Annual Report 2013

HYPO NOE
GRUPPE

Die Bank an Ihrer Seite.

GROUP FINANCIAL HIGHLIGHTS

EUR '000	2013	2012
IFRS consolidated statement of comprehensive income		
Net interest income	115,433	135,371
Credit provisions	-4,781	-21,157
Net fee and commission income	13,294	11,985
Net trading income	-934	-804
General administrative expenses	-116,487	-106,965
Net other operating expenses/income	73,247	17,199
Net gains or losses on other financial investments	-4,900	-5,403
Net gains or losses on disposal of consolidated subsidiaries	150	-
Profit before tax	**75,021**	**30,226**
Income tax expense	-21,326	-7,418
Profit for the year	**53,695**	**22,808**
Non-controlling interests	-18	-37
Profit attributable to owners of the parent	**53,677**	**22,771**
IFRS consolidated statement of financial position		
Total assets	**14,209,746**	**14,861,697**
Loans and advances to customers	10,590,574	10,735,077
Financial assets	1,805,667	1,840,271
Deposits from customers	2,168,943	2,254,455
Debts evidenced by certificates	8,163,364	7,911,349
Consolidated regulatory capital resources (as defined by the Austrian Banking Act)		
Eligible core capital	569,410	505,457
Supplementary capital (tier 2 and tier 3)	125,000	165,000
Eligible capital as defined by section 23 Austrian Banking Act	692,342	668,463
Risk-weighted assessment base under section 22(2) Austrian Banking Act	3,870,824	4,099,035
Surplus capital	359,677	317,381
Core capital ratio	14.71%	12.33%
Equity ratio	17.89%	16.31%
Operational information		
Average number of employees	898	894
Number of employees at year-end	913	917
Number of branches	30	29


HYPO NOE
GRUPPE

ANNUAL REPORT

STATEMENT BY THE SUPERVISORY BOARD

Burkhard Hofer
Chairman of the Supervisory Board

2013 was a particularly satisfactory year for HYPO NOE Gruppe Bank AG from both a financial and a legal perspective. The Supervisory Board fulfilled its responsibilities as set out by law, supervising the Management Board and providing it with advice on the management of the Group. We were also involved in all decisions of fundamental importance, in accordance with the legal requirements. In the course of numerous meetings held during the year, the Supervisory Board and the committees established by it obtained regular reports and built up a comprehensive picture of the key economic and financial developments at the HYPO NOE Group.

In our view, the Group's strategic positioning, with its specially designed product portfolio and strong focus on Lower Austria and Vienna, as well as other parts of Austria and the wider Danube region, mean that the Company is extremely well placed to meet its future responsibilities.

We were also able to satisfy ourselves that the risk management system in place at HYPO NOE Gruppe Bank AG and the main subsidiaries is very well designed.

The Supervisory Board is pleased to report that both strategically and operationally, the Group made good progress in 2013, and its business policies are in line with its mission as a regional bank owned by the state of Lower Austria.

Strong performance is only possible with the support of dedicated and skilled employees. The Supervisory Board would like to thank all employees and the Management Board of HYPO NOE Gruppe Bank AG for their hard work and commitment during the year.

Burkhard Hofer
Chairman

STATEMENT BY THE MANAGEMENT BOARD

Peter Harold
Chairman of the Management Board

Nikolai de Arnoldi
Member of the Management Board

HYPO NOE Group's 125-year anniversary – the foundation for a sustainable future

2013 was a very special year for HYPO NOE Group as we celebrated our 125th jubilee. This report and the results it contains for the entire Group again reflect the success that Austria's mortgage banks are capable of achieving.

HYPO NOE Group posted profit attributable to owners of the parent in accordance with IFRS of EUR 53.7 million (m), and total consolidated assets remained high at EUR 14.2 billion (bn). The Group's capitalisation improved slightly, and is still well in excess of the Basel III requirements. The core capital ratio rose to 14.7%, and the equity ratio to 17.9%. Group net interest income was EUR 115.4m in spite of the low level of interest rates.

These results are further proof that we remain on a strong and steady footing. The HYPO NOE Group is a bank which has always done its homework. This has enabled us to overcome the economic challenges of the past few years, and generate profits thanks to a sound business model that draws on the philosophy of a regional bank serving customers in its core markets of Lower Austria and Vienna, and the wider Danube region. We have also constantly lived up to our mission as a driver of growth in the Lower Austrian economy.

Controlled growth and an attractive image

In addition to our strong financial performance, 2013 saw a number of other highlights worthy of our jubilee year. HYPO NOE Landesbank bucked the current trend on the Austrian banking market by opening a new branch, its 30th. Following on from the acquisition of HYPO NOE First Facility in 2012, the Group also recorded growth in its real estate business last year. The Bank entered the Austrian real estate brokerage market through its HYPO NOE Immobilienmanagement subsidiary, further expanding its portfolio of property-related services.

The Group celebrated another jubilee in 2013 – the first anniversary of the opening of the new St. Pölten headquarters. The head office is a flagship project for HYPO NOE's real estate value chain, and a distinctive landmark in the Lower Austrian capital. Thanks to its attractive event facilities, the building has also become a popular meeting place for representatives of business, politics and the arts in Lower Austria.

Proactive risk management

As a bank that is committed to implementing sustainable business policies, it is essential that we identify, measure, aggregate and manage risk effectively, and ensure that our operations are underpinned by sufficient equity. Last year our risk management activities were conducted in a climate hallmarked by various economic, political and regulatory challenges. Consequently, the decline in the cost of risk – which was below budget as a result of effective workout management – was especially pleasing.

The trend towards stricter regulation of the financial services industry continued in 2013. The Group adopted a proactive approach in order to identify political and regulatory changes at the earliest possible stage, assess their impact on our business model and business processes, and implement any responses that were required.

Successes on the international capital markets

The Group can point to an extremely solid liquidity position. Our short-term refinancing needs are largely covered by highly liquid assets. Successful issues totalling well over EUR 1bn with average maturities of more than seven years in various asset classes, including public sector covered bonds and senior unsecured bonds, and a number of private placements are testimony to HYPO NOE's attractiveness for fixed-income investors and an endorsement of our strategic direction.

Sustainability, trust and close ties to our home region – outlook for 2014

The HYPO NOE Group will retain its focus on sustainability, trust, reliability and close links with its home region in 2014. This year, the emphasis will be on sustainability. In October 2013, our parent HYPO NOE Gruppe Bank AG embarked on the process of positioning the Company as one that adheres to recognised international sustainability standards and rating approaches. Over the next few years we will be taking steps to integrate sustainability more closely into the Group's operations and improve communications with key stakeholders.

HYPO NOE Group will also strengthen its focus on the core aspects of its business model, namely infrastructure financing in Lower Austria and Vienna, and selected areas of the Danube region. Our market development activities in 2014 will concentrate on church bodies, interest groups and the agriculture sector.

Step-by-step introduction of the Basel III regulations will continue in 2014. Detailed preparations for this have been well under way for several years now, and the Group currently has one of the highest equity ratios in the Austrian banking industry. As a result we can also look ahead to this year with optimism.

Peter Harold
Chairman of the
Management Board and CEO,
HYPO NOE Gruppe Bank AG

Nikolai de Arnoldi
Member of the
Management Board, CRO and CEO,
HYPO NOE Gruppe Bank AG

OUR **PHILOSOPHY**

THE HYPO NOE GROUP'S RESPONSIBILITIES

As an Austrian group of companies with an outstanding reputation, the HYPO NOE Group has a responsibility to consistently deliver excellent performance in our relationships with our customers, our business partners and regulators.

Business relationships only work if they are founded on trust. This is especially true when it comes to banks, and the money and information entrusted to them. The HYPO NOE Group lives up to this responsibility at all times, and sets itself extremely high standards. The most significant prerequisites for the high level of performance were encapsulated in a compilation which summarises and develops the responsibility vis-à-vis our stakeholders.

- The HYPO NOE Group's mission statement, values and vision
- Our business and ethical principles
- Positive criteria for the business origination phase
- Exclusion criteria for the business origination phase
- Our code of conduct

THE HYPO NOE GROUP'S MISSION STATEMENT

THE MISSION STATEMENT SUMMARISES OUR GROUP'S PHILOSOPHY.

Nikolai de Arnoldi, member of the Management Board: "The mission statement presents an approach and the motivations for our actions. It includes principles that should underpin our success, provide support and promote our endeavours aimed at creating added value. Conservation of value and target orientation are important factors defining the starting point and our vectors of action. They provide a secure orientation for both the distribution and the back office area. It is precisely this kind of security that ensures confidence in what we do, strength in our dealings and, consequently, success for the Group."

By devising a corporate mission statement based on principles for the HYPO NOE Group, we provided internal guidance for action for day-to-day work in terms of the continuous orientation and motivation of employees. External parties such as customers and the public are able to recognise what the HYPO NOE Group stands for and the organisational culture which was established and which will be further deepened by the Lower Austria state bank.

1. We are the regional bank for Lower Austria.

As a regional bank that is wholly owned by the state of Lower Austria, we make an important contribution to the economic development of the province – to growth, progress and innovation. We have the know-how and experience to provide financial solutions of the highest quality to local authorities and other public sector bodies, as well as to business and retail customers in Lower Austria, Vienna and across the Danube region. Another staple business is real estate services, where we focus on the entire value chain. However, our commitment to the region is not limited to our business segments – it includes our sponsoring activities and support for social initiatives, the arts, culture and sport.

