gains or losses on financial assets and liabilities

EUR '000		H1 2018	H1 2017
<b>Net realised gains or losses on financial assets and liabilities not measured at fair value through profit or loss</b>		<b>1,338</b>	<b>-139</b>
Available-for-sale financial assets	(3,10)	N/A	53
Financial assets measured at FVTOCI		1,143	N/A
Loans and receivables (incl. finance leases)	(3,15)	N/A	-30
Financial assets measured at amortised cost	(3,12)	239	N/A
Financial liabilities measured at amortised cost	(3,7)	-44	-162
<b>Net gains or losses on financial assets and liabilities held for trading</b>	<b>(3,5)</b>	<b>-2,724</b>	<b>1,698</b>
Equity instruments and related derivatives		0	9
Interest rate instruments and related derivatives		-8	3,176
Foreign exchange trading		110	-1,575
Other non-trading financial assets mandatorily measured at fair value		-2,825	N/A
Other (incl. hybrid derivatives)		0	89
<b>Gains or losses on financial assets and liabilities measured at fair value through profit or loss</b>	<b>(3,11)</b>	<b>-84</b>	<b>65</b>
<b>Gains or losses on hedge accounting</b>	<b>(3,13)</b>	<b>-1,983</b>	<b>-4,703</b>
<b>Net gains or losses on currency translation</b>	<b>(3,7)</b>	<b>654</b>	<b>0</b>
<b>Total</b>		<b>-2,799</b>	<b>-3,079</b>

### 3.15 Income tax expense

EUR '000	H1 2018	H1 2017
Current income tax	-6,408	-6,610
Deferred income tax	252	4,371
<b>Total</b>	<b>-6,156</b>	<b>-2,239</b>

### 3.16 Income from discontinued operations

The HYPO NOE Group has decided to seek a strategic partner for HYPO NOE First Facility GmbH, a foreign subsidiary accounted for using the equity method. In consequence, measurement in accordance with IAS 28 was discontinued, and the entity was classified as non-current assets held for sale in accordance with IFRS 5.

EUR '000	H1 2018	H1 2017
Profit or loss on discontinued operations	0	46
Net gain on measurement at the net selling price	512	0
<b>Total</b>	<b>512</b>	<b>46</b>

### 3.17 Non-controlling interests

EUR '000	H1 2018	H1 2017
FORIS Grundstückvermietungs Gesellschaft m.b.H.	8	-5
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	60	-4
LITUS Grundstückvermietungs Gesellschaft m.b.H.	28	-4
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	-14	-14
Adoria Grundstückvermietungs Gesellschaft m.b.H.	-21	-19
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	-48	-3
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	-205	-116
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	1	-4
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	-20	-226
<b>Total</b>	<b>-211</b>	<b>-395</b>

## 4. Notes to the statement of financial position

### 4.1 Cash and balances at central banks

The marked decline in balances at central banks reflects action to shrink short-term excess liquidity.

EUR '000	30 Jun. 2018	31 Dec. 2017
Cash on hand	11,288	12,935
Balances at central banks	137,161	443,262
<b>Total</b>	<b>148,449</b>	<b>456,197</b>

### 4.2 “Hold to collect” loans and advances to banks

EUR '000	30 Jun. 2018	31 Dec. 2017
Domestic banks	64.462	66.211
Foreign banks		
CEE	4.939	519
Rest of the world	726.979	794.091
<b>Total</b>	<b>796.380</b>	<b>860.821</b>

### 4.3 “Hold to collect” loans and advances to customers

EUR '000	30 Jun. 2018	31 Dec. 2017
Domestic customers	9,709,208	9,256,681
Foreign customers		
CEE	481,118	386,361
Rest of the world	806,211	587,190
<b>Total</b>	<b>10,996,537</b>	<b>10,230,232</b>



## 4.4 Financial assets measured at FVTOCI (debt instruments)

EUR '000	30 Jun. 2018	31 Dec. 2017
Other equity instruments	0	54,875
Bonds	771,860	1,535,302
Interests in non-consolidated subsidiaries (over 50%)	106	106
Interests in associates (20-50%)	646	485
Other investments	1,991	2,237
<b>Total</b>	<b>774,603</b>	<b>1,593,005</b>

The reduction in holdings of bonds reflects the disposal of nostro bonds, designated as at FVTOCI, during the second quarter.

The previous year's figures concern the "available-for-sale financial assets" item.

## 4.5 Risk provisions for "hold to collect" assets and credit provisions

### 4.5.1 RISK PROVISIONS FOR "HOLD TO COLLECT" ASSETS AND CREDIT RISK PROVISIONS BY RISK CLASS

"Unwinding" refers to interest income from impaired loans and advances.

The risk provisions for financial assets measured at fair value through other comprehensive income (debt instruments) are shown for each stage, in the FVTOCI line item in the schedule of asset movements below. They are reported under item 4.4 Financial assets measured at FVTOCI (debt instruments).

EUR '000	1 Jan. 2018, IFRS 9	Allocations and POCI	Utilisation and derecognition
<b>Risk provisions for "hold to collect" assets - Stage 1</b>	<b>-11,063</b>	<b>0</b>	<b>127</b>
at cost ("hold to collect" loans and advances to banks and customers)	-10,811	0	127
FVTOCI	-252	0	0
<b>Risk provisions for "hold to collect" assets - Stage 2</b>	<b>-16,937</b>	<b>0</b>	<b>0</b>
at cost ("hold to collect" loans and advances to banks and customers)	-16,762	0	0
FVTOCI	-175	0	0
<b>Risk provisions for "hold to collect" assets - Stage 3</b>	<b>-64,568</b>	<b>0</b>	<b>0</b>
at cost ("hold to collect" loans and advances to banks and customers)	-64,568	0	0
<b>Subtotal: risk provisions for "hold to collect" assets</b>	<b>-92,568</b>	<b>0</b>	<b>127</b>
Credit provisions - Stage 1	1,217	0	0
Credit provisions - Stage 2	221	0	0
Credit provisions - Stage 3	229	0	0
<b>Total</b>	<b>-90,901</b>	<b>0</b>	<b>127</b>

	Net changes in credit risk						Write-offs	Un-winding	FX differences and other changes	30 Jun. 2018, IFRS 9
	Reversals, other changes in credit risk	Stage 1 to Stage 2	Stage 2 to Stage 1	Stage 2 to Stage 3	Stage 3 to Stage 2	Stage 1 to Stage 3				
	6,951	-292	-5,744	0	0	32	0	0	10	-9,978
	6,912	-292	-5,744	0	0	32	0	0	10	-9,766
	39	0	0	0	0	0	0	0	0	-212
	-2,232	283	5,759	65	-3	9	0	0	-51	-13,107
	-2,269	283	5,759	65	-3	9	0	0	-51	-12,969
	37	0	0	0	0	0	0	0	0	-138
	2,250	2	4	-68	0	-48	2,224	685	-26	-59,545
	2,250	2	4	-68	0	-48	2,224	685	-26	-59,545
	6,969	-7	19	-3	-3	-7	2,224	685	-67	-82,630
	-303	-43	100	0	0	0	0	0	0	972
	45	46	-104	0	1	0	0	0	0	208
	-181	0	0	0	-1	0	0	-1	0	48
	6,530	-4	15	-3	-3	-7	2,224	684	-67	-81,402

EUR '000	1 Jan. 2017 IAS 39	Alloca- tions	Utilisation	Reversals	Unwinding	Other changes	31 Dec. 2017 IAS 39
<b>Risk provisions for customers - individual impairment allowances</b>	<b>-92,927</b>	<b>-12,375</b>	<b>16,448</b>	<b>18,927</b>	<b>2,240</b>	<b>-2,676</b>	<b>-70,363</b>
Public sector customers	-5,352	-696	0	0	16	0	-6,032
Business customers	-61,558	-7,441	12,597	13,299	1,700	-991	-42,394
Housing developers	-124	-76	0	0	2	0	-198
Retail customers	-24,144	-4,127	3,752	5,328	506	-1,851	-20,536
Professionals	-1,749	-35	99	300	16	166	-1,203
<b>Risk provisions for customers - collective impairment allowances</b>	<b>-4,535</b>	<b>-2,396</b>	<b>0</b>	<b>2,024</b>	<b>0</b>	<b>0</b>	<b>-4,907</b>
<b>Subtotal: risk provisions</b>	<b>-97,462</b>	<b>-14,771</b>	<b>16,448</b>	<b>20,951</b>	<b>2,240</b>	<b>-2,676</b>	<b>-75,270</b>
Credit provisions	-3,377	-97	0	219	0	2,676	-579
Credit provisions - collective impairment allowances	-219	0	0	7	0	-247	-459
Credit provisions - individual impairment allowances	-3,158	-97	0	212	0	2,923	-120
<b>Total</b>	<b>-100,839</b>	<b>-14,868</b>	<b>16,448</b>	<b>21,170</b>	<b>2,240</b>	<b>0</b>	<b>-75,849</b>

#### 4.5.2 RISK PROVISIONS FOR "HOLD TO COLLECT" ASSETS BY REGION

EUR '000	30 Jun. 2018	31 Dec. 2017
Domestic	-54,539	-48,203
Foreign	0	0
CEE	-5,710	-7,733
Rest of the world	-22,031	-19,334
<b>Total</b>	<b>-82,280</b>	<b>-75,270</b>

## 4.6 Financial instruments mandatorily measured at fair value (held for trading and non-trading)

The "Positive fair value of financial instruments (banking book)" item is principally composed of the positive fair value of derivatives that do not qualify for hedge accounting and were essentially purchased for economic hedging purposes. Loans and securities in the fair value portfolio are carried as "Other financial assets mandatorily measured at fair value (non-trading)".

EUR '000	30 Jun. 2018	31 Dec. 2017
<b>Positive fair value of financial instruments (banking book)</b>	<b>449,482</b>	<b>476,252</b>
Interest rate derivatives	437,778	462,150
Foreign exchange derivatives	11,704	14,102
<b>Other financial assets mandatorily measured at fair value (non-trading)</b>	<b>244,803</b>	<b>N/A</b>
Loans	161,909	N/A
Bonds	82,894	N/A
<b>Total</b>	<b>694,285</b>	<b>476,252</b>

## 4.7 Positive fair value of hedges (hedge accounting)

The positive fair value of hedges is reported separately, on the assets side of the consolidated statement of financial position, if they qualify for hedge accounting under IFRS 9.

The positive fair value of hedges is classified according to the nature of the underlying transactions, as follows:

EUR '000	30 Jun. 2018	31 Dec. 2017
<b>Assets</b>	<b>1,599</b>	<b>2,293</b>
Loans and advances to banks	231	0
Loans and advances to customers	1,368	1,761
Financial assets	0	532
<b>Liabilities</b>	<b>381,291</b>	<b>402,936</b>
Deposits from banks	613	591
Deposits from customers	4,416	4,533
Debts evidenced by certificates	376,262	397,812
<b>Total</b>	<b>382,889</b>	<b>405,229</b>

## 4.8 Financial assets designated as at fair value through profit or loss

EUR '000	30 Jun. 2018	31 Dec. 2017
Loans	18,928	19,474
<b>Total</b>	<b>18,928</b>	<b>19,474</b>

## 4.9 Investments accounted for using the equity method

EUR '000	30 Jun. 2018	31 Dec. 2017
Banks	2,891	3,009
Non-banks	24,215	23,229
<b>Total</b>	<b>27,106</b>	<b>26,238</b>

## 4.10 Investment property

EUR '000	30 Jun. 2018	31 Dec. 2017
Investment property	40,538	41,382

## 4.11 Intangible assets

EUR '000	30 Jun. 2018	31 Dec. 2017
<b>Intangible assets</b>		
Software	631	932
<b>Total intangible assets</b>	<b>631</b>	<b>932</b>

## 4.12 Property, plant and equipment

EUR '000	30 Jun. 2018	31 Dec. 2017
<b>Property, plant and equipment</b>		
Land and buildings	60,673	61,581
IT equipment	349	476
Equipment, fixtures and furnishings	6,986	7,577
Other property, plant and equipment	14	38
<b>Total property, plant and equipment</b>	<b>68,022</b>	<b>69,672</b>

The carrying amount of land as at 30 June 2018 was EUR 12,983thsd (30 Jun. 2017: EUR 12,983thsd).

The fair value of land and buildings was EUR 70,635thsd (30 Jun. 2017: EUR 71,242thsd) at that date.

## 4.13 Tax assets

EUR '000	30 Jun. 2018	31 Dec. 2017
Current tax assets	11,087	20,659
Deferred tax assets	3,447	4,076
<b>Total</b>	<b>14,534</b>	<b>24,735</b>

No deferred tax assets were recognised in respect of tax loss carryforwards of EUR 16,608thsd (H1 2017: EUR 18,255thsd).

## 4.14 Other assets

EUR '000	30 Jun. 2018	31 Dec. 2017
Accruals and deferrals	8,322	9,018
Other receivables and assets	18,039	217,809
<i>of which future finance lease assets</i>	<i>N/A</i>	<i>196,092</i>
<i>of which value added tax (VAT) and other tax credits (other than income tax)</i>	<i>2,940</i>	<i>8,501</i>
<i>of which trade receivables</i>	<i>11,264</i>	<i>9,533</i>
<b>Total</b>	<b>26,361</b>	<b>226,827</b>

Since 1 Jan. 2018 future finance lease assets have formed part of item 4.3 "Hold to collect" loans and advances to customers.

## 4.15 Non-current assets held for sale (IFRS 5)

This item includes assets arising from disposals and not generated through continued use. Classification under this item only takes place if a non-current asset or disposal group is available for sale immediately in its current condition and disposal is highly likely.

EUR '000	30 Jun. 2018	31 Dec. 2017
Non-current assets held for sale (IFRS 5)	1,499	12,287
of which investments accounted for using the equity method	1,499	986
of which investment property	0	11,300
<b>Total</b>	<b>1,499</b>	<b>12,287</b>

As part of the steps taken to optimise the real estate business, four of the five consolidated foreign subsidiaries of HYPO NOE First Facility GmbH previously accounted for using the equity method (those subsidiaries in Bulgaria, Hungary, Romania and Slovakia) – those belonging to the Real Estate Services segment – were reclassified as IFRS 5 disposal groups. The disposal of HYPO NOE First Facility GmbH's CEE subsidiaries has been initiated by approaching potential acquirers, and a share deal is currently expected in 2018.

The disposal of Obere Donaustrasse 61 Liegenschaftserrichtungs- und -verwertungs GmbH was completed during the first half of 2018. Information on this transaction is given in Note 2 Changes in the scope of consolidation as at 30 June 2018 and in Note 3.8 Net gains or losses on disposal of consolidated subsidiaries.

## 4.16 Deposits from banks

EUR '000	30 Jun. 2018	31 Dec. 2017
Domestic banks	216,937	322,863
Foreign banks		
CEE	170,874	458,521
Rest of the world	560,685	583,784
<b>Total</b>	<b>948,496</b>	<b>1,365,168</b>

## 4.17 Deposits from customers

EUR '000	30 Jun. 2018	31 Dec. 2017
Domestic customers	3,967,127	3,749,081
Foreign customers		
CEE	16,045	60,304
Rest of the world	265,179	240,461
<b>Total</b>	<b>4,248,351</b>	<b>4,049,846</b>



## 4.18 Debts evidenced by certificates

EUR '000	30 Jun. 2018	31 Dec. 2017
Covered and municipal bonds	4,766,816	4,868,342
Other bonds	1,999,024	2,025,294
<b>Total</b>	<b>6,765,840</b>	<b>6,893,636</b>

Debts evidenced by certificates included EUR 511,685thsd (2017: EUR 1,016,391thsd) in new issues floated during the reporting period. The Group repurchased issued debt amounting to EUR 2,330thsd (2017: EUR 27,008thsd).