2. Our success is rooted in traditional values and durability.

The roots of the HYPO NOE Group in Lower Austria go back to 1888. Support for projects that are consonant with our values is an article of faith. Our business model is conservative and focused on sustainable growth. Thanks to our decades of experience we know what we are talking about, and provide advice in the areas where our expertise lies.

3. We value reliability and stability.

We take pride in the trust placed in us by our customers. Safe, stable investments are a cornerstone of our business. We cultivate risk awareness and work for sustainable corporate earnings, expanding our services and capacity step by step. This approach is the hallmark of our treatment of our customers as well as our relationships with our staff. It enables us to look back with pride on 125 years as a stable banking partner and employer - and the experience and trust that go with them.

4. Closeness to customers is at the heart of everything we do.

The customer is at the centre of all our efforts. Our traditional headquarters location in St. Pölten puts us on the customer's doorstep, in line with our claim to be "the Bank at your side." We work for our customers' future in growth markets, developing bespoke solutions. Our customer relationships are based on sustainability, dependability, quality and trust. The Group's versatility means that we can provide customers with excellent advice in a wide variety of areas.

5. Our excellent people are the key to our success.

Staff who are committed to high quality and performance underpin our success. Mutual respect and teamwork create a constructive climate, in which we are all equal partners. A functionality-orientated organisational chart and clear lines of communication allow us to respond rapidly to changes in the operating environment. Efficiency is maximised by a high degree of creativity, flexibility and personal responsibility. Our people make the Group a centre of excellence. Entrepreneurial thinking combined with social responsibility forms the backbone of all of our activities. Our staff are able to make decisions in the roles assigned to them. Staff training is a high priority, and to this end our people are given frequent opportunities to develop professionally and personally. This is the lifeblood of our pursuit of excellence.

6. We take our responsibilities to our region seriously.

In line with our role as the Lower Austrian state bank and a flagship of Lower Austrian enterprise, we make sure we give something back to our home region. We are committed to sustainable business practices. And beyond our banking business, too, we want to be a reliable partner to the region and its people, as well as to the institutions and associations that are involved in shaping the future of the state of Lower Austria. We give a helping hand to the people in our core market, through marketing partnerships, sponsorship and other forms of support. Together with them, we take the lead on initiatives that we believe we will be proud of in future, lending strong support for our owner's vision and actively promoting the development of the Danube region.

VISION

As the bank of Lower Austria, we are the financial centre of excellence for Lower Austria, Vienna and the Danube region and we act as a regional bank at the highest level focussing on public sector financing, the entire range of real estate services as well as the local retail and corporate customer business providing tailor-made, secure and sustainable financing solutions by accompanying our customers as a reliable and trustworthy partner.

VALUES

Excellence

We offer our customers optimum solutions and services customised to their individual needs. We see ourselves as a guarantee of successful projects – and quality at every stage in the process.

Entrepreneurial

Only the best work for HYPO NOE Group. The touchstone of our corporate culture is enjoyment of our work, and enthusiasm for the full range of exciting possibilities. And we attach the greatest importance to the education and development of our staff.

A personal contribution to the team

The whole is greater than the sum of its parts. All our staff take individual responsibility for their work and their personal performance. We recognise and reward individual merit, but are fully aware that success is only achieved by working together. Mutual support and encouragement is the substance of our daily lives.

Direct and open communications

Our dealings with our customers and colleagues are characterised by respect and appreciation. This allows us to work together with a maximum of openness and gives us the courage to address unpleasant issues. This culture of active feedback in our work forms the basis for effective, long-term and successful cooperation.

ETHICAL BUSINESS PRINCIPLES AND TRANSPARENCY

Dr. Peter Harold, Chairman of the Management Board: "Due to the special economic position of banks, ensuring sustainability through ecological and social standards in their core business is a matter of increasing importance. By way of tradition it is perfectly natural for HYPO NOE to actively live its responsibility for sustainability in its daily work. We provide a constructive contribution to development and prosperity by financing selected projects, such as in the fields of regional infrastructure, renewable energies, health as well as in the area of education and promotion of the local economy. This is because we are the Lower Austrian state bank! As a Lower Austrian flagship enterprise we are also a trustworthy partner to the people in this region through our sponsoring of and support to cultural, social and sport initiatives."

The sweeping changes in the new millennium, borne by a trend towards more responsible management of natural resources in our social and ecological environment over many decades, have reinforced the HYPO NOE Group in taking account of the ethical and ecological requirements for a modern enterprise. For example, the increasing importance of climate change has to be taken into consideration. In Lower Austria alone, there have been two major flood disasters and other extreme weather events since the beginning of this century. This is compounded by the trend towards rising energy prices and the general awareness of environmental influences.

Due to the Group's many years of experience in social sector financing and the increasing interest of investors, the HYPO NOE Group supported an independent agency in evaluating the Group's business operations in terms of ethical and ecological principles.

Ethical business principles

The business and ethical principles consist of positive and of exclusion criteria. They are the pillars of HYPO NOE Group's origination of business. A detailed knowledge of the business purpose of a lending project is vital to identifying the Group's risk exposures and those of its customers and to developing an optimum service. The Group's positive criteria are intended to promote in its business activity those topics that supply the maximum social benefit from the Group's point of view. The negative criteria represent those topics that are excluded by the Group in its business activity in order to protect the social development.

Positive criteria shape our actions

Adopting the EU strategy for promoting the Danube region, the "Europe 2020" objectives of the EU, and the 2020 energy objectives of Lower Austria form the basis of the positive criteria for the business origination of the HYPO NOE Group.

Developing and connecting the Danube region to Europe: projects that promote mobility, renewable energy use, culture and tourism.

Protecting the environment in the Danube region: projects designed to restore water quality, manage environmental risks, maintain biodiversity and protect the environment in general.

Building prosperity in the Danube region: projects aimed at increasing research capacity, raising educational standards, developing information technology and enhancing business competitiveness. Efforts to improve vocational training are a priority.

Strengthening the Danube region: projects intended to enhance institutional capacity.

Housing development: projects supporting transactions to establish socially and ecologically acceptable housing.

Exclusion criteria increase awareness

Across the entire HYPO NOE Group, we expect particular care to be exercised with regard to the following types of lending, and in case of doubt we refrain from engaging in the banking relationships concerned. Existing transactions are reviewed regularly for compliance with the following principles:

- Finance for transactions or investments that pose a potential threat to the environment (e.g. nuclear power)
- Finance for arms trading
- Finance for businesses involved in pornography and prostitution
- Finance for countries engaged in armed conflicts (as defined in the OeKB country list)
- Finance for businesses in the betting and gaming industry.

Reputational risks are particularly likely to arise in connection with borrowers operating in industries that are incompatible with the image and values of the Group and its owner, the Lower Austrian state government. Here, too, a special degree of care needs to be exercised and, where necessary, the Group refuses to engage in business relationships.

Transparency: The Group's sustainability rating

The HYPO NOE Group took part in a sustainability rating in 2013. The SRI (socially responsible investment) rating was conducted by an independent rating agency, which specialises in ethical and ecological issues.

As in the area of the bank rating (Standard & Poor's: A/neg), we aim at achieving an adequate position in the field of sustainability. The bank regards an eco-social rating to be increasingly important in order to be prepared and positioned for the future requirements.

The assigned sustainability rating provides a comparison of the performance of the HYPO NOE Group with no less than 49 other European regional banks. 100 criteria were used to rate the Group's social and ecological performance.

As regards the social factors, which mainly valuate the bank's attitude and behaviour towards stakeholders, the HYPO NOE Group achieved good results in the first rating process. Especially in the Corporate Governance sub-segment and as regards devising the ethical business principles and the treatment of staff and suppliers, we can now refer to our good results.

CODE OF CONDUCT

The Group's code of conduct serves as a guide for meeting all of the challenges we face. It helps us live out our commitment to reconciling excellent business performance with the highest ethical standards.

OUR BEHAVIOUR IN THE MARKETPLACE

The HYPO NOE Group distinguishes itself by delivering outstanding performance whilst competing fairly.

The Group is committed to the principles of a market economy and to upholding the corresponding laws, regulations and standards, including applicable cartel and competition law. Our dealings with customers, business partners, competitors, suppliers, the general public and colleagues must always be characterised by honesty, professionalism and fairness. Information about our competitors is only acquired by legal and ethically unimpeachable means. We do not seek to gain competitive advantage by unfair business practices such as misrepresentation, manipulation or concealment of information: the first consideration is always ethical and fair conduct.

OUR CONDUCT TOWARDS CUSTOMERS

The HYPO NOE Group aims to build and maintain long-term relationships with customers based on trust.

Our customers' needs and their trust in us always come first. We strive to identify and meet their requirements and expectations. The Group's interests must therefore always be reconciled with external demands, in a spirit of partnership. We are committed to professionalism, fairness and discretion in our dealings with customers. Our decision-making processes and behaviour are shaped by our legal and ethical responsibilities to the customer. The Group acts in the best interests of all customers, without giving preference to particular clients or client groups. Personal financial interests, friendships and family ties cannot be allowed to have any influence on our work. We take care of money entrusted to us in full awareness of the responsibility this involves; its security is a matter of the highest importance to us as well as an obligation to our customers.