## 4.19 Liabilities held for trading

The negative fair value of derivatives not qualifying for hedge accounting is reported under this item.

EUR '000	30 Jun. 2018	31 Dec. 2017
<b>Negative fair value of financial instruments (banking book)</b>		
Interest rate derivatives	396,879	417,327
Foreign exchange derivatives	12,843	15,389
<b>Total</b>	<b>409,722</b>	<b>432,716</b>

## 4.20 Negative fair value of hedges (hedge accounting)

The negative fair value of hedges is reported separately, on the equity and liabilities side of the consolidated statement of financial position, if they qualify for hedge accounting under IFRS 9.

The negative fair value of hedges is classified according to the nature of the underlying transactions, as follows:

EUR '000	30 Jun. 2018	31 Dec. 2017
<b>Assets</b>	<b>639,959</b>	<b>674,784</b>
Loans and advances to banks	2,545	0
Loans and advances to customers	556,172	550,511
Financial assets	81,242	124,273
<b>Liabilities</b>	<b>24,252</b>	<b>30,832</b>
Deposits from banks	43	109
Debts evidenced by certificates	24,209	30,723
<b>Total</b>	<b>664,211</b>	<b>705,616</b>

## 4.21 Provisions

EUR '000	30 Jun. 2018	31 Dec. 2017
<b>Employee benefit provisions</b>	<b>35,669</b>	<b>36,207</b>
Provisions for pensions	22,252	23,092
Provisions for termination benefits	11,324	11,124
Provisions for jubilee benefits	2,093	1,991
<b>Credit provisions</b>	<b>1,228</b>	<b>579</b>
Stage 1	972	N/A
Stage 2	208	N/A
Stage 3	48	N/A
<b>Other provisions</b>	<b>3,995</b>	<b>4,122</b>
<b>Total</b>	<b>40,892</b>	<b>40,908</b>

## 4.22 Tax liabilities

EUR '000	30 Jun. 2018	31 Dec. 2017
Current tax liabilities	9,888	19,349
Deferred tax liabilities	27,149	43,075
<b>Total</b>	<b>37,037</b>	<b>62,424</b>

The deferred tax liabilities represent the potential additional tax burden due to temporary differences between the IFRS carrying amounts of assets and liabilities, and the tax bases.

Deferred tax assets are set off against deferred tax liabilities of the same entities.

## 4.23 Other liabilities

EUR '000	30 Jun. 2018	31 Dec. 2017
Accruals and deferrals	19,484	24,492
Other liabilities	124,525	115,353
<i>of which trade payables</i>	34,084	22,055
<i>of which outstanding invoices</i>	72,336	77,331
<i>of which VAT and other tax liabilities (other than income tax)</i>	6,287	3,274
<i>of which legal and consultancy costs</i>	293	656
<i>of which phantom-share-based cash incentives</i>	457	457
<b>Total</b>	<b>144,009</b>	<b>139,845</b>

## 4.24 Subordinated capital

EUR '000	30 Jun. 2018	31 Dec. 2017
Subordinated capital	1,453	1,453
<i>of which subordinated loans</i>	1,453	1,453

## 4.25 Equity

EUR '000	30 Jun. 2018	31 Dec. 2017
Share capital	51,981	51,981
Capital reserves	191,824	191,824
<i>of which appropriated reserve</i>	94,624	94,624
<i>of which unappropriated reserve</i>	97,200	97,200
Revaluation surplus	14,354	40,930
Retained earnings	381,721	383,281
<b>Equity attributable to owners of the parent</b>	<b>639,880</b>	<b>668,016</b>
Non-controlling interests	8,590	8,385
<b>Total</b>	<b>648,470</b>	<b>676,401</b>

Detailed information on equity and remeasurement is given in the consolidated statement of changes in equity.

## 4.26 Consolidated own funds and regulatory capital adequacy requirements

Regulation (EU) No 575/2013 (Capital Requirements Regulation IV, CRR IV) and the directive on access to the activity of credit institutions (Capital Requirements Directive IV, CRD IV), which came into effect in 2014, require the determination of banks' consolidated own funds and consolidated regulatory own funds requirements in accordance with IFRS and with the regulatory scope of consolidation.

The own funds of HYPO NOE Landesbank für Niederösterreich und Wien AG, calculated in accordance with the CRR/CRD IV requirements, are made up as follows:

EUR '000	CRR/CRD IV 30 Jun. 2018	CRR/CRD IV 31 Dec. 2017
Share capital	136,546	136,546
<i>of which paid-up capital instruments</i>	51,981	51,981
<i>of which premiums</i>	84,566	84,566
Reserves, differences and non-controlling interests	480,328	523,189
<i>of which retained earnings</i>	359,686	377,469
<i>of which other reserves</i>	104,744	104,744
<i>of which transitional adjustments due to additional minority interests</i>	0	121
<i>of which accumulated comprehensive income</i>	15,898	40,855
Prudential filter: adjustments due to the prudential measurement requirements	-2,950	-3,634
Other transitional adjustments to Common Equity Tier 1 (CET1) capital	0	-9,224
Intangible assets	-571	-862
CET1 capital	613,353	646,015
Additional Tier 1 (AT1) capital	0	0
<b>Tier 1 (T1) capital</b>	<b>613,353</b>	<b>646,015</b>
Holdings subject to deductions pursuant to Arts. 36 and 89 CRR	0	0
<b>Eligible Tier 1 capital</b>	<b>613,353</b>	<b>646,015</b>
Holdings subject to deductions pursuant to Arts. 36 and 89 CRR	0	0
<b>Total eligible capital</b>	<b>613,353</b>	<b>646,015</b>
<b>Own funds requirement</b>	<b>257,890</b>	<b>259,854</b>
<b>Own funds surplus</b>	<b>355,463</b>	<b>386,161</b>
Coverage ratio (%)	237,83%	248,61%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	19,03%	19,89%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR - fully phased in	19,03%	20,17%
Total capital ratio in accordance with Art. 92(2)(c) CRR	19,03%	19,89%
Total capital ratio in accordance with Art. 92(2)(c) CRR - fully phased in	19,03%	20,17%

Changes in the risk-weighted measurement basis and the resultant own funds requirements were as follows:

EUR '000	CRR/CRD IV 30 Jun. 2018	CRR/CRD IV 31 Dec. 2017
Risikogewichtete Bemessungsgrundlage für das Kreditrisiko	2,833,982	2,831,046
davon 8% Mindesteigenmittelerfordernis	226,719	226,484
Eigenmittelerfordernis für die offene Devisenposition	0	0
Eigenmittelerfordernis aus operationalem Risiko	24,043	24,557
Eigenmittelerfordernis aus CVA	7,128	8,814
<b>Totales Eigenmittelerfordernis</b>	<b>257,890</b>	<b>259,854</b>

In April 2018 HYPO NOE Landesbank für Niederösterreich und Wien AG received the latest FMA TSCR notice imposing an additional own funds requirement of 1.8%. As a result, both HYPO NOE Landesbank and the Group have an SREP total capital requirement of at least 9.8%, of which they must maintain at least 56% in the form of Common Equity Tier 1 capital as defined by Art. 92(2)(a) CRR (equivalent to at least 5.5%), and at least 75% in that of the Tier 1 capital ratio as defined by Art. 92(2)(b) CRR (corresponding to at least 7.4%).

In 2018, the HYPO NOE Group again exceeds the regulatory Tier 1 and total capital ratio (including the expected additional SREP requirements).

The first-time application effect on the CRR Tier 1 capital and CRR total capital ratio seen in the IFRS 9 consolidated financial statements was approximately -0.86% on the basis of the IFRS 9 opening balance sheet, as well as the additional specific risk provisions and reclassifications of financial instruments to be made in the risk weighted assets (RWA), and related changes to the exposures.

The main effect on Tier 1 capital comes from the additional impairment requirements imposed by the standard, which have an impact via the profit brought forward and the fact that the revaluation surplus is roughly halved by reclassifications of the nostro portfolio. The effect on the revaluation surplus is mitigated by the expiry on 31 December 2017 of the transitional provisions of Art. 468 (2) CRR in conjunction with section 2(2) CRR Implementing Order, which lessen the impact on Tier 1 capital ratio and the equity ratio by about 0.70%.

The total own funds requirement as at 30 June 2018 was EUR 257.9m – a slight reduction of EUR 2.0m or 0.8% from the position at year-end 2017 (31 Dec. 2017: EUR 259.9m). This reflects lower requirements for operational risk and, in particular, for credit valuation adjustment (CVA) risk. Although Stage 1 (12-month expected credit losses) and Stage 2 (lifetime expected credit losses) impairment recognition under IFRS 9 reduces RWA requirements, the shifts within the assets (fewer loans and advances to banks, more loans and advances to customers) also affect the measurement of RWA due to the differing risk weightings. Consequently the risk-weighted exposure to credit risk is almost as high as at year-end 2017.

Total eligible capital decreased by EUR 32.6m, to EUR 613.4m (31 Dec. 2017: EUR 646.0m), chiefly as a result of the negative effect on eligible Tier 1 capital of the first-time application of IFRS 9, which entered into mandatory effect on 1 January 2018.

## 5. Segment information

The Bank's segment reporting is in accordance with IFRS 8. The segment information is derived from the quarterly reports submitted to the Group Management Board, which is the chief operating decision maker. The reports contain a statement of profit or loss for each segment, as well as assets and liabilities by segment, and comments.

In addition to the quarterly segment reports, the Management Board also receives aggregate monthly figures which support management of the Group.

Up to 30 June 2017, segment reporting and internal Group reporting were broken down according to organisational units within the Gruppe Bank, Landesbank, Leasing and Other (principally comprising real estate subsidiaries) sub-groups.

Group companies HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG merged in 2017. The merger involved a number of organisational adjustments which required changes in the business segments in accordance with IFRS 8.

The organisational and management structure of the newly formed HYPO NOE Landesbank für Niederösterreich und Wien AG includes a breakdown of responsibilities by function and customer. Consequently, segment reporting was fundamentally revised and is now presented in this form. The subsidiaries are allocated to segments within the organisational structure. Based on this internal structure, the HYPO NOE Group now has five reportable operating segments.

The changes in segment reporting are in accordance with paragraph 29 IFRS 8, meaning that the previous year's figures have been adjusted in line with the present segment composition.

As the Group's most senior managing body, the Group Management Board regularly monitors the evolution of profit before tax in the various operating segments, and takes decisions on the management of the Group on the basis of the segment reporting.

Profit-centre accounting and the subsidiaries' financial statements in accordance with IFRS form the technical basis for segment reporting at HYPO NOE Landesbank für Niederösterreich und Wien AG. The same accounting policies as those described in Note 1 Accounting principles and policies are applied to the preparation of these statements. Accruals are reported during the year in each of the operating segments in respect of one-off payments made at the start of the year (resolution and deposit insurance fund contributions, one-off financial stability contribution). The difference between the accruals and the total payment is allocated to the Corporate Center (reconciliation column) during the year.

Under profit centre accounting, amounts are charged on the basis of Schierenbeck's market interest method. Interest income and expense are divided into a contribution to margin and a structural contribution (interest maturity transformation) and imputed refinancing costs (liquidity costs) are allocated directly to assets and liabilities. The resulting costs and income from liquidity maturity transformation and the results of interest maturity transformation are allocated to the Treasury & ALM segment. As a result of this logical financial approach, segment reporting does not include gross figures for net interest income.

Where appropriate, administrative expenses are allocated directly. Cost components that are not directly allocable are attributed to the various segments as part of a cause-based allocation procedure appropriate to the management of the Bank.

The segment assets and liabilities reported relate to on-balance-sheet retail business in the operating segments. Equity is included in the Corporate Center's liabilities.

The breakdown by geographical area in accordance with paragraph 33 IFRS 8 is based on the domicile of the reporting company, and accordingly all interest income is allocated to Austria. Non-current Group assets are located in Austria, with the exception of the carrying amounts of the foreign subsidiaries of HYPO NOE First Facility GmbH accounted for using the equity method.

A breakdown by products and services in accordance with paragraph 32 IFRS 8 is not provided, as the necessary information is not available in full on a regular basis and the cost to develop it would be excessive.

The five reportable segments, which are based on the HYPO NOE Group's organisational structure, and the reconciliation of consolidated profit are as follows.

## Public Sector

This segment includes financing and deposit-taking business with public-sector and government-related customers (primarily state governments, local and regional authorities, public agencies and infrastructure businesses). In addition to conventional loan finance, the focus is on bespoke financing models in the core markets of Lower Austria and Vienna, as well as in selected countries and major cities in the Danube region. Earnings from the administration of state-subsidised home-building loans, a service provided to the public sector by the HYPO NOE Group, are also reported in this segment.

All earnings of leasing subsidiaries (formerly the Leasing segment), which are almost entirely attributable to leasing transactions with the public sector and public agencies, are allocated to this segment. The leasing subsidiaries provide the following products: complex lease agreements relating to real estate projects, real estate project management services and business management services.

Financing and deposit-taking business with religious communities, interest groups and agriculture customers accounts for a minor proportion of the segment's business volume and earnings.

A business relationship with a major customer in the meaning of paragraph 34 IFRS 8 is included in the Public Finance unit. The customer in question is a public authority, and the services provided to it include leases as well as financing and deposits. Dealings with this customer and its allocable group entities, in accordance with the definition of major investments without taking into account the exemption for sub-groups, generated net interest income of EUR 10.2m. This income is made up of EUR 3.5m from direct business relationships with the customer, EUR 1.8m from direct business relationships with allocable group entities, and indirect business relationships in the form of lease refinancing amounting to EUR 4.9m.

## Real Estate & Large Corporates

The Group's business with property sector companies is allocated to this segment, with the exception of real estate finance and leases for the public sector, public agencies, retail customers and SMEs, which form part of the respective segments for those customer groups. Earnings from financing for the office, shopping centre, retail park, housing and city hotel asset classes, and mixed-use portfolios, as well as those from financing for non-profit and commercial housing developers, are reported in this segment.

The segment also includes corporate and structured finance, and time deposits for large corporates, i.e. companies with consolidated revenue above a specified threshold, as well as customers from outside Austria.

The interest in EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft (EWU), accounted for using the equity method, is not allocated to this segment, because it is measured using the value in use method, which is not typically used to calculate the earnings of the operating segments. The investment is managed by the investment management unit of HYPO NOE Landesbank für Niederösterreich und Wien AG, and is allocated to the Corporate Center.

## Retail and Corporate Customers

This segment includes banking business with retail and self-employed customers, as well as with small and medium-sized businesses. The products offered by this segment are aligned with the Bank's core competences in terms of the needs that it aims to meet, namely finance and housing, saving and investment, and accounts and cards. The product portfolio includes the full range of conventional banking products, from finance with an emphasis on residential construction, to investments in the form of savings and security custody accounts, and current accounts and credit cards. Close cooperation with the State of Lower Austria enables the Group to offer end-to-end support on loans and subsidies, ensuring informed advice and efficient processing.

The insurance brokerage business of HYPO NOE Versicherungsservice GmbH is also included in this segment. The Group's insurance service, HYPO NOE Versicherungsservice GmbH (HVS), acts as an independent broker and advises HYPO NOE customers on all matters relating to insurance.

## Treasury & ALM

All of the HYPO NOE Group's capital market operations and interbank business are allocated to Treasury & ALM. This includes capital market refinancing and interest rate and liquidity management activities, as well as the maintenance of a liquidity buffer by means of high-quality liquid assets and central bank deposits, and management of foreign exchange risk. This segment also includes the earnings contributions of the Group's asset liability management activities. From a regulatory point of view, the HYPO NOE Group only maintains a small trading book. Consequently, earnings in this segment are not materially affected by trading activities.

## Real Estate Services

Alongside conventional banking services, the HYPO NOE Group provides services along the entire real estate value chain. The HYPO NOE Group's real estate service portfolio is managed by HYPO NOE Immobilien Beteiligungsholding GmbH, which comprises property development company NOE Immobilien Development GmbH (NID), as well as HYPO NOE Real Consult GmbH and HYPO NOE First Facility GmbH. In line with the primary goal of providing a one-stop shop for the entire real estate management value chain, the holding company brings together facility and property management, real estate sales and brokerage services, cross-selling functions, and project development and management.

These activities were allocated to the Real Estate & Large Corporates segment in the 2017 annual report. Due to internal organisational changes, which entailed adaptation of allocated responsibilities, business activities related to real estate are reported as a separate segment.

## Corporate Center

The Corporate Center column serves to reconcile the operating segments' results with consolidated earnings. Consolidation adjustments, intrayear accruals (e.g. the one-off financial stability contribution and the resolution and deposit insurance fund contributions), and activities and bank support services which are not attributable to another segment and do not represent an independent reportable segment on account of their size, are allocated to the Corporate Center.

Bank support services relate to companies which manage properties used primarily by the Group and related assets. These companies principally include Benkerwiese Verwaltungs- und Verwertungsgesellschaft m.b.H., Benkerwiese Mietergemeinschaft GmbH, Unternehmens-, Verwaltungs- und Verwertungsgesellschaft m.b.H. and real estate valuation subsidiary HYPO NOE Valuation & Advisory GmbH. The rental expenses and valuation costs charged by these companies are recognised in the operating segments' administrative expenses on the basis of cause.

Earnings and expenses related to interests managed by the investment management unit of HYPO NOE Landesbank für Niederösterreich und Wien AG are also allocated to the Corporate Center.

Specific material earnings from prior years, and non-recurring earnings and expenses relating to the Bank as a whole are included in the Corporate Center so as to avoid, as far as possible, distorting segment reporting that provides the basis for management decisions. This approach is not applied to impairments or gains or losses from restructuring, which are allocated directly to the segments, as are the corresponding assets.

In accordance with paragraph 27ff. IFRS 8, the following asymmetrical allocations are also reported under Corporate Center:

- ▣ Costs of cash collateral for customer derivatives without collateral agreements. The assets of HYPO NOE Landesbank für Niederösterreich und Wien AG include substantial cash collateral positions (loans and advances to banks), which are hedged by the fair value of derivatives. A large proportion of these positions relate to customer derivatives concluded without collateral agreements. In accordance with the risk limits, market hedging of these customer derivatives was obligatory, and collateral obligations were not the market standard when most of the transactions were concluded. As a result of developments on financial markets and changes in the regulatory framework, hedging of derivatives concluded between banks by means of cash collateral is now common practice or obligatory, as there is a clearing obligation. In the case of customer derivatives concluded without collateral agreements, the HYPO NOE Group does not receive collateral from customers, but must post cash collateral with hedging partners. Liquidity costs are incurred when refinancing this collateral. Treasury & ALM is responsible for managing all collateral positions; however, the refinancing costs attributable to the aforementioned positions are allocated to the Corporate Center. Collateral requirements for future customer derivatives will be met by means of pricing or collateral agreements with customers, and are therefore not included in this asymmetric allocation.
- ▣ Effects of the Austrian Supreme Court's ruling on negative interest rates for consumer loans. The legislator's ruling that a floor of 0% only applies to the external interest rate charged to consumers, and a floor may not be applied to the related indicator (e.g. Euribor) went against the prevailing interpretation of the law and also had a negative impact on the Bank's



interest rate management methods. The decision was in contrast to the Bank's current management methodology. The negative interest rate effects of the ruling are therefore recognised in the Corporate Center. Treasury & ALM is responsible for management of the term structure. The effect relates exclusively to consumer loans, as long as money market rates (primarily the CHF LIBOR and three and six-month Euribor) are negative.

## Business models applied in segments in accordance with IFRS 9

The HYPO NOE Group has determined the business models applied in its operating segments in accordance with IFRS 9.

The following current business models were identified within the HYPO NOE Group.

### "Hold to collect"

The intention under the "hold to collect" business model is to hold debt instruments not merely on a long-term basis, but to maturity, with the focus on period-oriented net interest income management.

In principle, transactions in the Public Sector, Real Estate & Large Corporates and Retail and Corporate Customers segments are managed in accordance with this business model. Exceptions may arise due to portfolio reduction strategies or planned debt syndication. In the case of planned syndication, the portion of debt to be syndicated is allocated to the "hold to collect and sell" or "do not hold" business models, depending on the specifics of the intended syndication. There are no such cases at present. The financial instruments mandatorily measured at fair value in the aforementioned segments are those for which fair value measurement is required according to an SPPI test.

Specific portfolios held by Treasury & ALM are classified under this business model in accordance with nostro strategy.

### "Hold to collect and sell"

According to paragraph B4.1.4A IFRS 9, "an entity may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets." Under this business model significant and regular sales are neither incidental nor unexpected, but are an integral part of the asset management approach. Hence, under this business model there is no compulsion to hold financial assets to maturity.

Specific portfolios of assets defined in the nostro strategy are held in Treasury & ALM in accordance with this business model at present.

### "Do not hold"

Financial assets that do not meet the criteria for inclusion in the "hold to collect" or "hold to collect and sell" business models are categorised as "do not hold". This business model therefore represents a residual category.

From a regulatory point of view, Treasury & ALM only maintains a small trading book. Debt instruments in this small trading book are held in accordance with this business model.

## 5.1.1 SEGMENT PROFIT OR LOSS BEFORE TAX

The internal segmental reporting ends with profit/loss before tax. "Income tax expense" and "Non-controlling interests", in the Group column, reconcile the segmental analysis with the items in the consolidated financial statements. The presentation in the notes reflects internal reporting.

30.06.2018 EUR '000	Public Sector	Real Estate & Large Corporates	Retail and Corporate Customers	Treasury & ALM	Real Estate Services	Corporate Center	Group
Net interest income	18,626	16,614	13,860	10,929	194	-4,186	56,037
Credit risk provisions	1,383	4,877	1,290	133	125	1	7,809
<b>= Net interest income/expense after risk provisions</b>	<b>20,008</b>	<b>21,490</b>	<b>15,150</b>	<b>11,062</b>	<b>319</b>	<b>-4,185</b>	<b>63,845</b>
Net fee and commission income/expense	1,705	731	5,833	-573	-1	42	7,735
Net gains or losses on financial instruments mandatorily measured at fair value (net trading and non-trading income)	194	-299	599	-3,221	0	4	-2,724
Net losses on hedges	0	0	0	-1,983	0	0	-1,983
Net gains or losses on financial assets designated as at fair value through profit or loss	0	-84	0	0	0	0	-84
Net gains or losses on available-for-sale assets	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net gains on assets measured at fair value through other comprehensive income	0	0	0	1,130	0	0	1,130
Net gains or losses on financial assets measured at amortised cost	-1	10	13	179	0	0	200
Net gains on other financial investments	0	0	0	0	3	24	28
Net other operating income	2,601	2,822	497	3,243	5,283	-2,373	12,074
<b>= Operating income/expense after credit risk provisions</b>	<b>24,506</b>	<b>24,670</b>	<b>22,092</b>	<b>9,837</b>	<b>5,605</b>	<b>-6,488</b>	<b>80,222</b>
Administrative expenses	-12,682	-8,777	-20,792	-8,189	-6,411	-7,031	-63,882
Net gains on disposal of consolidated subsidiaries	0	0	0	0	8,286	0	8,286
Net gains or losses on investments accounted for using the equity method	291	0	0	0	174	750	1,215
<b>= Profit before tax</b>	<b>12,115</b>	<b>15,893</b>	<b>1,300</b>	<b>1,648</b>	<b>7,654</b>	<b>-12,769</b>	<b>25,841</b>
Income taxes							-6,156
Earnings from discontinued operations							512
<b>= Profit for the period</b>							<b>20,197</b>
Non-controlling interests							-211
<b>Profit attributable to owners of the parent</b>							<b>19,986</b>
Segment assets	7,633,857	2,028,351	1,423,459	2,673,469	49,429	99,916	13,908,482
Segment liabilities	2,264,749	735,845	1,921,872	8,267,788	5,263	712,964	13,908,482

30.06.2017 EUR '000	Public Sector	Real Estate & Large Corporates	Retail and Corporate Customers	Treasury & ALM	Real Estate Services	Corporate Center	Group
Net interest income	18,119	19,920	13,193	10,128	127	-5,311	56,176
Credit risk provisions	757	657	233	21	27	3	1,698
<b>= Net interest income/expense after risk provisions</b>	<b>18,876</b>	<b>20,577</b>	<b>13,426</b>	<b>10,149</b>	<b>154</b>	<b>-5,308</b>	<b>57,874</b>
Net fee and commission income/expense	1,687	430	5,862	-452	0	-46	7,481
Net gains or losses on financial instruments mandatorily measured at fair value (net trading and non-trading income)	3,122	-142	0	-1,259	0	-23	1,698
Net losses on hedges	0	0	0	-4,703	0	0	-4,703
Net gains or losses on financial assets designated as at fair value through profit or loss	0	65	0	0	0	0	65
Net gains or losses on available-for-sale assets	-568	0	0	39	0	9	-520
Net gains on assets measured at fair value through other comprehensive income	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net gains or losses on financial assets measured at amortised cost	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net gains or losses on other financial investments	0	0	0	-30	-1	-1	-32
Net other operating income	2,098	-28	405	6,477	5,654	-135	14,471
<b>= Operating income/expense after credit risk provisions</b>	<b>25,215</b>	<b>20,902</b>	<b>19,693</b>	<b>10,221</b>	<b>5,807</b>	<b>-5,504</b>	<b>76,334</b>
Administrative expenses	-13,749	-8,645	-21,795	-8,751	-6,644	-7,834	-67,418
Net gains or losses on investments accounted for using the equity method	-11	0	0	0	-426	2,717	2,280
<b>= Profit before tax</b>	<b>11,455</b>	<b>12,257</b>	<b>-2,102</b>	<b>1,470</b>	<b>-1,263</b>	<b>-10,621</b>	<b>11,196</b>
Income taxes							-2,239
Earnings from discontinued operations							46
<b>= Profit for the period</b>							<b>9,003</b>
Non-controlling interests							-395
<b>Profit attributable to owners of the parent</b>							<b>8,608</b>
Segment assets	7,635,752	2,257,413	1,305,783	4,534,006	63,266	112,793	15,909,013
Segment liabilities	1,783,926	664,596	2,010,230	10,678,441	5,430	766,390	15,909,013

Application of IFRS 9 came into effect on 1 January 2018, requiring significant changes in accounting and therefore the presentation of the business segments' performance. In particular, IFRS 9 should highlight positive and negative changes in the quality of the Group's portfolio of financial instruments, as risk provisions - significantly higher than the collective impairment allowances previously recognised - must also be recognised for exposures that are not in default. In particular, allocations to provisions are significant in cases of a material deterioration in loan quality. If loan quality improves, the provisions can be reversed. In addition, as a result of the introduction of SPPI criteria, segments must recognise a portfolio of assets that are mandatorily measured at fair value. The value of this portfolio is minor, but results in significant fluctuations in earnings, in particular in the Treasury & ALM segment.

The figures for the half-year ended 30 June 2017 are based on IAS 39, which was the applicable standard that year, and should therefore be read with the aforementioned accounting changes in mind.

As in 2017, administrative expenses were further reduced in the first half of 2018 thanks to strict cost management.

## Public Sector

On the liabilities side, the volume of business grew significantly, mainly as the result of successful placement of a tenant-linked bond for a subsidiary within the segment. This played a significant part in facilitating the repayment of state-guaranteed debt issued by the HYPO NOE Group that matured in 2017.

Net gains or losses from changes in fair value and trading in the Public Sector segment are largely influenced by the measurement effects of CVA and OIS-Euribor discounting. All customer derivatives are hedged. In 2017, such measurement effects had a positive effect on this earnings component.

## Real Estate & Large Corporates

Net interest income in the Real Estate & Large Corporates segment fell by EUR 3.3m in the reporting period, due primarily to the early repayment of high-interest debt.

Thanks mainly to a rise in net interest income after risk provisions as well as collection of penalty interest for early repayments, recognised under other operating income, the segment's operating income after credit provisions was EUR 3.7m higher than in the previous year.

## Retail and Corporate Customers

Due to increased net interest income, gains on risk provisions and lower costs, Retail and Corporate Customers reported profit before tax of EUR 1.3m in the first half, following a loss of EUR 2.1m in the previous year. This result is highly satisfactory in light of the level of competition and low interest rates.

Mandatory measurement of financial instruments at fair value in line with SPPI criteria, in accordance with IFRS 9, also had a positive effect.

The effects of the Austrian Supreme Court ruling on negative interest rates on consumer loans were not reported in this segment, as this factor was outside the sphere of influence of the segment's management, and the segment is not responsible for managing these effects.

## Treasury & ALM

The challenges associated with liquidity management in connection with repayment of state-guaranteed debt issued in 2017 were successfully overcome, thanks in part to far-sighted pre-funding activities. This also explains a significant portion of the year-on-year fall in segment assets and liabilities, as well as the increase of EUR 0.8m in net interest income. In preparation for the repayments referred to above, a series of interbank deposits were made which resulted in interest expense due to the level of market interest rates.

Mandatory measurement of financial instruments at fair value in accordance with IFRS 9 weighed on net gains or losses from changes in fair value and trading in 2018. This included securities that had already been paid out or were repaid or measured at fair value in the first half of 2018.

The differences in net gains or losses on hedges were the result of remeasurements of volumes, interest rates, imputed liquidity spreads and early repayments; income of EUR 2.4m (H1 2017: EUR 4.2m) from prepayment penalties is recognised in net other operating income.

The net gains on assets measured at fair value through other comprehensive income resulted from disposals of securities in 2018.

## Real Estate Services

The high net gains on disposal of consolidated subsidiaries in Real Estate Services resulted from the sale of the company Obere Donaustrasse 61 Liegenschaftserrichtungs- und -verwertungs GmbH, which owns a property in Vienna.

## Corporate Center

Net interest income in the Corporate Center in the first half of 2018 includes asymmetrical allocations relating to collateral costs of EUR 2.2m (H1 2017: costs of EUR 3.2m), as well as in relation to negative interest on consumer loans of EUR 1.6m (H1 2017: EUR 1.4m) for the current financial year.