The Group maintains the highest standards with regard to data security. Safeguarding customer confidentiality is a top priority. Information is a key factor in our success and that of our customers. We handle all information entrusted to us by our customers in the strictest confidence, and only disclose such information when authorised to do so by the customer. The only exception to this is disclosure of information to comply with legal or regulatory requirements (see the Austrian Banking Act as amended). Internally, all information is treated with the appropriate level of discretion and confidentiality. We take all due care in the acceptance, processing and storage of data. The Group has implemented all of the data security standards and processes required to prevent unauthorised access to and use, modification or destruction of information.

OUR CONDUCT TOWARDS STAKEHOLDERS

When making public announcements, the HYPO NOE Group undertakes to provide information that is as up-to-date, accurate and clearly presented as possible, in a manner that is timely and accessible to the general public, without favouring individual stakeholders.

The Group's financial reporting is in line with best practice and the applicable accounting, legal and regulatory requirements. Disclosures regarding risks in the consolidated financial statements are arrived at using the Group's internal risk management and risk information systems, and in conformity with the applicable accounting standards. In line with its reporting, legal and regulatory obligations, the Group is committed to prompt, precise and comprehensive communications with all of its stakeholders, and to continuously providing them with clear, accurate and up-to-date information. Such communications are not limited to information about our products and services, but comprise all areas of our business, and especially all publications as well as any crisis PR. We respond to questions and suggestions from stakeholders promptly, and nurture open dialogue with them, based on fairness, professionalism, integrity and respect.

The HYPO NOE Group undertakes to handle inside information ethically and with all due care.

The Group is scrupulous in its efforts to identify undisclosed material information – otherwise known as inside information. Inside information is only made available to persons within or outside the Group in strict accordance with our internal rules, the applicable laws and regulations, and the requirements imposed by Chinese walls. Sensitive and confidential information is shared exclusively with authorised parties, and only to the extent required for the diligent, responsible execution of tasks, actions and decisions. The Group is determined to avoid any conflicts of interest that may arise in the course of business, and where this is not possible to identify them, impose mandatory controls on them and keep them to an absolute minimum.

HYPO INVEST CLUB:
TOP SPEAKERS, HOT TOPICS, HIGH-PROFILE GUESTS

In 2009, the Group launched the HYPO Invest Club, a series of regular networking events to discuss current topics jointly with renowned experts. The issue of the direction of European policy has been a recurrent theme on many evenings. Whilst all key note speakers agreed on the basic tenor regarding the importance and significance of European integration, differing ideas were expressed about the further course of the European Union. In his 2010 lecture, Günther Verheugen warned that the countries of Europe won't stand a chance without political unity. In view of the financial and sovereign debt crises, in 2011 Peer Steinbrück supported the idea that Europe should mobilise all its strengths and work as a closely knit union, including such measures as debt forgiveness for Greece. In 2012, Theo Waigel proposed that the vision was the goal of creating a United States of Europe.

In his statement in spring 2011, Hans-Werner Sinn also highlighted the misdevelopments after the introduction of the euro. He considered that the rescue package was not the

appropriate mechanism for stabilising the euro, but that the only effective lifeline was the "controlled cut-off of funding" to debt-ridden countries.

"No taxation without representation"

Similar criticism was expressed by Otmar Issing, former chief economist of the European Central Bank, at HYPO Invest Club in November 2013. Nevertheless, he emphasised the strength of the euro at the beginning of his statement and has never doubted its existence. Since the introduction of the euro, the common currency has always been able to record a low rate of inflation and has maintained its position as the second strongest currency. However, within the European Union, the euro also represents a dividing line and the composition of the currency union is currently characterised by a North-South divide. According to Issing, this must be overcome by all means. This requires, as a first step, a banking union, which the member states have already fundamentally professed. However, important questions on common execution and on deposit guarantees have not yet been clarified. According to Issing, in the long-term, the currency union will not be able to function without a fiscal or political union. However, this would mean that the sovereign states would have to give up fiscal competencies, which he does not regard as realistic for the moment. Even the issuing of EU bonds would, in Issing's view, contradict a fundamental principle of democracy: "No taxation without representation". However, without a deeper political union, it would be necessary to return to the 'no bailout principle', because otherwise a false incentive system for the member states would be continued.

In the subsequent discussion, CEO Peter Harold agreed with the opinion of Otmar Issing that the euro represents an important strength for the European economic area. In the meantime, the euro has also become popular in the minds of the customers. Wolfgang Sobotka, deputy provincial governor of Lower Austria, sees the role of politics "in such fragile and volatile times" as not only in the purely pragmatic management of the crisis, but also in providing a vision for the future.

EU bonds: In the case of EU bonds, the countries of the European Union would jointly borrow money on the capital market. The borrowed funds would be distributed among the countries pursuant to an allocation key. The countries would be liable jointly and severally for the repayment of capital and interest of these funds.

Bailout: In economics, "bailout" means the assumption of debts and redemption or assumption of liability by third parties, in particular by the government or government institutions, in the event of an economic, financial or entrepreneurial crisis. A synonym used for this is "rescue package".


HYPO NOE
GRUPPE

HYPO NOE
GROUP STRATEGY
DEEPLY ROOTED IN OUR REGION FOR 125 YEARS

Dr. Peter Harold, Chairman of the Management Board: "We have been and still are – deliberately – a regional bank having deep roots in our home region. For 125 years, we have been active successfully in funding real estate and infrastructure in Lower Austria, Vienna and the Danube region. The resulting, specific know-how is our key competency. In this way we are able to provide financial solutions of the highest quality to local authorities and other public sector bodies, as well as to business and retail customers."

LONG-TERM DANUBE REGION STRATEGY
DEEP ROOTS AS THE BASIS OF FUTURE GROWTH

By tradition, the HYPO NOE Group has been active in its core market Austria, including its home region of Lower Austria and Vienna. Apart from Austria, the extended **core market** of the HYPO NOE Group includes Germany (in particular Baden-Württemberg and Bavaria), Slovakia, Hungary, Romania and Bulgaria. We also regard the Czech Republic and Poland as part of the wider Danube region, and hence as important elements of our regional strategy. While our retail banking operations, which serve consumers and SMEs, are confined to our home Lower Austrian and Viennese market, the rest of our product range is offered in focus markets spread across the entire strategic area. The HYPO NOE Group sets out to finance business ventures that promote sustainable economic development in the extended Danube region. This includes projects aimed at:

Developing and connecting the Danube region to Europe: projects that promote mobility, renewable energy use, culture and tourism.

Protecting the environment in the Danube region: projects designed to restore water quality, manage environmental risks, maintain biodiversity and protect the environment in general.

Building prosperity in the Danube region: projects aimed at increasing research capacity, raising educational standards, developing information technology and enhancing business competitiveness. Efforts to improve vocational training are a priority.

Strengthening the Danube region: projects intended to enhance institutional capacity.

COMPLIANCE OF CORE BUSINESS WITH KEY EXPERTISE

The HYPO NOE Group markets itself as a single unit, under the Group's umbrella brand. Within the Group, we offer bespoke solutions and products aimed at specific customer target groups. In order to provide a comprehensive range of services, the HYPO NOE Group cooperates with distribution and refinancing partners, and maximises synergies by utilising links within our organisation. Working in harness with HYPO NOE Landesbank, HYPO NOE Leasing, HYPO NOE Real Consult, HYPO NOE First Facility, HYPO NOE Immobilienmanagement and HYPO NOE Valuation & Advisory, HYPO NOE Gruppe Bank provides one-stop solutions for public sector clients – the bank is the dominant force in the Lower Austrian public finance market – as well as retail and business customers.

The Group's extensive experience enables it to come up with ideal funding solutions that give it a distinctive edge in the **public finance** market.

The main focus of the **corporate** and **project** finance operations is on renewable energy and social infrastructure projects.

High street banking subsidiary HYPO NOE Landesbank gives **retail customers** and **SMEs** a partner that offers a full range of financial services and which is strongly rooted in Lower Austria and Vienna. It specialises in **housing construction finance** and **mortgage lending** and has relationship managers with outstanding expertise in these areas, which extends to public building subsidies. Our long-standing clients include the non-profit housing developers that rely on the HYPO NOE Group as a strong financial partner.

While the Group has a wealth of experience in these lines of business, it also works to keep up to date with the latest developments in the industry, and to respond to customers' needs by coming up with innovative solutions.

INTEGRATION OF CORE COMPENTENCIES INTO THE REAL ESTATE VALUE CHAIN

"One-stop services" is the objective of the HYPO NOE Group to provide a full range of services to its customers for real estate projects from the beginning to the end that go far beyond pure lending services. With the creation of a comprehensive and integrated service portfolio that spans the entire life cycle of a real estate project, we pool all of the Group's property expertise in a single core business. The new end-to-end real estate value chain provides a fully integrated product portfolio. Every staff member who clients encounter along the real estate value chain acts as a single point of contact and source of expertise.

The process-oriented approach also enables us to force strategic operational partnerships with domestic and foreign partners, leveraging competitive advantages and synergies.