Net interest income also comprises refinancing costs of EUR 0.8m for the Bank's support companies (primarily Group properties) (H1 2017: costs of EUR 0.8m), and income from investments held by the Group's parent (subsidiaries neither consolidated nor accounted for using the equity method) amounting to EUR 0.3m (H1 2017: nil).

Net other operating income in the Corporate Center segment includes specific material earnings from prior years and non-recurring earnings and expenses relating to the Bank as a whole, so as to avoid, as far as possible, distorting the segment reporting that provides the basis for management decisions. A one-off expense of EUR 1.2m arising from a project was recognised under this item in the first half of 2018. In 2017, the item included expenses of EUR 2.6m for allocations to provisions for negative interest in prior periods, as well as proceeds of EUR 2m from the sale of a Bank property.

Administrative expenses in the Corporate Center comprise intra-year allocations amounting to EUR 6.8m (H1 2017: EUR 7.9m) relating to the one-off financial stability contribution and the contributions to the resolution and deposit insurance funds. These expenses, which are paid in full on 1 January each year, are allocated to the operating segments over the course of the financial year.

Net gains on investments accounted for using the equity method in the Corporate Center were significantly affected by an increase in the value in use of the non-profit EWU sub-group of EUR 0.5m (H1 2017: increase of EUR 2.5m).

## 6. Supplementary information

### 6.1 Fair value disclosures in accordance with IFRS 7 and IFRS 13

The nature and extent of the risks associated with financial instruments, further sensitivity analyses and other disclosures also form part of Note 6.5 Risk management.

All obligations to pay interest or repay principal during the reporting period were met.

#### 6.1.1 FAIR VALUE

Fair value is the amount for which a financial instrument could be exchanged in an arm's length transaction between knowledgeable, willing parties not under compulsion to trade.

EUR '000	30 Jun. 2018		31 Dec. 2017	
	Fair value	Carrying amount	Fair value	Carrying amount
<b>Assets</b>				
"Hold to collect" loans and advances to banks	693,545	796,380	859,056	860,821
"Hold to collect" loans and advances to customers <sup>1</sup>	10,707,220	10,913,907	10,300,676	10,159,869
Financial assets measured at FVTOCI (debt instruments)	774,603	774,603	N/A	N/A
Financial instruments mandatorily measured at fair value (assets held for trading and non-trading assets)	694,285	694,285	476,252	476,252
Positive fair value of hedges (hedge accounting)	382,889	382,889	405,229	405,229
Available-for-sale financial assets	N/A	N/A	1,593,005	1,593,005
Financial assets designated as at fair value through profit or loss	18,928	18,928	19,474	19,474
Investments accounted for using the equity method	27,106	27,106	26,238	26,238
Investment property	47,805	40,538	47,805	41,382
Sundry other assets (incl. IFRS 5)	27,859	27,859	239,675	239,114
<b>Total assets</b>	<b>13,374,240</b>	<b>13,676,495</b>	<b>13,967,410</b>	<b>13,821,384</b>
<b>Equity and liabilities</b>				
Deposits from banks	949,622	948,496	1,369,023	1,365,168
Deposits from customers	4,250,605	4,248,351	4,050,281	4,049,846
Debts evidenced by certificates	6,771,296	6,765,840	6,984,872	6,893,636
Liabilities held for trading	409,722	409,722	432,716	432,716
Negative fair value of hedges	664,211	664,211	705,616	705,616
Other liabilities	143,994	144,009	139,844	139,844
Subordinated capital	1,453	1,453	1,453	1,453
<b>Total equity and liabilities</b>	<b>13,190,903</b>	<b>13,182,082</b>	<b>13,683,805</b>	<b>13,588,280</b>

<sup>1</sup> Carrying amount of loans and advances to customers, net of individual impairment allowances

## 6.1.2 FAIR VALUE HIERARCHY DISCLOSURES

IFRS 13 applies to the categories of financial instruments established by IFRS 9, as well as to those where fair value is required under other standards, and to other unrecognised instruments. Under IFRS 13 these financial instruments must be grouped into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of the instruments concerned.

Fair value measurements must be classified using a fair value hierarchy with the following levels:

### Level 1: quoted prices in active markets

These are quoted prices in active markets for identical assets or liabilities. In the HYPO NOE Group this mainly applies to exchange-traded securities.

### Level 2: valuation techniques based on observable inputs

Here, measurement is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This chiefly applies to OTC derivatives (assets and liabilities held for trading, and hedges) and securities not listed on active markets.

### Level 3: valuation techniques not based on observable inputs

In this case, the inputs for the asset or liability are unobservable, i.e. not based on observable market data. In this model, measurement is based on management's assumptions and assessments, which depend on the price transparency and complexity of the financial instrument.

30 Jun. 2018, EUR '000	Total fair value	Fair value measurement		
		Level 1	Level 2	Level 3
Assets				
"Hold to collect" loans and advances to banks	693,545	-	690,672	2,873
"Hold to collect" loans and advances to customers	10,707,220	-	55,185	10,652,035
Financial assets measured at FVTOCI (debt instruments)	774,603	746,394	25,467	2,742
Financial instruments mandatorily measured at fair value (assets held for trading and non-trading assets)	694,285	27,939	103,908	562,438
Positive fair value of hedges (hedge accounting)	382,889	-	382,889	-
Available-for-sale financial assets	N/A	N/A	N/A	N/A
Financial assets designated as at fair value through profit or loss	18,928	-	-	18,928
Investments accounted for using the equity method	27,106	-	-	27,106
Investment property	47,805	-	-	47,805
Sundry other assets (incl. IFRS 5)	27,859	-	-	27,859
Total assets	13,374,240	774,333	1,258,121	11,341,786
Equity and liabilities				
Deposits from banks	949,622	-	802,728	146,894
Deposits from customers	4,250,605	-	-	4,250,605
Debts evidenced by certificates	6,771,296	3,606,332	3,164,964	-
Liabilities held for trading	409,722	-	409,722	-
Negative fair value of hedges	664,211	-	664,211	-
Other liabilities	143,994	-	-	143,994
Subordinated capital	1,453	-	-	1,453
Total equity and liabilities	13,190,903	3,606,332	5,041,625	4,542,946

The fair value of properties in accordance with IAS 16 was EUR 70,635thsd - well above the carrying amount of EUR 60,673thsd (31 Dec. 2017: fair value EUR 71,242thsd, carrying amount EUR 61,581thsd).

Detailed information on Level 3 financial assets measured at fair value is shown in Note 6.1.3 Fair value hierarchy: Level 3 disclosures.

In contrast to 2017, there were no transfers of individual financial instruments between the different levels of the fair value hierarchy in the first half of 2018.

31 Dec. 2017, EUR '000	Total fair value	Fair value measurement		
		Level 1	Level 2	Level 3
Assets				
"Hold to collect" loans and advances to banks	859,056	-	856,868	2,188
"Hold to collect" loans and advances to customers	10,300,676	-	46,667	10,254,009
Financial assets measured at FVTOCI (debt instruments)	N/A	N/A	N/A	N/A
Financial instruments mandatorily measured at fair value (assets held for trading and non-trading assets)	476,252	-	50,384	425,868
Positive fair value of hedges (hedge accounting)	405,229	-	405,229	-
Available-for-sale financial assets	1,593,005	1,423,400	45,453	124,152
Financial assets designated as at fair value through profit or loss	19,474	-	-	19,474
Investments accounted for using the equity method	26,238	-	-	26,238
Investment property	47,805	-	-	47,805
Sundry other assets (incl. IFRS 5)	239,675	-	-	239,675
Total assets	13,967,410	1,423,400	1,404,601	11,139,409
Equity and liabilities				
Deposits from banks	1,369,023	-	866,733	502,290
Deposits from customers	4,050,281	-	-	4,050,281
Debts evidenced by certificates	6,984,872	3,891,828	3,089,845	3,199
Liabilities held for trading	432,716	-	432,716	-
Negative fair value of hedges	705,616	-	705,616	-
Other liabilities	139,844	-	-	139,844
Subordinated capital	1,453	-	-	1,453
Total equity and liabilities	13,683,805	3,891,828	5,094,910	4,697,067



### 6.1.3 FAIR VALUE HIERARCHY: LEVEL 3 DISCLOSURES

This item is mainly made up of the positive fair value of derivatives that do not qualify for hedge accounting and are measured at fair value.

EUR '000	Gains/losses			Purchases	Sales	30 Jun. 2018	Gains/losses recognised in statement of profit or loss for assets held as at 30 Jun. 2018
	1 Jan. 2018	Recognised in profit or loss	Recognised in other comprehensive income				
Assets							
Financial assets measured at FVTOCI (debt instruments)	2,703	-	67	-	-27	2,743	-
Financial instruments mandatorily measured at fair value (assets held for trading and non-trading assets)	594,705	-24,739	-	10,933	-18,460	562,439	-24,099
Available-for-sale financial assets	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Financial assets designated as at fair value through profit or loss	19,474	-84	-	-	-462	18,928	-84
Total assets	616,882	-24,823	67	10,933	-18,949	584,110	-24,183

The gains or losses on Level 3 assets are largely composed of the losses of EUR 24,099thsd on assets held for trading (2017: losses of EUR 87,331thsd) discussed in Note 3.5 Net trading income and non-trading financial instruments mandatorily measured at fair value.

EUR '000	Gains/losses			Purchases	Sales	31 Dec. 2017	Gains/losses recog- nised in statement of profit or loss for assets held as at 31 Dec. 2017
	1 Jan. 2017	Recognised in profit or loss	Recognised in other compre- hensive income				
Assets							
Financial assets measured at FVTOCI (debt instruments)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Financial instruments mandatorily measured at fair value (assets held for trading and non-trading assets)	501,845	-75,977	-	-	-	425,868	-87,331
Available-for-sale financial assets	136,467	-3,053	5,073	2	-14,339	124,151	-3,191
Financial assets designated as at fair value through profit or loss	20,340	57	-	-	-924	19,474	57
<b>Total assets</b>	<b>658,652</b>	<b>-78,973</b>	<b>5,073</b>	<b>2</b>	<b>-15,263</b>	<b>569,493</b>	<b>-90,465</b>

## 6.1.4 LEVEL 3 SENSITIVITY ANALYSIS

The disclosures below present the potential impact of the relative uncertainty involved in determining the fair value of financial instruments for which measurement is largely based on unobservable parameters (Level 3). Sensitivity indicators are used to analyse the level of uncertainty associated with measurement. The following parameters are taken into account in the sensitivity analysis:

- ▣ CDS spreads used to determine the CVA/DVA when measuring derivatives without collateral agreements;
- ▣ Credit spreads used to value illiquid securities in the portfolio, which are measured at amortised cost, and
- ▣ Upward valuation adjustments to reflect credit risk and liquidity costs when measuring loans contained in the fair value portfolio (fair value option).

On the basis of this framework, a range of 10 basis points (bp) for changes in the aforementioned parameters was used in the sensitivity analysis and the table below.

The table shows the impact of changes in material unobservable input parameters on the fair value of Level 3 financial instruments. The figures presented below do not represent a forecast or indication of future changes in fair value.

EUR '000	30 Jun. 2018		31 Dec. 2017	
	Positive changes in fair value	Negative changes in fair value	Positive changes in fair value	Negative changes in fair value
Derivatives	1,537	-1,537	1,670	-1,670
Securities	1,147	-1,147	1,207	-1,207
Loans measured using the FVO	31	-31	40	-40
<b>Total</b>	<b>2,715</b>	<b>-2,715</b>	<b>2,917</b>	<b>-2,917</b>

## 6.1.5 OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The Group concludes derivative transactions on the basis of master agreements that provide for transactions on a net basis (the International Swaps and Derivatives Association (ISDA) Master Agreement, as well as Austrian and German master agreements for financial derivative transactions). In certain cases defined in the agreements - for example, default or insolvency - all outstanding transactions under an agreement are terminated, the value upon termination is calculated, and a single net amount to balance all the transactions is payable.

These agreements do not fulfil the criteria for offsetting such transactions in the statement of financial position. This is because the Group is currently not legally entitled to offset the transactions, since under the agreements concluded an entitlement to offset transactions is only enforceable if certain events occur that terminate the agreements (e.g. default or the insolvency of the counterparty).

	Financial assets/ liabilities (gross)	Reported amounts offset (gross) (-)	Financial assets reported (net)	Effect of master netting agreements (-)  Not offset	Collateral in the form of financial instruments (-)  (d)(ii)	Net amount  (e)=(c)+(d)
30 Jun. 2018, EUR '000	(a)	(b)	(c)=(a)+(b)	(d)(i), (d)(ii)	(d)(ii)	(e)=(c)+(d)
<b>Assets</b>						
Financial instruments mandatorily measured at fair value (assets held for trading and non-trading assets)	694,285	-	694,285	-18,220	-8,890	667,175
Positive fair value of hedges (hedge accounting)	382,889	-	382,889	-255,034	-57,033	70,822
<b>Total assets</b>	<b>1,077,174</b>	<b>-</b>	<b>1,077,174</b>	<b>-273,254</b>	<b>-65,923</b>	<b>737,997</b>
<b>Equity and liabilities</b>						
Liabilities held for trading	409,722	-	409,722	-18,220	-	391,502
Negative fair value of hedges	664,211	-	664,211	-255,034	-	409,177
<b>Total equity and liabilities</b>	<b>1,073,933</b>	<b>-</b>	<b>1,073,933</b>	<b>-273,254</b>	<b>-</b>	<b>800,679</b>

	Financial assets/ liabilities (gross)	Reported amounts offset (gross) (-)	Financial assets reported (net)	Effect of master netting agreements (-)  Not offset	Collateral in the form of financial instruments (-)  (d)(ii)	Net amount  (e)=(c)+(d)
31 Dec. 2017, EUR '000	(a)	(b)	(c)=(a)+(b)	(d)(i), (d)(ii)	(d)(ii)	(e)=(c)+(d)
<b>Assets</b>						
Financial instruments mandatorily measured at fair value (assets held for trading and non-trading assets)	476,252	-	476,252	-20,895	-8,542	446,815
Positive fair value of hedges (hedge accounting)	405,229	-	405,229	-271,752	-56,563	76,914
<b>Total assets</b>	<b>881,481</b>	<b>-</b>	<b>881,481</b>	<b>-292,647</b>	<b>-65,105</b>	<b>523,729</b>
<b>Equity and liabilities</b>						
Liabilities held for trading	432,716	-	432,716	-20,895	-	411,821
Negative fair value of hedges	705,616	-	705,616	-271,752	-	433,864
<b>Total equity and liabilities</b>	<b>1,138,332</b>	<b>-</b>	<b>1,138,332</b>	<b>-292,647</b>	<b>-</b>	<b>845,685</b>

## 6.2 Derivatives

EUR '000	30 Jun. 2018			31 Dec. 2017		
	Nominal value	Fair value		Nominal value	Fair value	
		Positive	Negative		Positive	Negative
<b>Derivatives held for trading</b>						
Interest rate	5,020,200	437,778	396,879	5,196,582	462,150	417,327
Foreign currencies and gold	735,956	11,704	12,843	648,398	14,102	15,389
<b>Total</b>	<b>5,756,156</b>	<b>449,482</b>	<b>409,722</b>	<b>5,844,980</b>	<b>476,252</b>	<b>432,716</b>
<b>Fair value hedges</b>						
Interest rate	9,303,520	381,721	653,152	9,558,902	402,916	690,052
Foreign currencies and gold	154,987	1,168	11,059	168,159	2,313	15,564
<b>Total</b>	<b>9,458,507</b>	<b>382,889</b>	<b>664,211</b>	<b>9,727,061</b>	<b>405,229</b>	<b>705,616</b>

## 6.3 Assets and liabilities by IFRS 9 measurement category

	Loans and receivables (LAR)	"Hold to collect" loans and receivables	Liabilities measured at amortised cost (LAC)	Measured at FVTOCI ("hold to collect and sell")
<b>30 Jun. 2018, EUR '000</b>				
Cash and balances at central banks	N/A	-	-	-
"Hold to collect" loans and advances to banks	N/A	796,380	-	-
"Hold to collect" loans and advances to customers	N/A	10,996,537	-	-
Financial assets measured at FVTOCI (debt instruments)	N/A	-	-	771,860
Risk provisions for "hold to collect" assets	N/A	-82,280	-	-
Financial instruments mandatorily measured at fair value (assets held for trading and non-trading assets)	N/A	-	-	-
Positive fair value of hedges	N/A	-	-	-
Available-for-sale financial assets	N/A	N/A	N/A	N/A
Financial assets designated as at fair value through profit or loss	N/A	-	-	-
Investments accounted for using the equity method	N/A	-	-	-
Investment property	N/A	-	-	-
Other financial assets <sup>1</sup>	N/A	18,039	-	-
<b>Total financial assets</b>	<b>N/A</b>	<b>11,728,676</b>	<b>-</b>	<b>771,860</b>
Deposits from banks	N/A	-	948,496	-
Deposits from customers	N/A	-	4,248,351	-
Debts evidenced by certificates	N/A	-	6,765,840	-
Liabilities held for trading	N/A	-	-	-
Negative fair value of hedges	N/A	-	-	-
Subordinated capital	N/A	-	1,453	-
Equity repayable on demand	N/A	-	-	-
Other financial liabilities <sup>1</sup>	N/A	-	124,525	-
<b>Total financial liabilities</b>	<b>N/A</b>	<b>-</b>	<b>12,088,665</b>	<b>-</b>

Equity instru- ments measured at FVTOCI	Financial instruments held for trading (HFT)/mandatorily measured at fair value	Designated as at fair value through profit or loss (FVTPL)	Availa- ble-for-sale (AFS)	Fair value hedges	Financial assets/ liabilities at amortised cost	Total
-	-	-	N/A	-	148,449	148,449
-	-	-	N/A	-	-	796,380
-	-	-	N/A	-	-	10,996,537
2,743	-	-	N/A	-	-	771,860
-	-	-	N/A	-	-	-82,280
-	694,285	-	N/A	-	-	694,285
-	-	-	N/A	382,889	-	382,889
N/A	N/A	N/A	N/A	N/A	N/A	N/A
-	-	18,928	N/A	-	-	18,928
-	-	-	N/A	-	27,106	27,106
-	-	-	N/A	-	40,538	40,538
-	-	-	N/A	-	-	18,039
<b>2,743</b>	<b>694,285</b>	<b>18,928</b>	<b>N/A</b>	<b>382,889</b>	<b>216,093</b>	<b>13,812,731</b>
-	-	-	N/A	-	-	948,496
-	-	-	N/A	-	-	4,248,351
-	-	-	N/A	-	-	6,765,840
-	409,722	-	N/A	-	-	409,722
-	-	-	N/A	664,211	-	664,211
-	-	-	N/A	-	-	1,453
-	-	-	N/A	-	-	-
-	-	-	N/A	-	-	124,525
<b>-</b>	<b>409,722</b>	<b>-</b>	<b>N/A</b>	<b>664,211</b>	<b>-</b>	<b>13,162,598</b>

31 Dec. 2017, EUR '000	Loans and receivables (LAR)	"Hold to collect" loans and receivables	Liabilities measured at amortised cost (LAC)	Measured at FVTOCI ("hold to collect and sell")
Cash and balances at central banks	-	N/A	-	N/A
"Hold to collect" loans and advances to banks	860,821	N/A	-	N/A
"Hold to collect" loans and advances to customers	10,230,232	N/A	-	N/A
Financial assets measured at FVTOCI (debt instruments)	N/A	N/A	N/A	N/A
Risk provisions for "hold to collect" assets	-75,270	N/A	-	N/A
Financial instruments mandatorily measured at fair value (assets held for trading and non-trading assets)	-	N/A	-	N/A
Positive fair value of hedges	-	N/A	-	N/A
Available-for-sale financial assets	-	N/A	-	N/A
Financial assets designated as at fair value through profit or loss	-	N/A	-	N/A
Investments accounted for using the equity method	-	N/A	-	N/A
Investment property	-	N/A	-	N/A
Other financial assets <sup>1</sup>	217,809	N/A	-	N/A
<b>Total financial assets</b>	<b>11,233,592</b>	<b>N/A</b>	<b>-</b>	<b>N/A</b>
Deposits from banks	-	N/A	1,365,168	N/A
Deposits from customers	-	N/A	4,049,846	N/A
Debts evidenced by certificates	-	N/A	6,893,636	N/A
Liabilities held for trading	-	N/A	-	N/A
Negative fair value of hedges	-	N/A	-	N/A
Subordinated capital	-	N/A	1,453	N/A
Other financial liabilities <sup>1</sup>	-	N/A	115,353	N/A
<b>Total financial liabilities</b>	<b>-</b>	<b>N/A</b>	<b>12,425,456</b>	<b>N/A</b>

<sup>1</sup> Shown under other assets or other liabilities in the statement of financial position

	Equity instru- ments measured at FVTOCI	Financial instruments held for trading (HFT)/mandatorily measured at fair value	Designated as at fair value through profit or loss (FVTPL)	Availa- ble-for-sale (AFS)	Fair value hedges	Financial assets/liabilities at cost (at amortised cost)	Total
	N/A	-	-	-	-	456,197	456,197
	N/A	-	-	-	-	-	860,821
	N/A	-	-	-	-	-	10,230,232
	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	N/A	-	-	-	-	-	-75,270
	N/A	476,252	-	-	-	-	476,252
	N/A	-	-	-	405,229	-	405,229
	N/A	-	-	1,593,005	-	-	1,593,005
	N/A	-	19,474	-	-	-	19,474
	N/A	-	-	-	-	26,238	26,238
	N/A	-	-	-	-	41,382	41,382
	N/A	-	-	-	-	-	217,809
	N/A	476,252	19,474	1,593,005	405,229	523,817	14,251,369
	N/A	-	-	-	-	-	1,365,168
	N/A	-	-	-	-	-	4,049,846
	N/A	-	-	-	-	-	6,893,636
	N/A	432,716	-	-	-	-	432,716
	N/A	-	-	-	705,616	-	705,616
	N/A	-	-	-	-	-	1,453
	N/A	-	-	-	-	-	115,353
	N/A	432,716	-	-	705,616	-	13,563,788

## 6.4 Disclosures on related-party relationships

30 Jun. 2018, EUR '000	Investors with influ- ence over the Group's parent	Non-con- solidated subsidiaries (holding greater than 50%)	Associates accounted for using the equity method	Joint ventures in which the Company is a joint venturer, account- ed for using the equity method	Other related parties	Key management
"Hold to collect" loans and advances to customers	2,985,843	114,872	349,055	451	6,399	1,883
<i>of which lease receivables</i>	<i>2,147,104</i>	-	-	-	-	-
Equity instruments (shareholdings, etc.)	-	106	26,166	940	657	-
Positive fair value of derivatives	84,506	-	-	-	-	-
Other assets	-	-	14	-	6	-
Deposits from banks	-	-	-	1,685	-	-
Deposits from customers	43,601	254	72,208	59	11,418	2,393
Other liabilities	2,208	-	-	-	-	-
Interest income	13,239	250	4,355	1	19	1
Interest on debt capital	-35	-	-18	-1	-8	-2
Dividend income	-	-	482	167	39	-
Fee and commission income	-	1	121	1	5	-
Fee and commission expense	-	-	-1	-	-	-
Other income and expenses	-1,628	32	310	65	68	-
Increase or decrease in impairment losses and provisions for impaired debt instruments, defaulted guarantees and defaulted obligations during the reporting period	-	-	-	-	-	-
Other obligations incl. unused credit lines	437,906	40,934	16,789	7,270	8,212	86
Guarantees received by the Group	2,629,020	-	-	-	-	-
Credit provisions, and individual and collective impairment allowances	153	3	302	-	-	13



31 Dec. 2017, EUR '000	Investors with influence over the Group's parent	Non-consolidated subsidiaries (holding greater than 50%)	Associates accounted for using the equity method	Joint ventures in which the Company is a joint venturer, accounted for using the equity method	Other related parties	Key management
"Hold to collect" loans and advances to customers	2,794,713	114,909	352,925	516	7,770	2,277
<i>of which lease receivables</i>	2,060,485	-	-	-	-	-
Equity instruments (shareholdings, etc.)	-	106	25,299	940	485	-
Positive fair value of derivatives	90,301	-	-	-	-	-
Other assets	102,378	-	-	3	-	-
Deposits from banks	-	-	-	1,563	-	-
Deposits from customers	41,839	362	42,243	78	9,588	2,624
Other liabilities	-	-	56	242	-	-
Interest income	19,895	470	11,928	1	35	6
Interest on debt capital	-	-	-18	-1	-12	-8
Dividend income	-	-	566	297	-	-
Fee and commission income	-	2	202	-	7	1
Fee and commission expense	-	-	-	-	-2	-42
Other income and expenses	1,133	82	609	21	49	-
Increase or decrease in impairment losses and provisions for impaired debt instruments, defaulted guarantees and defaulted obligations during the reporting period	-	-	-	-	-	-9
Other obligations incl. unused credit lines	434,575	40,900	14,605	7,284	9,319	83
Guarantees received by the Group	2,610,241	-	-	-	-	-
Credit provisions, and individual and collective impairment allowances	-	1	94	-	1	12

## 6.5 Risk management

The HYPO NOE Group defines risk as the possibility of unexpected, unfavourable future developments that could have adverse effects on its assets, earnings or liquidity or those of individual subsidiaries.

All significant business activities in pursuit of the Group's strategic goals are planned to reflect strategic risk considerations, with very close attention paid to risk-bearing capacity. The Group attaches particular importance to ensuring that risks are incurred only where the potential rewards are commensurate. Risks are not ends in themselves; they are assumed in the interests of value creation and hence improved risk-bearing capacity, as well as adequate returns on risk capital. The refinement of instruments and processes designed to maintain an appropriate balance of risks and rewards is integral to the Group's long-term strategy.

The HYPO NOE Group also maintains a healthy balance between risk-bearing capacity and the risks incurred. The eligible risk coverage capital is very carefully defined, and the confidence level for risk quantification (i.e. the probability of loss) is set at a conservative level.

The disclosure of risks is based on the Group's internal risk management and risk reporting systems.

### Risk management system

Achieving business success necessarily involves taking risks. The HYPO NOE Group practises active risk transformation – risks are incurred on the basis of considered decisions. The Group's risk management objectives are to identify, quantify, actively manage and monitor all types of banking risks (credit, interest rate, market, liquidity, operational, reputational and other risks).

The Group's organisational structure provides for a clear separation of front and back office functions (in accordance with the four-eye principle) at every level up to and including the Management Board. The front office functions originate business and give initial clearance to transactions, while the back office functions cast an independent vote that confers final approval. The internal control regulations require the unanimous approval of the front and back office functions for all business decisions that would alter the risk profile. There are also arrangements for the approval of exposures requiring resolutions of the Group's Supervisory Board.

There is a clear separation of operational and strategic risk management functions. Assessment of credit risk, calculation of individual impairment allowances for non-performing loans (NPLs), and NPL monitoring are also organisationally separate. This ensures that an effective internal control system is in place.

In principle, all quantifiable risks throughout the HYPO NOE Group are subject to the Group-wide, uniform limit system, which is permanently monitored. No risk may be assumed unless a corresponding limit is in place. The Group-wide risk reporting system ensures that reporting of all risks is regular, timely and comprehensive. In addition to the monthly risk management report, which provides an aggregated summary of all risks and their capital coverage, the Management and Supervisory Boards receive separate, regular risk reports for each risk category. These provide comprehensive information on current risk-related developments.

The disclosures required by Part 8 of the CRR are made on a consolidated basis for the HYPO NOE Group, and are published in a separate document posted on the corporate website ([www.hyponeoe.at](http://www.hyponeoe.at)).

### Aggregate risk management and risk-bearing capacity (ICAAP)

The identification, quantification and monitoring of total bank risk at portfolio level is the responsibility of the Strategic Risk Management Department, and encompasses the identification, measurement, aggregation and analysis of all the risks assumed.

Maintenance of adequate risk bearing capacity is monitored using two control mechanisms:

1. The economic capital management control loop provides creditor protection against the dangers of customer liquidation. Risks are evaluated at a high confidence level (99.9% with a holding period of one year) and compared with the risk coverage capital available in the event of liquidation.

2. The going concern management control loop is designed to ensure that the Bank survives as a going concern. In this case, risks are evaluated at a lower confidence level (95% with a holding period of one year) and compared with the realisable coverage capital available without endangering survival.

As at 30 June 2018 the Group utilised 58.7% of the aggregate risk limit (including an adequate buffer), which was slightly lower than at 31 December 2017 (62.8%).

## RECOVERY PLAN

Under the *Bundesgesetz über die Sanierung und Abwicklung von Banken* (Federal Act on the Recovery and Resolution of Banks), which came into force on 1 January 2015, the HYPO NOE Group is required to prepare a recovery plan. When embedded in day-to-day operations, the plan will form an integral part of the Group's risk and capital management framework.

At the core of the expanded risk management and overall control processes resulting from the recovery plan, specific indicators, restructuring measures and communication procedures will be established, as well as robust escalation and decision-making processes within the internal governance structure that supplement the existing control measures in the event of an impending or unfolding crisis.

The changes in recovery indicators are an essential aspect of reports by the relevant management bodies. The 2018 review of the Group's recovery plan, in accordance with the Act on the Recovery and Resolution of Banks, is currently in progress, with a focus on assessing the selected indicators, including the defined threshold values, as well as updating the overall restructuring capacity and the defined scenarios.

Together with the HYPO NOE Group's stable business model, which is geared towards maintaining profitability over the long term, and dictates that risks can only be assumed on the basis of an overall risk strategy that is in line with the Group's regional roots in Lower Austria, the recovery plan forms an additional key element in protecting the HYPO NOE Group's assets, as well as the Group's business partners and shareholders.

## BANK-WIDE STRESS TESTING

As part of the internal Bank-wide stress testing process, a comprehensive economic study compiled every year provides the basis for the annual analysis of scenarios relevant to the HYPO NOE Group's business model (e.g. protectionism and trade wars, possible effects of new regulations, and a downgrade in the Republic of Austria's rating). The impact of the scenarios on credit, investment, interest rate and liquidity risk at Group level are simulated, in terms of both regulatory and economic risk-bearing capacity. The results of the stress test and the possible countermeasures identified are discussed by the Management Board and presented to the Supervisory Board.