	Project development	Finance	Project management	Property management	Real estate brokerage	Valuation	Facility management	Facility services
HYPO NOE **GRUPPE**		✓						
HYPO NOE **LANDESBANK**		✓						
HYPO NOE **LEASING**		✓						
HYPO NOE **REAL CONSULT**	✓		✓	✓				
HYPO NOE **IMMOBILIENMANAGEMENT**					✓			
HYPO NOE **FIRST FACILITY**	✓			✓			✓	✓
HYPO NOE **VALUATION & ADVISORY**						✓		

OUR VISION FOR THE DANUBE REGION – EXPERT DISCUSSION

THE BANKS' CONTRIBUTION TO THE ECO-SOCIAL MARKET ECONOMY IN THE DANUBE REGION.

Dr. Franz Fischler, former EU Commissioner for Agriculture, Rural Development and Fisheries and President of the European Alpbach Forum as well as Honorary President of the Eco-Social Forum, CEO Peter Harold and fellow Management Board member Nikolai de Arnoldi (CFO) took part in the discussion. This discussion was moderated by Senior Investor Relations Manager Georg Lehmann.

LEHMANN: The HYPO NOE Group has focused its strategy on the Danube region. Dr. Fischler, I'd like to start by asking you to explain to us what are in your opinion the most important aspects of the eco-social market economy for the development of the Danube region.

FISCHLER: The term "eco-social market economy" may have originated in Austria but I prefer the term "sustainability" because it has established itself at EU level. By the way, sustainability is a concept that is celebrating its 300th birthday this year. At the heart though they are basically the same: What should a future Austrian and EU model of society look like? The previous dominance of the economic aspect has given way to an awareness for a solid balance between the economy, ecology and social aspects. Where the social aspect not only has to be understood in a material sense but also in a cultural context.

It has to be seriously questioned how society wants to measure success. At the moment the GDP is used. This means that only the total revenue is measured but not the actual quality of life. The EU launched the "GDP and beyond" project on this topic several years ago.

HAROLD: We definitely see the EU leading the way with these issues but has the EU already taken specific steps to implement the concepts?

FISCHLER: The question about implementation is justified because the EU has often taken a pioneering role with concepts but is weak at implementing them. By formulating the "Europe 2020" strategy, the EU has defined qualitative growth targets that are, as summarised by the President of the European Commission Barroso: "smart, inclusive and green growth". It has approved a whole range of flagship initiatives for this purpose. I'd like to mention the "Horizon" initiative here as an example for promoting innovation and research. It is incredibly important because Europe basically lacks natural resources and is dependent on external energy resources. In addition, the seven percent of the global population living in Europe generates 23 percent of the global GDP but spends 50 percent of the global social expenditure. We have to massively strengthen our only asset of real global importance, namely our innovative ability, in order to be able to maintain our standard of living for future generations.

DE ARNOLDI: How can we, as companies, contribute to achieving these ambitious goals?

FISCHLER: The understanding of balance must be incorporated into corporate strategies. One important element in the process is CSR (Corporate Social Responsibility), where sustainable strategies are measurable. Of course, this doesn't just mean that staff are treated well and social as well as cultural projects are sponsored but above all that management is committed to these sustainability principles when making decisions.

HAROLD: At HYPO NOE we consider this topic at two levels. The first level affects the general banking business, that is to say which projects we want to finance and which ones we don't. The bank has set guidelines for its business dealings using positive criteria and exclusion criteria. The second level deals with the bank's organisation. Examples of this are our electric cars or even the work instruction that public transport must be used for business trips between the main offices in Vienna and St. Pölten. We definitely see the bank as a role model to others in these matters. The bank is currently specifically financing projects that will develop and strengthen structures and the infrastructure in the Danube region. We are looking at this in light of what we mutually learned from the experience we have gained on successful projects in Austria and the requirements in countries in the Danube region. One example is the project in Schumen, the main city in the province of the same name in Bulgaria. HYPO NOE does not just see itself as the creditor for this project but also as a promoter of the region by financing road renewal and developing the central infrastructure. Despite everything, it must be stated clearly that economic efficiency is still the bottom line.

DE ARNOLDI: We are focusing on our core business as a regional bank, as proven experts for local development and structures. That is why we also do not have a large trading book on the investment side. Meaning that we invest instead of speculate.

FISCHLER: You're right, those are important points. This is precisely the reason why many banks cannot show a good sustainability rating because they are not brave enough to organise their core business according to sustainable criteria. A practised Code of Conduct in the sense of fair business practices, a clearly sustainable organisation of financial products and financing and assessment guidelines are definitely an essential foundation for a sustainable strategy. It is of course most difficult to ensure sustainability in terms of SRI (Socially Responsible Investment) for financial products as there are often dilutive effects in funds.

Unfortunately, it also has to be said in this context that banks in Europe are severely restricted by the BASEL III regulations. This problem does not exist to the same extent in the USA.

DE ARNOLDI: HYPO NOE is a model student when it comes to capitalisation. Unlike other banks in Austria, we were able to meet the equity requirements early on, even though the stability fee is an additional burden. We are very proud of this.

FISCHLER: The banking tax is well received by the population because they have very little insight into how a bank works. Banks are required here to present their own company, business model and trading in a transparent way, in terms of CSR too. Certification according to a CSR standard is not enough on its own.

HAROLD: However, certification is an important element as investors and business partners and also the public

sector are increasingly demanding this as customers. For example, the financing of MedAustron, a cancer research centre in Lower Austria, in cooperation with the EIB (European Investment Bank), was accompanied by an external due diligence audit. HYPO NOE organised and assisted with the appropriate processes for this.

FISCHLER: Your example proves the need for certification. However, additional further development is also required in this context. We have to define and consequently measure what the benefits of a company are for society. In the case of HYPO NOE, the social benefit of the bank is specified by the owner, the state of Lower Austria.

HAROLD: That's exactly how we see it. To mention one example, when the Backhausen company, an important employer in the structurally weak Waldviertel region got into financial difficulties, HYPO NOE straight away declared itself willing to secure the future of the company by introducing a sustainable course of restructure for the company and region together with investors.

FISCHLER: Dealing with customers who have got into financial difficulties is an important part of a bank's sustainability strategy. There must be generally binding rules for this that are communicated in a clear and transparent way.

HAROLD: You are also a customer of a bank, Mr Fischler. What do you expect from a bank?

FISCHLER: I expect a bank to provide services of an appropriate quality, for there to be a high degree of security and for the promised returns to also be achieved. Sufficient transparency is personally important to me in order to see whether my bank is managing my money according to sustainability requirements.

HAROLD: It is not only customers but also HYPO NOE stakeholders who have requirements in this context. These must be considered together.

FISCHLER: You are bound to have many different stakeholders with varying expectations. In my experience impact studies are a tried and tested method to analyse whether actual practice meets expectations. It is my opinion that there is no alternative to the sustainability concept which is why we also have to subject ourselves to a sustainability rating.

HAROLD: HYPO NOE was first analysed by an international rating agency that specialises in sustainability at the end of 2013. The outcome of the rating process is encouraging and shows us that we are on the right course. We are definitely striving for adequate positioning and suitable measures are being taken. What can be achieved though is also down to the bank's framework conditions.

FISCHLER: What Austria is currently lacking as an investment location are reliability and continuity in politics, so much for the framework conditions. On the other hand our companies and banks in Austria are already well positioned, as can be seen in international competition.

DE ARNOLDI: I agree with you that Austrian companies have been able to assert themselves well in international competition. That is why HYPO NOE is supporting leading firms in its region of Lower Austria and Vienna to maintain this competitiveness. Stable and reliable framework conditions are particularly essential for a bank.

HAROLD: With its core region of Lower Austria and Vienna HYPO NOE sees its social responsibility beyond the banking business as the development of its catchment area. As a result, we fund cultural activities and social clubs as well as new start-up companies.

LEHMANN: Thank you for the lively discussion. The topic of sustainability will become even more important in future and HYPO NOE will certainly contribute to this key topic.

SOCIO-ECONOMIC DEVELOPMENT IN THE DANUBE REGION

DIFFERENTIATED MARKET ASSESSMENT WITHIN THE DANUBE REGION

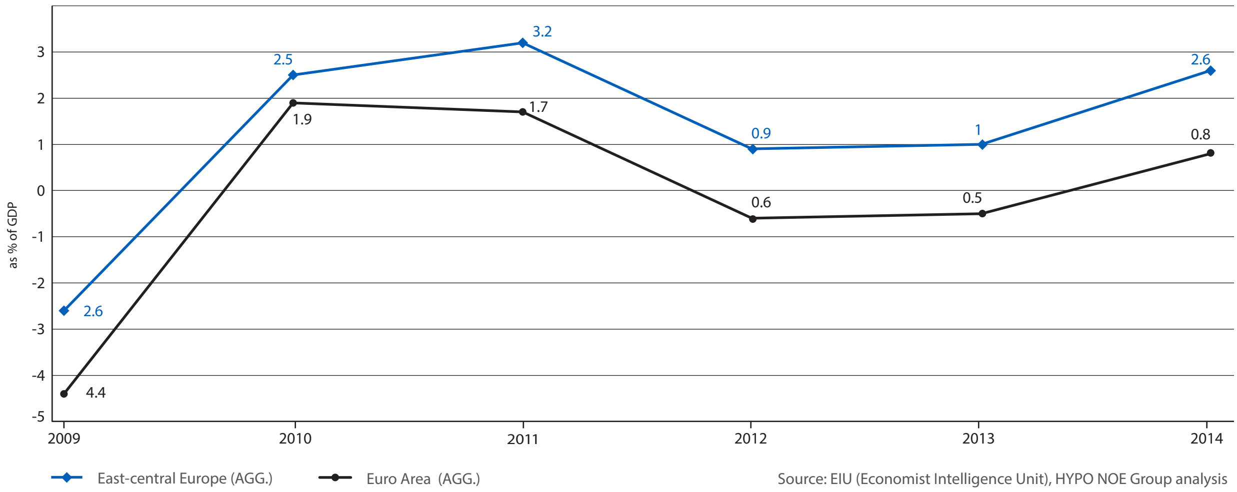
Nikolai de Arnoldi, member of the Management Board: "Assessing and assuming risks are the basis of all of our activities. The HYPO NOE Group has always strived at avoiding assuming unknown risks and not to speculate. This model has proven itself in times of crisis. The Group's stable and balanced business model with its definitive strengths has its focus on its primary business segments, which is reflected in our rating (public and mortgage cover bonds AAA and Corporate Rating A/neg). A clear strategy illustrating our values and vision as well as risk management principles, and also providing transparency regarding our assumed risks will ensure secure and sustainable development in an unsecure future."