## BASEL III/IV

While ongoing reporting improvements to meet revised reporting standards have now become routine, preparations for implementing future measures (currently known as Basel IV) and analysing their effects are also under way. Analysis shows that the revisions made by the Basel Committee on Banking Supervision (BCBS) to rules for all significant types of risk, and the amendments to the Capital Requirements Regulation (CRR II) and Capital Requirements Directive (CRD V) outlined in consultation papers published by the European Commission, present a major challenge for banks. The objective here is not merely to achieve regulatory compliance, but also to evaluate the effects on all areas of the Bank, so as to be able to initiate any necessary corrective measures in areas such as planning and business strategy in good time.

## SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

The collection of qualitative and quantitative data based on a questionnaire was concluded in the first half of 2018, and the Bank sent the completed SREP questionnaire to the OeNB on time.

Under the notice issued by the FMA, HYPO NOE Landesbank für Niederösterreich und Wien AG must maintain a SREP ratio which influences the minimum capital requirements under Pillar I and II. The Bank received the latest notice in April 2018. Its capitalisation is sufficient to meet the new requirements.

## UPGRADING RISK MANAGEMENT SYSTEMS

In 2018 the HYPO NOE Group will again upgrade its IT infrastructure, processes and methodologies, in order to be capable of meeting future regulatory requirements (Basel IV, IFRS 9, MREL, NSFR, funding plans, leverage ratio and rating models). This will also ensure that the Group's risk control systems remain compatible with the permitted level of risk tolerance and its business objectives.

### Credit risk

Credit risk is the risk of a change in creditworthiness. Monitoring it means watching the risk of a worsening in creditworthiness and, in the worst case, the default of a counterparty or guarantor. Credit risks are of various types, depending on the product groups involved. Loans involve classic credit risk (counterparty risk), while derivatives entail replacement risk, and securities issuer risk. There is also investment risk, customer foreign exchange risk, endowment loan risk and country risk, for all of which the corresponding limits are monitored.

Principles derived from the strategic objectives provide the framework for assuming and managing individual credit risks. The principles are implemented in operational credit risk management using a tailored reporting system, predetermined limits, appropriate measurement methods and transparent processes.

The HYPO NOE Group's credit risk strategy is based on the following risk policy principles:

- ▣ Identifying and regularly evaluating credit risks
- ▣ Identifying models and processes for measuring credit risks, and regularly reviewing their suitability
- ▣ Quantifying credit risks on the basis of the processes established
- ▣ Identifying and complying with statutory regulations and environmental conditions
- ▣ Establishing Management's risk tolerance and appetite
- ▣ Limiting and monitoring credit risks on the basis of the risk tolerance arrived at
- ▣ Appropriate reporting
- ▣ Employing processes and procedures for the risk-reflective allocation of credit costs

The HYPO NOE Group calculates regulatory capital for credit risks using the standardised approach required by Chapter 2 of Title II of Part 3 of the CRR, and applies the "simple" credit risk mitigation method.

The internal risk management system employs the 25-level HYPO master scale, which is shown in condensed form below.

HYPO NOE Group master scale		PD reconciliation	
Grade	Rating grade	Moody's	S&P
Investment	1A - 1E	Aaa - A1	AAA - A+
	2A - 2E	A2 - Baa3	A - BBB-
	3A - 3E	Ba1 - B2	BB+ - B+
	4A - 4B	B3 - Caa1	B
Non-investment	4C - 4E	Caa2 - C	B- - C
	5A - 5E	D	D

For private customers, the Group currently employs an applications rating procedure together with behaviour rating for ongoing evaluation. Business customers are assessed using different rating instruments for start-ups, businesses preparing accounts on a cash basis and those using accrual accounting. In the case of companies using accrual accounting, the appropriate rating module is selected according to operating revenue and the role of risk in transactions with retail customers. There are also separate processes for local authorities and for banks. Credit ratings for specialised lending are carried out using the slotting approach based on income-producing real estate (IPRE) and project finance ratings. A rating tool is used to evaluate the creditworthiness of condominium apartments under the Wohnungseigentumsgesetz (Condominium Act). Other customer categories are currently rated internally on the basis of expert analyses and external information.

Internal ratings are generally used for credit risks, foreign exchange risks (defaults) and investment risks. The number of unrated customers is negligible, and their accounts are constantly monitored. Unrated loans are generally assigned a conservative 4A rating.

## CREDIT RISK ANALYSIS

Lending is the HYPO NOE Group's core business, and assuming and managing credit risks, and keeping them within limits is one of the Bank's core competences. Lending activities, the valuation and classification of collateral, and credit ratings are all governed by strict organisational and substantive rules, the basic principles of which are set out in the Group risk manual. These rules establish the decision-making authorities, credit rating and collateral classification procedures, and guidelines for lending and loan management.

The operational credit risk management unit is responsible for the full range of activities related to the assessment, monitoring and management of all risks associated with on-balance-sheet and off-balance-sheet lending at the individual customer level.

The main emphasis is on checking both the form and content of loan applications and providing second opinions. These units have sole responsibility for confirming rating assessments (apart from those in the low-volume retail lending business).

In addition, the operational credit risk management unit is responsible for monitoring early warning indicators (principally generated by Credit Services) in order to identify potential problem customers as early as possible, so as to be able to initiate *countermeasures in good time*. The appearance of certain early warning signs (payment arrears, warnings from the rating system, deterioration in the quality of information provided, etc.) means that the loan is designated a watch loan, with stepped-up customer service and monitoring.

Primary responsibility for loans subject to intensified service (watch list phase) lies with the front office unit concerned and corresponding operational credit risk unit. Intensive Care Management can provide support in individual cases, for example by drawing up action plans and attending meetings with the customer. The objective of intensified service is to eliminate uncertainty regarding the risk situation and to reach a decision on whether the loan can be returned to normal service or needs to be transferred to Intensive Care Management due to elevated risk.

If the increased risk factors are considered lasting, so that there is an acute threat to the continued existence of the debtor, or if the loan threatens to significantly affect the Bank's risk position due to its size, Intensive Care Management is informed immediately by the responsible front office unit.

Intensive Care Management is responsible for the management of non-performing loans and provisioning (recognition of individual impairment allowances).

Forborne exposures (i.e. loans for which the terms and conditions have been amended for reasons of creditworthiness) are monitored by the front office units in conjunction with operational credit risk management or by Intensive Care Management.

## COUNTRY ANALYSIS

The current economic upturn has resulted in a noticeable improvement in fundamentals. Among other things, this is reflected in increased credit demand in the HYPO NOE Group's target markets, as well as an uptick in profitability and improved capitalisation in local banking sectors. However, risks such as political upheaval in Italy and Spain, Brexit and rising populism, including at European level, are increasingly taking centre stage. Heightened geopolitical tensions and trade restrictions, and the related potential implications (including reduced EU subsidies for net beneficiary countries) for the HYPO NOE Group's overall portfolio are being monitored. The Group is also closely tracking the potential for overheating house prices in certain countries. High asset ownership and consistently strong demand in the countries concerned are mitigating these risks, however.

The HYPO NOE Group's exposures in countries on Europe's outer periphery (almost exclusively government bonds) have continued to fall. Fundamentals in these countries have also brightened significantly. In spite of some improvements (a decline in non-performing loans and increased capitalisation), the Italian banking sector is still under pressure, and the Group is monitoring it closely.

The analysis by region - Austria, Central and Eastern Europe (CEE) and the rest of the world (ROW) - is shown in the detailed tables in notes 4.2 "Hold to collect" loans and advances to banks and 4.3 "Hold to collect" loans and advances to customers.

## RISK PROVISIONS

Under IFRS 9, the incurred losses model in IAS 39 is replaced by a forward-looking model based on expected credit losses (ECL) on financial assets and contract assets. The IFRS 9 impairment model is applicable to financial assets measured at amortised cost or at fair value through other comprehensive income, and to contract assets. This includes other sight deposits, bonds, loans, finance lease receivables and trade receivables. Provisions are calculated for financial guarantees and unutilised loan commitments.

IFRS 9 sets out a three-stage impairment model based on changes in credit quality since initial recognition. The three-stage model is not applied to purchased or originated credit-impaired (POCI) financial instruments, i.e. those for which there are indications of impairment upon acquisition or origination.

Under the model, financial instruments for which there has not been a significant increase in credit risk since initial recognition are allocated to Stage 1. 12-month expected credit losses are recognised in profit or loss for Stage 1 financial instruments. Credit losses are calculated on the basis of the probability of default (PD), exposure at default (EAD), loss given default (LGD) and the credit conversion factor (CCF) for off-balance-sheet items.

Financial instruments for which there has been a significant increase in credit risk since initial recognition are transferred to Stage 2. Risk provisions equal to the lifetime expected credit losses are recognised for Stage 2 financial instruments. As in Stage 1, in such cases risk provisions are only recognised for the entire lifetime of the instrument.

Financial instruments in default in accordance with the CRR definition are allocated to Stage 3. The HYPO NOE Group takes a holistic customer perspective – in other words, the focus is on the customer as a whole rather than individual exposures. Risk provisions are calculated using the expected cash flow (ECF) or standard calculation method. The ECF method is used in the event of significant customer defaults. Risk provisions are made on the basis of an individual assessment of the difference between the gross carrying amount and the present value of expected cash flows. Cash flows are discounted using the effective interest rate.

Customers are classified as significant if total loans and advances and off-balance-sheet items exceed a given threshold. Individual impairment allowances for insignificant customers are calculated using a parameter-based approach. The method used is like Stage 2, with the exception that only a monthly allowance is calculated, as  $PD=1$ .

Risk provisions for credit losses are calculated monthly, in the contract currency, on an individual transaction basis.

Significant increases in credit risk are among the key parameters of this model. The HYPO NOE Group uses quantitative and qualitative indicators to determine whether credit risk has increased significantly.

The quantitative indicators include deteriorations in the probability of default over the entire or remaining maturity of the instrument, and their significance is determined on the basis of an absolute threshold. The PD threshold applies to all loans and advances. For the quantitative analysis, the PD curve for the entire maturity of an instrument as at the time of measurement is compared with a forward-looking PD curve for the entire maturity as at the time of initial recognition. When determining the PD curve for the entire maturity of the instrument as at the time of initial recognition, assumptions are made regarding the curve's structure. In the case of financial instruments with solid ratings, it is assumed that the probability of default will rise over time. The opposite is assumed for financial instruments with poor ratings, with the probability of default assumed to decline over time.

Qualitative indicators employed to determine whether there has been a significant increase in credit risk include forbearance measures, whether payment is 30-days past due and early warning indicators (to the extent that these were not adequately reflected by the rating).

The Group has only chosen to apply the low credit risk exemption under IFRS 9 for financial instruments to investment-grade assets or assets classified as low risk where these form part of rating level 1 transactions. The 12-month expected credit losses are calculated for transactions where there is a low risk of default. Indicators that point to a significant increase in credit risk are not applied to such transactions.

Current internal customer ratings usually form the basis for the estimation of credit losses. The HYPO NOE Group only applies portfolio ratings to purchased subsidised home loans. These loans are allocated to clusters in accordance with the segment classification as defined by Basel II, and each risk cluster is given a separate rating.

Provided that sufficient data are available, the lifetime PD curve is based on internal default data, taking account of macroeconomic data. If insufficient statistically meaningful data are available owing to historically low default rates, and the effects of these defaults are immaterial, comparable parameters are applied.

The parameters underlying the calculation of impairment allowances are continuously updated on the basis of sensitivity analysis. Here, particularly close attention is paid to LGD, the value of collateral, PD point in time (PIT) adjustment, the seasoning effect (changes in expectations of default over time), and the validation and review of rating systems.

The process of validating, enhancing and improving the stability of the models and parameters applied is due for completion by year-end.

The analysis of risk provisions and provisions broken down by customer, region and term is shown in notes 4.5 Risk provisions for "hold to collect" assets and credit provisions, in 4.5.1 Risk provisions for "hold to collect" assets and credit risk provisions by risk class, and in 4.5.2 Risk provisions for "hold to collect" assets and credit provisions by region.

## CREDIT RISK MONITORING AND PORTFOLIO MANAGEMENT

For individual customers, risk monitoring is the responsibility of the operational credit risk management unit concerned, which checks credit ratings, monitors blacklists drawn up by Credit Services and processes loan applications that potentially entail significant risks. In addition, relationship managers are required to prepare comprehensive reviews of the current situation for each customer when necessary, and at least once a year, irrespective of the amount of the exposure and the credit rating. The reviews are submitted to the managers with the requisite decision-making authority. Customers who give cause for concern (where significant risk is involved) are monitored by the operational credit risk management unit. Where there is a significant deterioration in the risk situation, the exposures are transferred to the specialists in Intensive Care Management, who are not involved in front office approval.

Where necessary, assessment is carried out immediately to determine whether risk provisions for the exposure in question will in future be calculated in Stage 3 using the ECF or standard calculation method, due to attainment of the significance threshold. If risk provisions for the Stage 3 loan in question are calculated using the ECF method, a decision must be made as to whether an ECF analysis is required immediately (i.e. outside the quarterly process cycle). If not, the risk provisions are calculated prior to the next regular ECF process cycle, using the standard calculation method, or at the latest in the next quarterly ECF process cycle, using the ECF method. All customers with 5A ratings are immediately transferred to Intensive Care Management.

The Strategic Risk Management Department is responsible for monitoring credit risk at portfolio level. Management is kept up to date with changes in credit risks by means of monthly credit risk reports and regular or case-by-case reports on risk-related issues (transfer of accounts to the Collections Department, changes in overdrawn balances, etc.). Management is comprehensively briefed on the Group's risk situation, including in-depth analysis of selected issues, at meetings of the Risk Management Committee (RICO).

## CREDIT RISK SITUATION IN 2018

The Group's loan and investment portfolio largely consists of low-risk loans to public sector borrowers such as sovereigns, the Austrian federal government, state governments and local authorities (and their associated enterprises) – mainly in Lower Austria – as well as loans to banks with good external ratings (predominantly own investments, derivatives and money market investments), and generally well collateralised loans to housing developers (both large housing associations and private sector builders). A considerable proportion of the Group's total lending relates to the purchase of subsidised home loans from the Lower Austrian state government, which are fully secured by a guarantee from the State of Lower Austria.

The HYPO NOE Group also finances real estate projects with excellent or good credit ratings, as well as infrastructure enterprises, corporate and retail customers, and SMEs.

The credit portfolio shows no notable concentrations of risk from a Group perspective, with the exception of the loans mentioned above. Public sector financing in Lower Austria accounts for the bulk of business activities.

The non-performing loan (NPL) ratio, defined as total exposure to default customers divided by total loans and advances to customers, is calculated at Group level. As at 30 June 2018, the NPL ratio was 1.84% (31 Dec. 2017: 1.67%).

# Market risk

## GENERAL

Market risks are potential losses resulting from declines in the underlying value of exposures due to changes in market prices.

Bank-specific market risks include:

- ▣ Interest rate risk in the banking book
- ▣ Credit spread risk
- ▣ Fund price risk
- ▣ Foreign exchange risk
- ▣ Options risk (volatility risk)
- ▣ Trading book risk
- ▣ Basis risk in hedge accounting
- ▣ Credit valuation adjustment (CVA) risk
- ▣ Concentration risk as part of market risk
- ▣ Commodity price risk
- ▣ Share price risk

The HYPO NOE Group's market risk management strategy sets out the guidelines for managing the various Bank-specific market risks.