The divergent economic trends and starting situations – in terms of economic growth, industrial production, indebtedness of public and private households and legal certainty – call for a differentiated approach to market development.

Austria

Within Austria, HYPO NOE Group has positioned itself as a bank principally serving Lower Austria and Vienna. Our positioning is well chosen in view of the fact that these two states are among Austria's wealthiest in terms of per capita income and purchasing power. Moreover, the long-term forecast population growth rates bear witness to a high market potential for the HYPO NOE Group in the forthcoming years (2010-2050: Lower Austria + 19.1%, Vienna + 18.2%). The key drivers of further population growth are likely to be good infrastructure and transport links, sufficient job opportunities and high quality of life. The HYPO NOE Group will play an active part in enhancing and maintaining quality of life by financing public and quasi-public infrastructure, and by advising its retail and business customers.

Economicgrowth comparison CEE vs. eurozone



Source: EIU (Economist Intelligence Unit), HYPO NOE Group analysis

CEE

Due to their – comparably – higher economic growth rates (see illustration below) even in years of crisis and recession, and their more robust regulatory environments, we will provide Poland, Slovakia and the Czech Republic, as well as our geographical core business markets Austria and Germany, with our full range of financial products.

As a result of the generally low level of public debt of Bulgaria and Romania, the HYPO NOE Group is concentrating on projects with public or quasi-public financing in these markets. Private-sector projects are assessed on a case by case basis.

Infrastructure development (water supply and sewerage, waste separation and recycling, transport and education) offers major growth opportunities in the CEE region. Investment in these areas is favoured by many EU support programmes and the policies of the EIB and the EBRD.

Attractive development opportunities are being created in all core and preference countries by

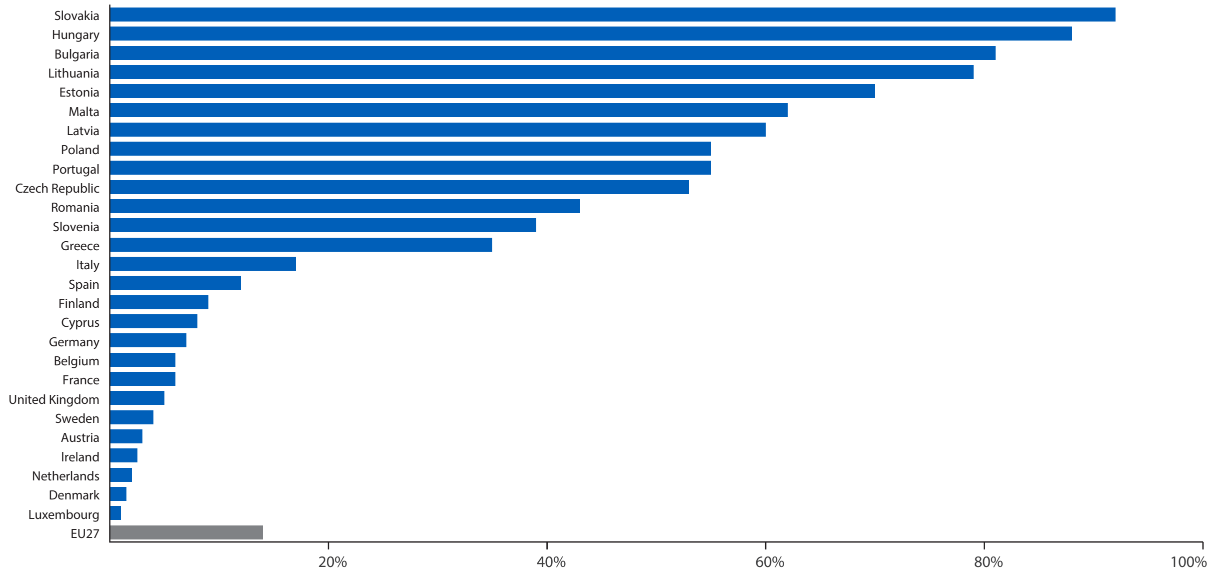
- the EU's "Europe 2020" targets. These call for a 20% reduction of CO2 emissions from 1990 levels, and will require accelerated investment in renewable energy sources and, in particular, energy efficiency, in the individual Danube region countries because of the mounting time pressures in the next few years. Exemplary challenges and opportunities in this connection are thermal upgrading measures of public buildings by 2019 and the exchange or adaptation of public lighting products, which are defined by the EU directive.
- the new EU funding programme for the years 2014-2020: total funding volume of EUR 366bn, which is an increase of 5.2% compared to the previous programme. The focus of funding is on research and innovation, information and communication technologies, improvement of competitiveness of small and medium-sized enterprises (SMEs) as well as the transition to low CO2 emissions.

The EU funding opportunities for public investments give the maximum priority to Bulgaria and Romania. While the share of EU funding provided to Slovakia, Hungary, Bulgaria in public investments is as high as 80-90%, the share allocated to the Czech Republic and Romania is only 45-55%. The share in Austria is at approx. 2-3%.

In the last programme period, 52%, i.e. EUR 182bn, of available funds from the various European funding pools was allocated to countries that our bank has defined as core markets, but only approx. 50% of provided funding opportunities were used. Especially in Romania, Bulgaria and the Czech Republic, the drawing rates of 26.4-47.4% are very low.

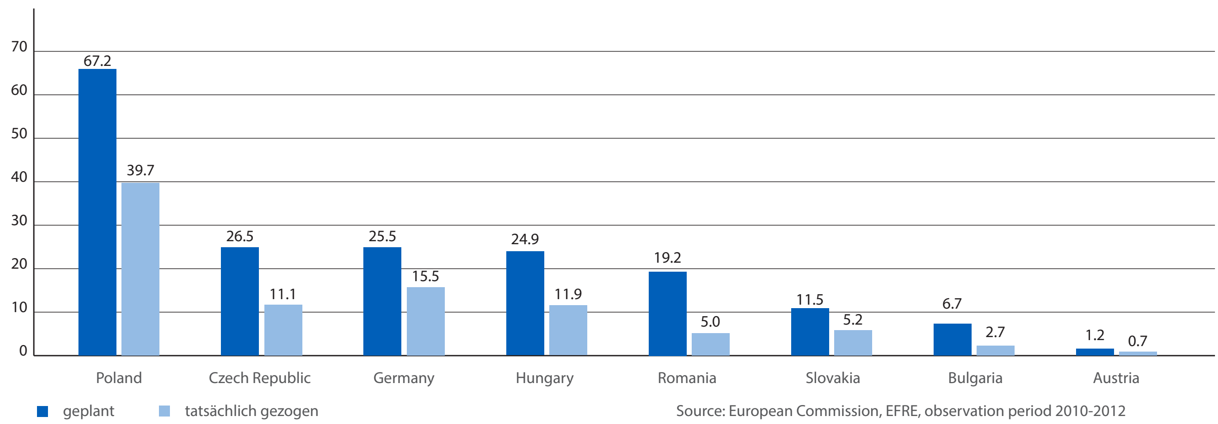
The main reasons are often insufficient institutional capacity and the lack of opportunity of raising the national state's own contribution. In order to avoid these low drawing rates

Share of EU funding (incl. the national states' own investment share) measured by public investment expense:



Source: European Commission, EFRE, observation period 2010-2012

EU funding programmes 2007-2013



Source: European Commission, EFRE, observation period 2010-2012

in the new programme period, the application regulations for all European funding pools have now been harmonised.

Massive funding is planned for the Danube region and all core countries of the HYPO NOE Group as well in the ongoing programme period. Together with the contributions to be provided by the individual nation states themselves, the total effect for the Danube region is estimated at EUR 200-250bn for the 2014-2020 programme period when put into effect .

The HYPO NOE Group analyses and evaluates the ongoing developments, both at the European level and the level of the individual countries (such as the composition and stability of the regulatory environment, the operational programme policy of the member states).

HYPO NOE IN ITS **CORE MARKET**

HYPO NOE GROUP'S CONTRIBUTION FOR LOWER AUSTRIA AND VIENNA

Wolfgang Viehauser, Division Coordinator Distribution & Treasury: "The HYPO NOE Group is a specialist for infrastructure and public finance projects focussing on Lower Austria and Vienna. Together with our customers, we develop solutions helping to create financial leeway and to limit financing costs in times of tight budgets. We develop our specialist know-how jointly with our subsidiaries HYPO NOE Leasing, HYPO NOE Real Consult and HYPO NOE First Facility. The structure and size allow for very fast decision-making and sound internal processes in all phases of a transaction."