The major market risks facing the HYPO NOE Group are interest rate risk on the banking book and credit spread risk arising in part from ordinary banking activities such as fixed-interest lending and management of liquidity reserves. The Group has limits and detailed monitoring and control processes for these risks. Business strategy considerations mean that foreign exchange risk and option risk (e.g. embedded upper and lower interest rate limits) are also managed.

As a result of changes in the underlying environment in financial markets (such as multiple curve approaches and OIS discounting on collateralised derivatives) and in regulatory provisions (Basel III, IFRS 9, etc.), the management of basis risk in hedge and CVA accounting is assuming ever greater importance. The Bank also uses the small trading book for servicing the secondary market and trading on its own account.

At 30 June 2018 the Bank had no investments in investment funds and was therefore not exposed to fund price risk.

In the HYPO NOE Group no internal risk capital is earmarked for commodities risk or share price risk, and consequently no substantial risks may be incurred in these market risk categories.

The overriding goal of the Group's market risk management activities is guaranteeing adequate capital coverage of the market risks incurred at all times, and ensuring that individual risk positions are transparent, and are appropriately monitored and managed. Based on this goal, the Group has set the following principal objectives for market risk management:

- ▣ Identifying and evaluating all of the Bank's key market risks
- ▣ Taking into account key market risks in the calculation of the Bank's total risk-bearing capacity and in Bank-specific stress testing scenarios
- ▣ Optimising the allocation of risk capital and market risk positions with respect to risk and earnings expectations
- ▣ Taking earnings expectations and risk tolerance into consideration in planning processes
- ▣ Complying with statutory requirements
- ▣ In the light of these objectives, risk policy principles were defined as part of the process of determining the market risk strategy, and these strategic guidelines are implemented in the course of operational market risk management activities.

These principles are:

- ▣ Identifying and regularly evaluating market risks
- ▣ Specifying, and regularly reviewing the suitability of, models and processes for measuring market risks
- ▣ Quantifying market risks on the basis of the processes established
- ▣ Determining Management's tolerance and appetite for the various types of market risk
- ▣ Identifying and complying with statutory regulations and environmental conditions
- ▣ Limiting and monitoring market risks on the basis of the chosen risk tolerance
- ▣ Appropriate reporting



## INTEREST RATE RISK IN THE BANKING BOOK

In its approach to the measurement and control of interest rate risk, the HYPO NOE Group distinguishes between period net interest income risk, which primarily represents the risk of net interest income fluctuations in a given period, and present value risk, which is a measure of the loss in underlying value of a given portfolio as a result of interest-rate-induced changes in present values.

As a priority, the HYPO NOE Group monitors and manages interest rate risks in respect of net interest income and sub-portfolios relevant to IFRS earnings and equity, since these are primary indicators of performance in the accounts for a given period. The present value of the interest rate risk on the entire banking book is managed to ensure conformity with Bank's total risk-bearing capacity and compliance with the limit requirements set out in the OeNB interest rate risk statistics. The Bank's equity is managed separately, using an equity book.

Interest rate risks on structured positions and fixed-interest positions in the retail business (loans, securities, issues, etc.) are - to the extent that is possible and efficient - microhedged from the outset and accounted for using hedge accounting. Medium to long-term open positions taken by the Bank in the light of interest rate expectations must reflect the product-specific risk profile, and must be in authorised products and within the approved limits. If no appropriate limits have yet been set for a desired position, the Strategic Risk Management Department and the unit taking the risk jointly propose a limit and a monitoring process, which must be approved by the Management Board before the transaction is completed.

## INTEREST RATE RISK MANAGEMENT

Monitoring and quantification of interest rate risk is the responsibility of the Strategic Risk Management Department, which is independent of both front and back office operations. This analysis generates interest rate gap and sensitivity analyses. Positions with interest rates fixed for indefinite periods are modelled and regularly assessed on the basis of statistical methods and/or expert evaluations. Analyses are carried out for the banking book as a whole and for sub-portfolios.

The management of intra-year interest rate risk positions is the responsibility of the Treasury/Capital Market/Financial Institutions (FI) Department, while the ALM team handles management of long-term interest rate risk positions. Fixed and non-linear interest rate risks are by and large eliminated by hedging. Strategic long-term positions in the banking book that are sensitive to interest rates are discussed by the Asset-Liability Management Committee on the recommendation of ALM and - following approval by the Management Board - managed by Treasury/Capital Market/FI Department. Equity is invested and reported in the form of a rolling fixed-income portfolio.

## BANKING BOOK

The present value of interest rate risk for the banking book as a whole is subject to an absolute limit for the purposes of internal risk measurement. The limit is determined during the annual risk budgeting process on the basis of the Bank's total risk-bearing capacity and risk tolerance, and in line with the limit requirements set out in the OeNB interest rate risk statistics.

The present value of interest rate risk for all interest-sensitive positions (i.e. not for non-interest-bearing equity or interest-free investments) is measured for the banking book as a whole. The total risk is subject to a limit, is monitored, and is restricted to the limit by using derivatives (mainly interest rate swaps). The basis of the measurement is the effect of a range of interest scenarios and interest rate shifts on the underlying value of the banking book.

Interest rate risk is assessed using gap analysis and interest rate sensitivity. The worst-case change in the present value of the entire banking book is calculated on the basis of the six Basel Committee on Banking Supervision (BCBS) interest rate risk in the banking book (IRRBB) scenarios (confidence level of 99.9% for the liquidation approach) and scaled up to 95% for the going concern approach. Parallel shifts and twists in the yield curve (on money and capital markets) are also modelled in the interest rate scenarios.

Risk measurement in accordance with the OeNB interest rate risk statistics is carried out in compliance with regulatory requirements. Fixed interest rate gaps between the assets and liabilities sides of the banking book are calculated and then multiplied by a weighting factor. The OeNB sets a weighting factor for each maturity band, which is equivalent to twice the modified duration of a zero-coupon bond and is designed to show the effect of a 200 bp interest rate shift on present values. Risk is calculated separately for each of the main currencies, and the total risk per currency is arrived at by adding absolute figures.

## INDIVIDUAL PORTFOLIOS

In addition to monitoring and control of the banking book as a whole, limits are also set and monitored for the interest-sensitive IFRS FV P&L and IFRS FVTOCI sub-portfolios. Risk assessment and limits as at 31 December 2017 were based on 1 bp present value sensitivities. Risk assessment and limits as at 30 June 2018 were set using present value sensitivities based on the six BCBS IRRBB scenarios, scaled up to a confidence level of 95%.

Even with a perfectly selected fixed-interest position and the structural contribution from maturity mismatch, there are fluctuations in net interest earnings as a result of differences in the behaviour of variable reference rates (three-month Euribor, six-month Euribor, etc.) or of the same reference rates due to different interest fixing dates.

To manage the net interest income risk, interest-sensitive positions with less than one year to maturity or repricing dates within a year are regularly analysed and taken into account in the risk measurement process.

For non-interest-bearing equity, equity investments are made. The equity book is kept and managed separately, with the aim of limiting the fluctuations in net interest income.

## INTEREST RATE RISK IN 2018

The OeNB statistics indicate that interest rate risk remains low relative to the regulatory limit (20% of eligible capital). The following table shows the results of the OeNB regulatory interest rate risk statistics as at 30 June 2018 and 31 December 2017:

OeNB regulatory interest rate risk statistics	30 Jun. 2018	31 Dec. 2017
OeNB interest rate risk indicator	2.90%	0.60%

## CREDIT SPREAD RISK

Credit spread risks are particularly important in connection with the Group's own investments, and these risks are monitored and reported on in the monthly risk management report. The credit spread risk is calculated for the whole nostro portfolio in the banking book using a market price value-at-risk approach based on historical credit spread scenarios. This indicator measures the potential loss in value from widening spreads that would be realised by selling the whole securities portfolio on a gone concern basis.

## FUND PRICE RISK

As at 30 June 2018 the Bank had no investments in investment funds and was therefore not exposed to fund price risk.

## FOREIGN EXCHANGE RISK

The HYPO NOE Group's conservative risk policies are reflected in strict internal limits on open currency positions. The use of refinancing in the same currency and of FX derivatives means that foreign exchange risks for the Group are effectively eliminated. As at 30 June 2018 the Group was not subject to the CRR own funds requirement for foreign exchange positions, as the total position for the Group as a whole was less than 2% of eligible capital. The internal limit for foreign exchange positions as a whole is below this figure.

## OPTIONS RISK

Volatility risks in the HYPO NOE Group are principally a consequence of upper and lower interest rate limits on loans and deposits. These positions are largely managed through the interest rate risk management banking book by means of appropriate terms and conditions for assets and liabilities. Options are only used for control purposes to a very limited extent.

## TRADING BOOK RISK

The Group does not engage in any business that requires it to maintain a large trading book as defined by the Capital Requirements Regulation. It maintains a small trading book in accordance with Article 94 CRR, and the volume of business is therefore limited in line with the provisions of that Article.

## BASIS RISK IN HEDGE ACCOUNTING

Hedges do not always offer effective protection against measurement losses, because there can be differences between the hedging instrument and the position hedged regarding the terms and conditions, specific features or other basis risks. Changes in the financial market environment (e.g. multiple curve approaches or OIS discounting of hedged derivatives) can potentially cause present value IFRS earnings losses on balance sheet microhedges, reflecting the resulting hedging inefficiencies. These effects are regularly analysed and monitored.

The key risks for the Bank are:

Basis risks arising from differing discount curves (credit support annex [CSA] swaps with OIS discounting vs. underlying with interbank offered rate [IBOR] discounting)

FX basis risks

Basis risks arising from differing discount curves are in principle purely valuation risks that result from current market practice with respect to valuation in hedge accounting. Derivatives with CSAs are discounted using the risk-free (OIS) curve, while the hedged underlyings (generally loans or securities) are discounted using the IBOR yield curve, which incorporates the interbank liquidity spread as well as risk-free interest rates.

FX basis risks arise because the FX basis components in the hedged underlying do not qualify for hedge accounting, but are included in the valuation of the hedge instrument. This leads to the contradictory situation that when the FX basis risk is adequately hedged by a cross-currency swap with matching maturity, there is a risk of earnings fluctuations over the term in response to changes in the FX basis spread, due to their inclusion in the valuation of the FX derivative. In economic terms, over the entire term of such FX hedges there is no such risk, as the periodic earnings effects cancel each other out.

## CVA/DVA RISK

When calculating the fair value of derivative instruments, a credit valuation adjustment (CVA) must be taken into account for counterparty risk and a debt valuation adjustment (DVA) for the Bank's own credit risk. Refinement of the valuation methodology has resulted in a move towards a market-based valuation process, and the effects of the CVA and DVA are recognised in consolidated profit or loss. These effects are regularly analysed.

## Liquidity risk

Liquidity risk is defined as the danger that the HYPO NOE Group will be unable to meet its present and future payment obligations in full and on time, or may only be able to do so at prohibitive cost.

The HYPO NOE Group distinguishes between intraday liquidity risk management, operational liquidity management (up to one year), and the planning and implementation of the medium-to-long-term refinancing strategy (structural liquidity risk).

## LIQUIDITY RISK MANAGEMENT

The task of the liquidity risk management function is to identify, analyse and manage the HYPO NOE Group's liquidity risk position, so as to maintain sufficient, cost-effective liquidity coverage at all times.

This forms the basis for the Group's fundamental objectives for liquidity risk management, which are:

- ▣ Maintaining an appropriate liquidity buffer to ensure solvency at all times, on the basis of a system of stress tests and limits
- ▣ Optimising the refinancing structure with respect to risk tolerance, maturity transformation and costs
- ▣ Detailed planning of the medium-to-long-term refinancing strategy
- ▣ Coordinating issuing activities in the money and capital markets
- ▣ Pricing commensurate with risks and costs
- ▣ Complying with statutory regulations and environmental conditions

These objectives define the core elements of the Group's liquidity risk management processes, namely:

- ▣ Identifying and regularly evaluating liquidity risks
- ▣ Identifying and regularly reviewing the suitability of models and processes for measuring liquidity risks
- ▣ Quantifying liquidity risk on the basis of the established processes
- ▣ Identifying and complying with statutory regulations and environmental conditions
- ▣ Establishing Management's risk tolerance and appetite
- ▣ Maintaining an appropriate liquidity buffer at all times
- ▣ Limiting and monitoring liquidity risks on the basis of the chosen risk tolerance
- ▣ Appropriate reporting
- ▣ Identifying potential emergency situations, preparing contingency plans and reviewing them regularly to ensure they are up to date and appropriate
- ▣ Efficient and timely management of operational liquidity
- ▣ Implementing and monitoring the medium-to-long-term refinancing strategy
- ▣ Using processes and procedures for risk-related allocation of liquidity costs

## IMPLEMENTING INTRADAY LIQUIDITY RISK MANAGEMENT PROCESSES

In order to manage, plan and monitor the Group's daily liquidity requirements, each week the Strategic Risk Management Department prepares a report on daily liquidity gaps in existing business for the next 30 days, broken down by currency. In addition, daily reports are prepared on the operational liquidity positions.

## IMPLEMENTATION OF LIQUIDITY RISK MANAGEMENT PROCESSES

The Strategic Risk Management Department prepares an extensive monthly liquidity risk report for the purposes of analysing and controlling operational and structural liquidity, and monitoring compliance with the liquidity risk limits. The operational liquidity risk over a period of 12 months for a normal scenario and three stress scenarios (bank name crisis, market crisis and combined crisis), and the structural liquidity risk in the normal scenario, are presented and analysed. In addition, the Management Board and Group Management Board receive a monthly report containing an overview of, and key information on the current liquidity situation. The Management Board receives regular reports on the liquidity position and limit utilisation from the ALM Committee and RICO.

In preparing the liquidity cash flow forecast and the various liquidity scenarios, all on-balance-sheet and off-balance-sheet positions (including contingent liabilities) affecting liquidity are taken into account. For the forecast, a distinction is made between business to which a deterministic approach is applied and that for which stochastic modelling is used. For the positions evaluated stochastically, repayment scenarios are based on statistical models, benchmarks and/or expert valuations in order to determine the expected capital commitment.

In addition to existing business, assumptions about expected new business and expected prolongations are made for each scenario. Prolongations represent the continuation of existing business relationships, while new business consists of new business from new or existing customers.

The HYPO NOE Group's operational liquidity capacity is evaluated and monitored on a monthly basis in terms of the length of time that the Bank is able to survive ("time to wall"). The net cash outflows in the normal scenario and the three stress scenarios are compared with the relevant available liquidity reserve, and the length of time before the liquidity reserve is no longer sufficient to cover the net cash outflows is calculated. The earliest time to wall is used in calculating the limit utilisation. The fundamental assumption is that in determining the period of survival in the stress scenarios, no significant changes in the business model or the risk strategy have as yet been initiated in order to reduce illiquidity. The size of the limit is such that the standardised escalation processes can be set in motion as required - in time to react quickly to potential shortages of liquidity and initiate the necessary countermeasures. The stress test horizon is one year.

With a limit of eight weeks (or 12 weeks in the case of an early warning), the HYPO NOE Group's survival period as at 30 June 2018 was a robust 48 weeks (31 Dec. 2017: 26 weeks). In addition to the survival period, the regulatory liquidity coverage ratio (LCR) is an important control metric for operational liquidity. The LCR is reported monthly and is integrated in the operational liquidity management and planning processes. The LCR reported to the regulator was 135% as at 30 June 2018 (31 Dec. 2017: 186%). A regulatory limit of 100% and an internal limit of 120% are currently envisaged for 2018. Volume limits based on maturities are also in place, in order to control unsecured bank money market exposures. The 30-day limit of EUR 500m, the 90-day limit of EUR 800m and the up to one year limit of EUR 1,000m were all observed throughout the first half of 2018.

- For structural liquidity risk, the period and cumulative liquidity gaps are presented in one-year maturity bands; here, the focus is mainly on contractual cash flows generated by existing business. Modelled cash flows only play a minor role. Assumptions are also made regarding new business and prolongations.
- The HYPO NOE Group uses economic capital as a major metric for structural liquidity risk. Economic capital represents the maximum possible net interest loss that can be absorbed in the course of one year. For liquidity risk it is calculated using higher costs, as a result of potentially higher refinancing spreads over a year. On the basis of historical funding costs, the maximum expected increase in refinancing costs over the period of a year is calculated with a given confidence level for each major funding instrument. Actual performance is then monitored. The economic capital for a limit of EUR 10m was EUR 5.6m as at 30 June 2018 (31 Dec. 2017: EUR 7.9m). In addition to the economic capital, there is a structural one-year gap limit of EUR 1bn (2017: EUR 1bn), as well as the structural funding gap (SFG) recovery plan indicator. Limit utilisation for the SFG was 27% as at 30 June 2018 (31 Dec. 2017: 38%).

Besides these limits, there are early warning indicators to identify impending critical liquidity situations as early as possible, so that the Bank can initiate timely countermeasures.

## CONTINGENCY PLAN

The liquidity contingency plan is designed to maintain effective liquidity management even in a market crisis. The plan sets out the responsibilities in case of emergencies, the composition of the crisis management teams, the internal and external communication channels, and the actions to be taken. In emergency situations, a crisis management team takes control of liquidity management and decides on action to be taken on a case-by-case basis. The contingency plan comprises an assortment of measures useful in overcoming a liquidity crisis; these measures were identified, analysed and documented in a multi-stage selection process. For each of the measures, their feasibility and usefulness in a variety of basic types of stress scenario was evaluated, the quantitative and qualitative effects worked out, and the individual steps in the implementation process determined.

## LIQUIDITY RISK IN 2018

The HYPO NOE Group is well positioned in terms of refinancing options and draws its liquidity from conventional capital market transactions and deposits, as well as from standard repo transactions and ECB tenders.

The first half of 2018 kicked off with a large number of issues on the international capital markets, including by Austrian issuers. The Group took advantage of ideal market conditions to float a EUR 500m senior unsecured benchmark issue with a maturity of 5.5 years. To all intents and purposes, this tied up the senior funding budgeted for 2018.

The HYPO NOE Group's liquidity situation remains stable. There are sufficient assets eligible as collateral for ECB tenders, and a broad funding portfolio is available.

## Operational risk

Operational risk is the danger of losses arising directly or indirectly from the inadequacy or failure of internal processes or systems, human error or external events. In each category of operational risk, legal risks can result in losses. The reason is that in every category the HYPO NOE Group can be exposed to claims or legal proceedings based on alleged breaches of contractual, statutory or regulatory obligations. Reputational risk is closely related to operational risk, but is treated as a separate category. Business risks do not form part of operational risk.

Operational risks in the HYPO NOE Group are subject to a consistent Group-wide system of controls. The following processes and procedures are used to identify, evaluate and reduce operational risks:

- Ongoing identification and analysis of operational risk events, including introducing measures to avoid similar events in future, and regular reporting to the Management Board
- Ongoing monitoring of the measures until implementation is complete, and submission of a quarterly status report to the Management Board
- Forward-looking monitoring of the operational risk profile using key risk indicators
- Evaluating factors that could alter the risk profile, such as the introduction of new products or outsourcing
- Ongoing adaptation and improvement of existing internal guidelines
- Using the emergency plans that form part of the business continuity management (BCM) system to manage risks that threaten business continuity
- Strict adherence to the four-eye management principle to reduce the likelihood of the occurrence of risks
- In-service training as part of staff development; and
- Insurance against various risks

There is also a strong emphasis on continuous improvement of the effectiveness and efficiency of operational risk management processes. The operation and adaptation of an integrated internal control system (ICS) is intended to reduce the probability and minimise the effects of operational risk events. Risks are systematically identified and assessed, controls are agreed and, where necessary, key processes are adapted.

## OPERATIONAL RISK IN 2018

Detailed information on operational risk events during the first half of 2018 was collected in a database. Improvements are seen as a major way of controlling operational risk: Appropriate improvements were formulated and implemented as operational risk events and near-miss incidents occurred.

The results of early-warning and key risk indicators were satisfactory.

The ICS was updated in the course of the annual review, with a particular focus on the merger in September 2017.

The risk content of new products was assessed using a standard risk evaluation application, which is an integral part of the product launch process.

During the reporting period HYPO NOE Landesbank implemented the new outsourcing requirements of section 25 Banking Act, as well as the Bank's related outsourcing strategy and guidelines.

## Reputational risk

The HYPO NOE Group attaches great importance to avoiding reputational risk, and it is therefore treated as a separate risk category. Avoiding potential damage to the reputation of the HYPO NOE Group is a vital consideration when making business decisions, and a process for evaluating reputational risk is in place.

Reputational risk is the danger of direct or indirect harm to the Group's reputation, and the opportunity costs entailed by such damage. Damage to the HYPO NOE Group's reputation can compromise its standing and undermine the confidence of stakeholders such as customers, providers of finance, staff, business partners and the community in the Bank. The reasons may lie in a failure to live up to stakeholders' expectations.

Fulfilling those expectations is essentially a matter of putting effective business processes in place, and of sound risk monitoring and management. The Group's code of conduct sets out the common values and principles shared by all HYPO NOE Group employees. The HYPO NOE Group also takes care to avoid business policies and transactions associated with unusual tax or legal risks, or with major environmental risks. The Group has implemented clear ethics guidelines and business principles for its financing activities, so that its lending policies follow its holistic sustainability approach in respect of environmental and social considerations to the letter. In this way, the Bank ensures that loans are only extended for purposes that are consonant with its philosophy and sustainability strategy. The ethics guidelines and business principles comprise inclusion and exclusion criteria, which are the basis for initiating new business throughout the Group. Potential reputational risks are also taken into account in a "reputational risk questionnaire" that forms part of the credit application, and serves as an essential filter within the process.

The independent Group ombudsman deals quickly and efficiently with customers' concerns (such as complaints and misunderstandings) and aims to find satisfactory solutions to problems in consultation with the customers themselves. Besides meeting the statutory requirements for improving customer relations, the goal is to reduce reputational risk.

## Other risks

Other risks consist largely of business risks (the danger of loss as a result of a deterioration in the economic environment or in the HYPO NOE Group's business relationships), strategic risks (the danger of losses arising from decisions concerning the Group's strategic focus and business development) and risks from the HYPO cross-guarantee scheme.

Business risk and strategic risk can collectively be referred to as business model risk. Business model risk is the danger of loss due to a deterioration in the general economic environment, including changes in the marketplace, customer behaviour and regulatory requirements. Business model risk also encompasses the danger of losses arising from decisions on strategic focus and business development taken by the Group or individual subsidiaries. These can result in long-term declines in earnings, leading to a reduction in shareholder value. The Group identifies, quantifies and monitors potential business model risks and takes negative changes into account in its budgeting and medium-term planning as early as possible.

In individual proceedings brought against an Austrian bank, the Vienna commercial court ordered the bank to repay negative interest to a company. This ruling, which is not yet legally effective, does not contain any new conclusions, and the banking industry therefore stands by its position that the precedents in consumer law on negative interest rates are not applicable to business customers.

## Legal risks

Generally, provisions are recognised for legal proceedings for which the outcome or any potential losses can be reliably predicted. In such cases, the provisions are recognised at a level deemed appropriate in the circumstances, in accordance with the applicable accounting principles.

Importantly, it should be noted in this regard that as at 30 June 2018 provisions were in place against legal risks from pending proceedings connected with derivatives.

## 6.6 Contingent liabilities and credit risk

### 6.6.1 CONTINGENT LIABILITIES

EUR '000	30 Jun. 2018	31 Dec. 2017
Liabilities arising from guarantees and provision of collateral	139,487	122,428

### 6.6.2 CREDIT RISK

EUR '000	30 Jun. 2018	31 Dec. 2017
Unutilised facilities	1,148,345	1,105,894

## 6.7 Events after the reporting period

There have been no material events since the end of the reporting period.

## 6.8 Governing bodies of HYPO NOE Landesbank für Niederösterreich und Wien AG

The following persons were members of the Management and Supervisory Boards during the reporting period:

It should be noted that on 21 June 2018, the Supervisory Board resolved to accept the request of Peter Harold to step down as Chairman of the Management Board with effect from 30 November 2018, and that Rainer Gutleder will be delegated by the Works Council to the Supervisory Board with effect from 10 July 2018.

### Management Board

Peter Harold, Chairman (until 30 Nov. 2018)  
Udo Birkner  
Wolfgang Viehauser

### Supervisory Board

Günther Ofner, Chairman  
Michael Lentsch, Deputy Chairman  
Karl Fakler  
Gottfried Haber  
Birgit Kuras  
Ulrike Prommer  
Karl Schlögl  
Hubert Schultes

### Delegated by the Works Council

Hermann Haitzer (until 29 Jan. 2018)  
Franz Gyöngyösi  
Claudia Mikes  
Rainer Gutleder (from 10 Jul. 2018)  
Peter Böhm

### Federal commissioners

Hans-Georg Kramer, Federal Ministry of Finance  
Johannes Pasquali, Federal Ministry of Finance

### Supervisory commissioners

Reinhard Meissl, office of the Lower Austrian state government  
Helmut Frank, office of the Lower Austrian state government

St Pölten, 17 August 2018

The Management Board



**Peter Harold**  
Chairman of the Management Board



**Udo Birkner**  
Member of the Management Board



**Wolfgang Viehauser**  
Member of the Management Board



# DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES

We hereby confirm that to the best of our knowledge the condensed 2018 interim consolidated financial statements of the HYPO NOE Group give a true and fair view of the Group's assets, finances and earnings as required by the applicable accounting standards, and that the Group interim operational and financial review gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed interim consolidated financial statements, and of the principal risks and uncertainties to which the Group will be exposed during the remaining six months of the financial year.

IAS 34 was applied in the preparation of the condensed 2018 interim consolidated financial statements. Essentially the same accounting policies were applied as to the financial statements for the year ended 31 December 2017.

The 2018 semi-annual financial report was neither audited nor reviewed by independent auditors.

St Pölten, 17 August 2018

The Management Board



**Peter Harold**

Chairman of the Management Board responsible for Executive Board, Financial Markets & Real Estate until 20 Jun. 2018; responsible for General Secretariat/Participations from 21 Jun. to 30 Nov. 2018



**Udo Birkner**

Member of the Management Board responsible for Backoffice/Operations & Riskcontrolling; additionally responsible for General Secretariat/Participations from 30 Nov. 2018



**Wolfgang Viehauser**

Member of the Management Board responsible for Market - Public Finance, Retail & Commercials; additionally responsible for Treasury & ALM, Real Estate & Structured Finance from 21 Jun. 2018

# LIST OF ABBREVIATIONS

AFS .....	available for sale	ICS .....	internal control and risk management system
ALM .....	Asset Liability Management	IPRE.....	income-producing real estate
ALMM .....	additional liquidity monitoring metrics	IST Austria.....	Institute of Science and Technology Austria
BCM .....	business continuity management	IT .....	information technology
BRRD .....	Bank Recovery and Resolution Directive	IMF .....	International Monetary Fund
BWG .....	Banking Act	KAF.....	Kärntner Ausgleichszahlungs-Fonds (Carinthian Compensation Payment Fund)
CDS .....	credit default swap	KfW .....	Kreditanstalt für Wiederaufbau
CEE .....	Central and Eastern Europe	KIA.....	Religious Communities, Special Interest Groups and Agriculture
CEO .....	Chief Executive Officer	SMEs.....	small and medium-sized enterprises
CFO .....	Chief Financial Officer	LAC .....	liabilities at cost
CHF .....	Swiss franc	LAR.....	loans and receivables
CIR .....	cost-income ratio	LCR .....	liquidity coverage ratio
CRD IV .....	Capital Requirements Directive IV	LGD .....	loss given default
CRO.....	Chief Risk Officer	LIP.....	loss identification period
CRR I .....	Capital Requirements Regulation I	LSI.....	less significant institution
CSC .....	current service cost	LTIP.....	long-term incentive plan
CSF .....	Corporate & Structured Finance	bn.....	billion
CVA/DVA .....	credit/debt valuation adjustment	NID .....	NOE Immobilien Development AG
DBO.....	defined benefit obligation	.....	
DCF method .....	discounted cash flow method	NPA.....	non-performing asset
EBA.....	European Banking Authority	NPL.....	non-performing loan
EFFAS.....	European Federation of Financial Analysts Societies	NSFR .....	net stable funding ratio
EIB .....	European Investment Bank	OeNB.....	Oesterreichische Nationalbank (Austrian central bank)
EU .....	European Union	OIS discounting .....	overnight index swap discounting
EUR.....	euro	OpRisk .....	operational risk
ECB .....	European Central Bank	OTC derivatives .....	over-the-counter derivatives
FMA .....	Austrian Financial Market Authority	OTC options .....	over-the-counter options
FTE.....	full-time equivalent	PD .....	probability of default
FVO .....	fair value option	PMS.....	proactive management system
FVTOCI.....	fair value through other comprehensive income	RBI .....	Raiffeisen Bank International
FVTPL.....	fair value through profit or loss	QE.....	Quantitative easing
FX.....	foreign exchange	RICO.....	Risk Management Committee
HC .....	head count	ROE.....	return on equity
HETA.....	Heta Asset Resolution AG	RWA .....	risk weighted asset
HFT .....	held for trading	RZB.....	Raiffeisen Zentralbank
HQLA .....	high-quality liquid assets	SIC .....	Standing Interpretations Committee
HTM .....	held to maturity	S&P.....	Standard & Poor's
IAS .....	International Accounting Standards	SPPI.....	solely payments of principle and interest
IASB.....	International Accounting Standards Board	SREP.....	Supervisory Review und Evaluation Process
IBOR .....	interbank offered rate	UGB.....	Austrian Business Code
ICAAP .....	Internal Capital Adequacy Assessment Process	USA.....	United States of America
IFRIC.....	International Financial Reporting Interpretations Committee	WACC.....	weighted average cost of capital
IFRS .....	International Financial Reporting Standard	WBIB.....	Wohnbauinvestitionsbank GmbH
INT .....	interest cost	WEG .....	Austrian Condominium Act

## IMPORTANT INFORMATION

The greatest possible care has been taken in preparing this report. However, transmission, typesetting and printing errors cannot be ruled out. Minor rounding differences may occur in connection with totals of rounded amounts and percentages.

The forecasts and forward-looking statements contained in this report are based on current estimates and information available at the time the report was compiled. They should not be taken as a guarantee that results expressed in forecasts and forward-looking statements will actually occur; actual results are subject to risks and other factors, and could therefore differ materially from results contained in forecasts or forward-looking statements. The Group is not obliged to update its forecasts and forward-looking statements.

The German version of this report is definitive. The English version is a translation of the German report. Formulations referring to people are intended to be gender-neutral.

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