REFERENCE PROJECT IN KORNEUBURG: CONSTRUCTION OF A NEW KINDERGARTEN BUILDING

In the context of the public tender of the city of Korneuburg for the "Kindergarten 1", the HYPO NOE Group has demonstrated once again that the Lower Austria state bank is a pioneer with its slogan "one-stop services for public construction" and is able to supply the relevant overall package with the utmost precision. In this leasing model, the leasing company assumes the construction and cost risk at a fixed full-inclusive price. It also includes the guarantee for a maximum heating energy demand, making operating costs more predictable and resulting in benefits over the property's life cycle.

The services publicly tendered by Korneuburg were complemented by energy controlling and energy optimisation concepts.

HYPO NOE Leasing as a general contractor assumes the construction and cost risks and is responsible for operational tasks and supervision functions in construction management. For the Korneuburg kindergarten in Augustinergarten, completed and opened in autumn 2013, a binding construction cost ceiling of EUR 3.3m was agreed.

In this way, the Korneuburg municipality has outsourced operational activities with the advantage of having a single main contact partner during and after completion of the project. Nevertheless, the users' demands regarding requirement and function during planning and construction of the building, as well as regionality when selecting professionals and planners were taken into account. The public tender required HYPO NOE Leasing to invite regional companies for construction work.

REFERENCE PROJECT IN SPILLERN: ENERGY-EFFICIENT LARGE-SCALE HOUSING CONSTRUCTION

Cooperative housing construction plays an important role in Austria. The non-profit housing developers aim at providing affordable homes on a cost-recovery basis, applying high quality standards both in the construction and the operational phase. HYPO NOE Landesbank has been a reliable partner to housing developers in Lower Austria and Vienna for many decades. The Spillern residential estate, the winning project of the 2011 architecture award of Lower Austria, is a concrete example of successful cooperation. The non-profit housing association Gemeinnützige Wohnungs- und Siedlungsgenossenschaft Neunkirchen erected 51 ultra-low energy apartments with a total usable floor space of 4,033 m^2, planned by the architect Linsberger. The apartments are supplied with district heating, the courtyard is semi-public, and a playground protected against noise was furnished. Barrier-free apartments are available on the ground floor.

REFERENCE PROJECT IN MISTELBACH: RING ROAD

A successful example of a public-private partnership (PPP) project is HYPO NOE Group's participation in funding the construction of the Mistelbach ring road in Lower Austria, which will contribute significantly to easing traffic in this region with its 14.8 kilometres and 32 bridges. The European Commission defines public-private partnerships as a form of cooperation between public bodies and private enterprises for the purpose of financing, building, renovating, operating or maintaining infrastructure or providing a service. The HYPO NOE Group regards public-private partnerships as an innovative instrument for using private funds to finance public projects of great importance to the society.

RECONSTRUCTION AID AFTER FLOOD: FOCUS ON MUNICIPAL INFRASTRUCTURE DAMAGE

Immediately after the tragic consequences of the floods in spring 2013 have become known, the Public Finance Department of the HYPO NOE Group developed emergency aid in the form of "flood-related credit". This quick and non-bureaucratic form of interim finance for damage to municipal infrastructure could be used by affected municipalities in Lower Austria up to an amount of EUR 1m.

In addition, owing to its good business relationships, the HYPO NOE Group was and is in intensive talks with the European Investment Bank (EIB) regarding a specific flood financing programme.

The retail subsidiary HYPO NOE Landesbank offers emergency credit for affected private individuals, enterprises and self-employed persons.

THE HYPO NOE GROUP'S COMMITMENT BEYOND OUR BANKING BUSINESS: THE BANK AT YOUR SIDE

By resuming the last "year of partnerships", HYPO NOE Gruppe Bank AG and HYPO Landesbank AG as a Lower Austrian regional bank continued the tradition of its commitment beyond the banking business. The sponsoring strategy of the HYPO NOE Group focuses equally on support for sport, culture and social initiatives.

SPORTS SPONSORSHIP

The HYPO NOE Group has been one of the most important sponsors of sports in Lower Austria for many years. The sponsoring strategy is orientated mainly towards team ball sports. Young people and talent support programmes are equally a part of this lasting focus. The HYPO NOE Group's corporate values of security and trust thereby create an important basis for decision making and for future involvement in sponsorship. The sponsorship of sport is flanked by sponsoring clubs and athletes as well as a brand ambassador – with everything focussed on Vienna/Lower Austria – and thereby constitutes a solid and indigenous mix.

The HYPO NOE Sports Family

In 2013, the HYPO NOE Group followed its proven sports sponsoring strategy. The focus was thus clearly placed on supporting the top sports in Lower Austria. In sports, the HYPO NOE Group concentrates overall on three strong pillars:

HYPO NOE Brand Ambassador

Frenkie Schinkels was acquired as the first brand ambassador. With his iconic status as a TV analyst and ex-dancing star, he has by now been permanently employed for about a year for the HYPO NOE Group as the official outward "face of the brand". In 2013, the authentic, ex-professional footballer toured the country with his biography and book presentation "Frenkie Schinkels - The Naked Truth".

Athlete Sponsorship

The HYPO NOE Group also supports selected individual sportsmen and women. The focus here is on the sponsorship of top sportspeople and talent in Lower Austria.

Club Sponsoring

HYPO Ladies' Handball Club NÖ, UHK Krems, VCA HYPO NÖ Amstetten are the best known representatives in the HYPO NOE Sport Family.

HYPO NOE Brand Ambassador: **Frenkie Schinkels**

Maria Ramberger (26): World Cup Victory Montafon 2011 (Team Event), 8th place World Championships 2013, 16th place Olympic Games 2010 and Olympic starter 2014 in Sochi.

Lucas Miedler (17): Current U16 European Champion, Grand Slam finalist in Junior Doubles at the Australian Open 2013 and current Number 1 of the ÖTV youth rankings.

SKN St.Pölten: Since 2012 the HYPO NOE Group has been the new main sponsor of the First Division football team SKN St. Pölten. At the same time, this new era of partnership was launched through naming the new VIP Club "HYPO NOE Lounge" in the new home of SKN. This association has also been strengthened through a new special SKN Sport account package. The "SKN Fan Account" has been available from HYPO NOE Landesbank since summer 2012; immediately recognisable through the SKN design and attractive through the special conditions, such as, for example, a 50% reduction for a year's subscription to the new arena.

HYPO NÖ Ladies – "The most successful ladies handball club in the world":
European Cup victor in the Champions' Cup, 8x Champions League winner and 37x Austrian National Champion. With the HYPO NÖ Handball Ladies, one has already had a decades-long association with the main sponsor and name giver of the club and with captain Alexandra do Nascimento one can find not only "World Ladies' Handball Player 2012" in one's own ranks, but also a current Brazilian Team World Champion 2014 as a flagship in the team.

CULTURE SPONSORSHIP

Sponsorship of culture represents another pillar of the sponsorship strategy. Through its large and long involvement in culture, the HYPO NOE Group has already ensured an extensive and varied range of cultural activities. Through numerous cooperation projects with local culture clubs and culture operators, the HYPO NOE Group has fulfilled its social responsibility as "the bank of the state for the state", and it supports interesting regional art and culture events. The HYPO NOE Group is the main sponsor of Lower Austrian cultural highlights, such as:

Lower Austrian Cultural Industry (NÖKU)

NÖKU represents the cultural flagship of Lower Austria. NÖKU unites cultural institutions, exhibitions and event operators in Lower Austria under one roof, such as Carnuntum, the Krems culture mile, St Pölten's Festival Hall and much more. It sees its task as being the coordination of cultural activities in Lower Austria, quality assurance and the support mission.

Laxenburg Culture Summer

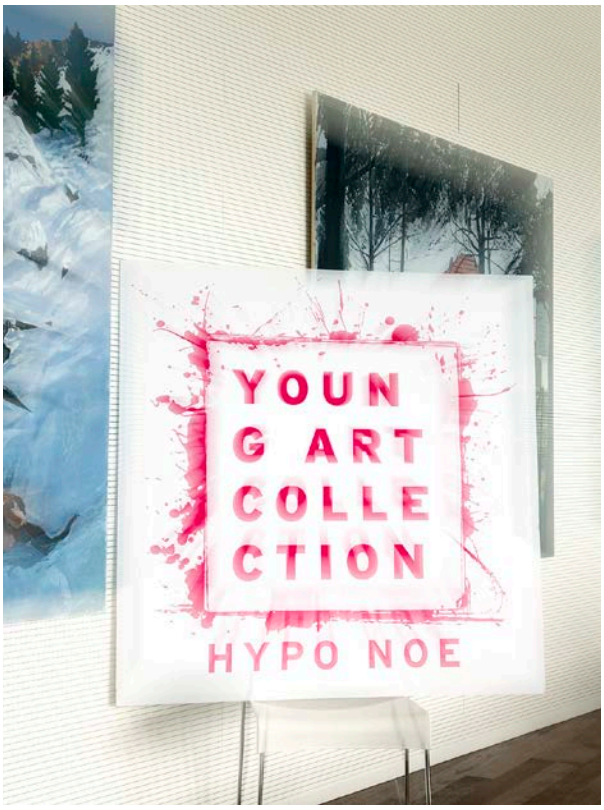
Another shining example of a successful cultural event is the theatre festival at the Franzensburg in Laxenburg Castle Park. Every year, in the summer, comedy plays are staged here by various directors; since 2012, under the management of the creative mind of Adi Hirschal.

Tulln Garden

The Lower Austrian Garden Show in Tulln is the oldest involvement and refers to the traditional flower parade of the Flower City of Tulln, which dates back to 1954. 150 show and model gardens are located on a 10 hectare event area, which are, by now, with their strong ecological cultivation, Europe-wide pioneers. The Tulln Garden is a representative of the campaign "Nature in Gardens", which has elevated the support and mediation of renouncing pesticide, chemically synthetic fertiliser and peat into its creed.

Artist Support Programme - HYPO NOE Young Art Collection

The HYPO NOE Young Art Collection is an initiative of the HYPO NOE Group for supporting new art and young artists and the cultural landscape in the Danube region. Through this platform, the bank offers young artists the opportunity to more easily enter the art scene and to be able to present their works to a wider public in the context of regular exhibitions. During the duration of an exhibition, a selection of young artists are chaperoned by an artistic advisory committee. The chairman of this committee is Carl Aigner, Director of the State Museum of Lower Austria.



GROUP OPERATIONAL AND FINANCIAL REVIEW 2013

HYPO NOE GRUPPE

ECONOMIC CLIMATE

Global economic and financial market developments

Like its predecessor, 2013 was marked by a widening gap between the performance of the real economy and that of most assets. While global economic forecasts were downgraded more than once in the course of the year, the international equity markets put in an excellent showing, and the bond markets were not far behind. Both trends fed off the central banks' highly accommodative monetary policies. Particularly vital were the ongoing quantitative easing programmes operated by the US Federal Reserve and the Bank of Japan, under which they purchased sovereign bonds and other securities worth a monthly USD 85 billion (bn) and ¥7.5bn respectively.

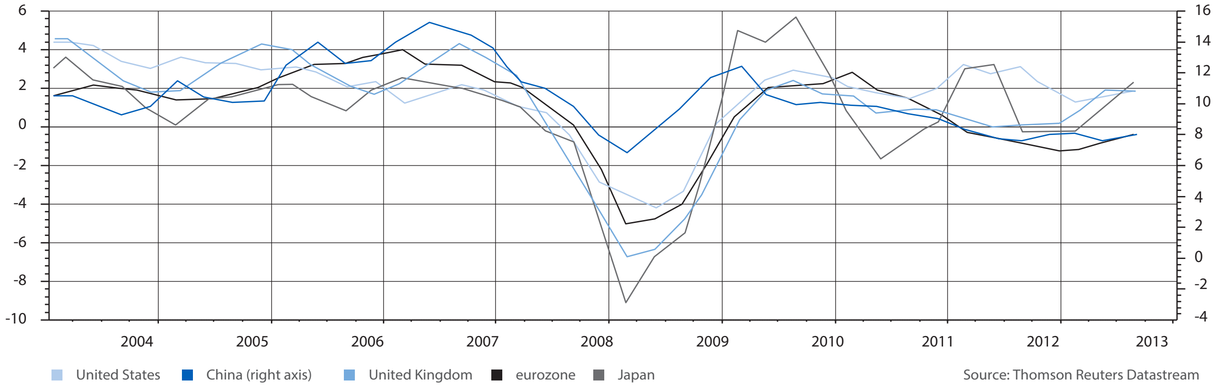
The latest estimates from the International Monetary Fund (IMF) put world economic growth in 2013 at 2.7%, with the Organisation for Economic Cooperation and Development (OECD) forecasting growth of 2.9%. The emerging countries disappointed, but the growth record of the US and eurozone economies was roughly in line with the forecasts. In view of the dual burden of tax increases and public spending cuts, the US economy has arguably shown a degree of resilience. The recovery from the 2008-2009 crisis is now well advanced, as can be seen from the rapid pick-up in the real estate market and the sharp downturn in unemployment. The economic outlook for 2014 has brightened following the budget compromise towards the end of last year and the fact that much of the uncertainty about the next increase in the debt ceiling has now been allayed. With the negative impact of restrictive fiscal policies gradually fading and the recovery gaining traction, US economic growth is projected to accelerate to between 2.5% and 3.0%.

There have been some political obstacles along the euro area's long road out of the recession that reached its trough in the fourth quarter of 2012. First, the Italian general election in February rattled market nerves, leading to a temporary increase in the risk premiums on peripheral countries' sovereign bonds, and the bail-in solution applied to Cyprus had the same effect. The fact that these troublesome situations did not ultimately have major repercussions was due to the safety net created by the outright monetary transaction (OMT) programme, involving unlimited purchases of government bonds, launched by the European Central Bank (ECB) in 2012. The big upside surprise last year was the German economy, which posted a strong revival. The best performers among the peripherals were Ireland, Portugal and Spain. The success of these countries' reforms was manifested in surging net exports, which suggest that they have regained competitiveness. Near the end of the year Ireland became the first of them to escape its Troika bail-out. Markets also welcomed Spain's announcement that it would not require further help to shore up its banking system. On a gloomier note, the eurozone economy is expected to have contracted by 0.4% over 2013 as a whole. More encouraging were the gathering signs of stabilisation during the second half, setting the scene for an estimated growth rate of around 1.0% in 2014.

The global inflation rate was lower than had been anticipated at the start of the year. This partly reflected declining commodity prices, but the absence of any significant wage push inflation was also due to slow growth and high unemployment. In the eurozone, disinflation was also promoted by the fading out of base effects in the shape of past increases in taxes and administrative fees. All this meant that price rises came in at just 0.7% in October 2013 – their lowest level since October 2013. Inflation is set to bottom out in 2014, and is likely to remain very subdued for the next two years

Despite the aforementioned political events, during the reporting period international monetary policies were again the key influence shaping financial market trends. The Fed stuck to its policy, adopted in September 2012, of buying USD 85bn of US Treasury notes and mortgage-backed bonds per month, although it announced its intention to taper the programme. This alone has been sufficient to pump over a trillion dollars into financial markets. The Bank of Japan has pursued its ¥7.5 trillion bond buying programme, launched in April 2013, with equal determination. The ECB was the only large central bank to shrink its balance sheet markedly in 2013. This was not deliberate, but a consequence of European banks' widespread use of the option of repaying LTRO loans early. The ECB effectively confined its support for the eurozone rebound to two further 25 basis point interest rate reductions. Since the surprising cut in November the main refinancing rate has stood at 0.25%.

GDP growth in China, the eurozone, Japan, the UK and the USA



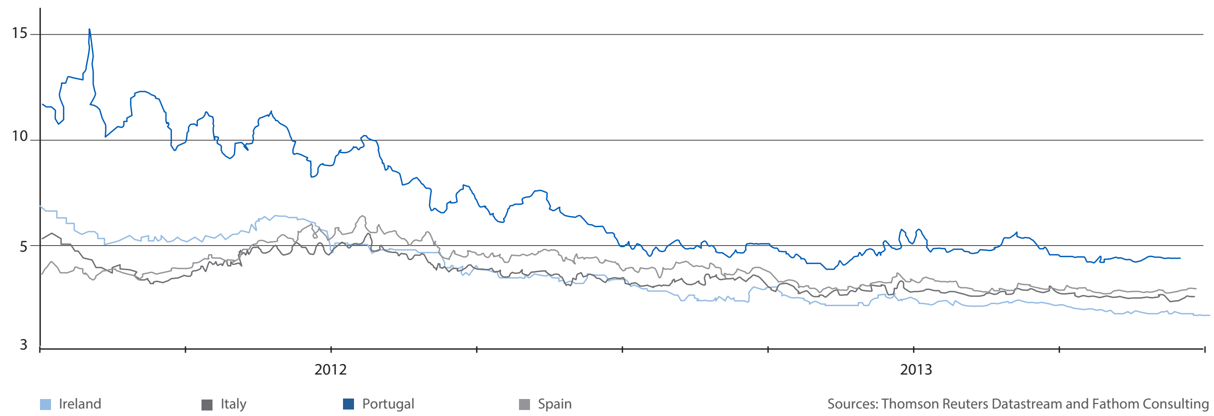
Source: Thomson Reuters Datastream

European bond market

The continuation of expansionary monetary policies, coupled with below-average global growth, held yields at very low levels. After some ups and downs in the course of the year, yields rose towards the end of 2013 as a result of good economic data. The ECB's unexpected interest rate reduction from 0.50% to 0.25% held back the rise in interest rates in the euro area as compared to the UK and the USA. At the last Federal Open Market Committee meeting of 2013, on 18 December, the Federal Reserve decided to embark on tapering by paring back bond purchases from USD 85bn to USD 75bn per month, starting in January 2014.

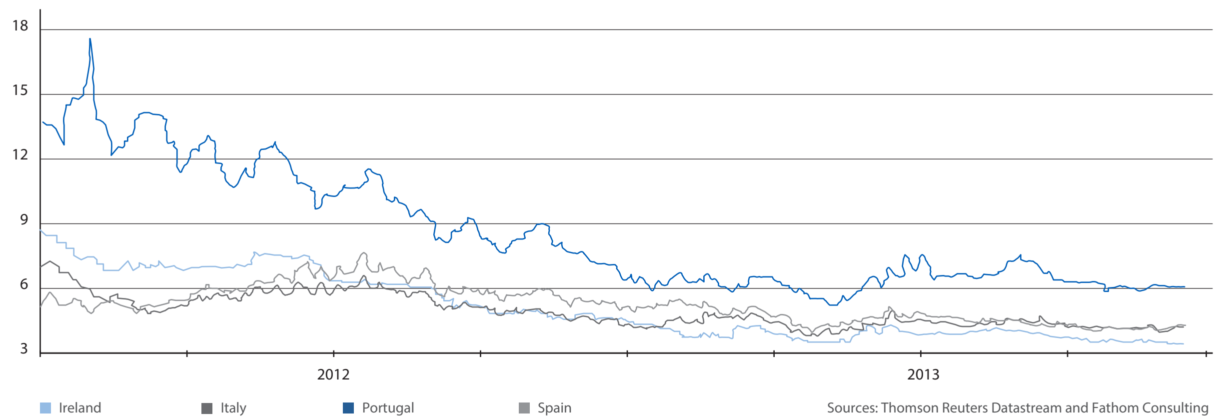
Movements in the yields of eurozone members' bonds were propelled by the political events referred to above. The yield spreads on the peripherals' sovereign bonds repeatedly widened because of these, only to narrow again before long. The fall in these countries' risk premiums that had begun in the second half of 2012 persisted, and by the end of 2013 they were at their lowest since the start of 2011.

Interest rates on selected eurozone sovereign bonds (nominal yield)



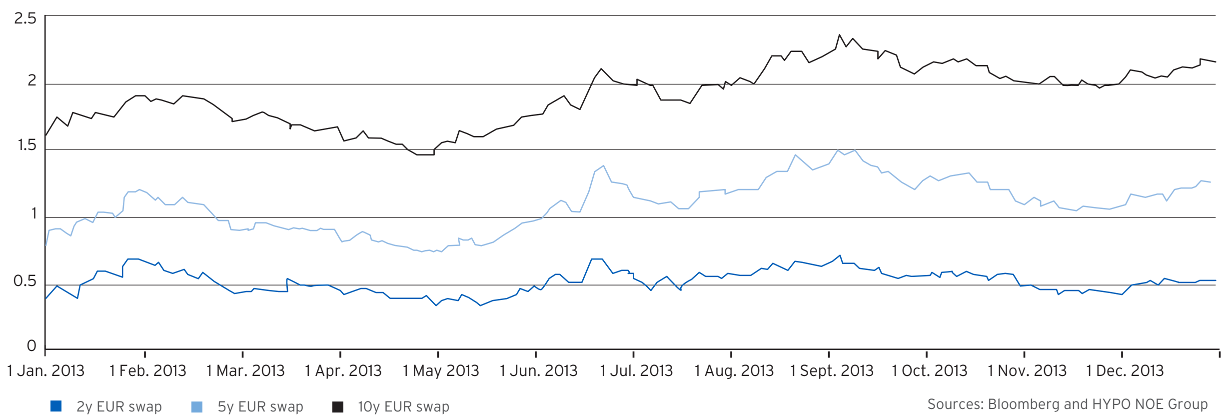
Sources: Thomson Reuters Datastream and Fathom Consulting

Interest rates on selected eurozone sovereign bonds (yield spread over German Bunds)



Sources: Thomson Reuters Datastream and Fathom Consulting

Euro swap rates

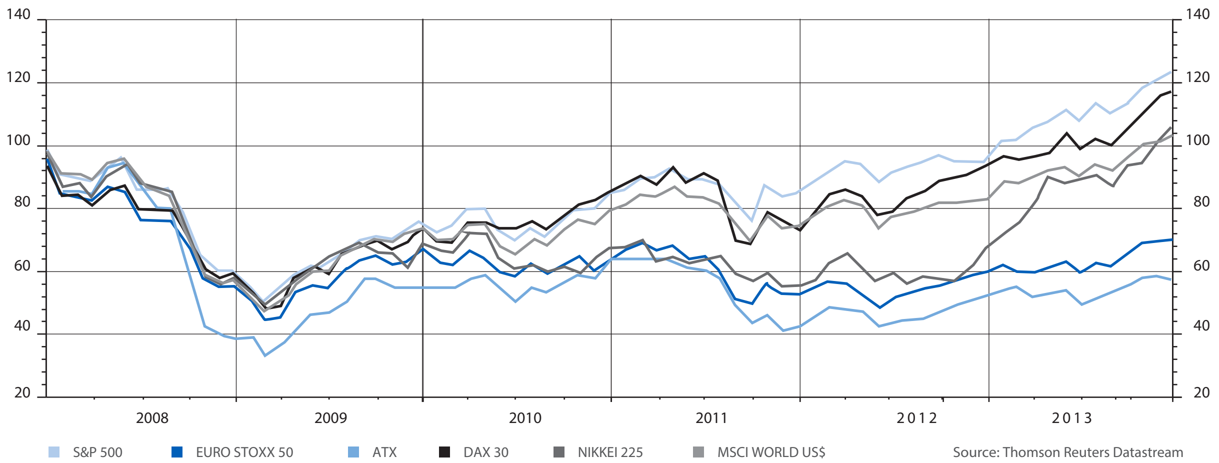


Sources: Bloomberg and HYPO NOE Group

Equity market

The renewed loosening of monetary policy forced any investors wishing to make at least minimal returns to accept risk, and this benefited the international stock markets in advanced countries. They extended the previous year's run of good performance, posting particularly strong advances in the second half of the year. Gains of 15-25% on the year as a whole were made almost everywhere, and some segments put on as much as 50%. The unattractive interest rates on investment grade bonds and the improving economic outlook were the main drivers of the bull market. Prices were also buoyed by the fact that many multinationals used their large cash piles to launch buyback programmes, which both enhanced their valuations and generated additional demand on the equity markets. All the headwinds that markets ran into during the period turned out to be temporary developments, and few had any significant effects.

Stock market comparison (indexed, base year 2008)



Source: Thomson Reuters Datastream

Economic trends in the HYPO NOE Group's core markets

Both the European Commission's autumn forecast and the WIFO (Austrian Institute of Economic Research) outlook see Austria continuing to significantly outperform the eurozone as a whole in terms of economic growth, sovereign debt and unemployment. Personal consumption went sideways, and thus made a neutral contribution to growth. The country's balance of payments surplus was again slightly higher than the euro area average.

			Austria			eurozone
%	2012	2013	2014	2012	2013	2014
Real GDP growth	0.9	0.4	1.4	-0.6	-0.5	0.8
Inflation	2.6	2.1	1.4	2.5	1.4	1.3
Unemployment	4.4	4.8	4.7	11.3	12.2	12.1
Balance of payments as % of GDP	1.6	2.6	2.5	1.9	2.4	2.5
Budget deficit as % of GDP	2.6	2.9	2.8	-3.7	3.0	2.6
Government debt as % of GDP	74.0	75.3	75.9		95.5	97.0

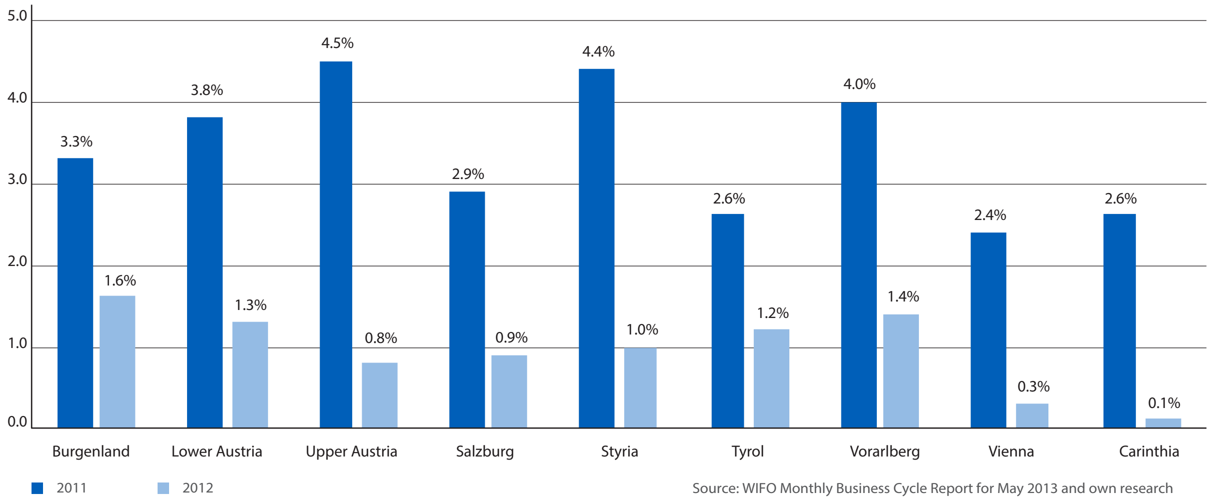
Sources: Economist Intelligence Unit (EIU) and own research

Following the upswing in 2010 and 2011, which were especially good years for the most heavily industrialised Austrian states (Styria, Upper Austria and Vorarlberg), the worsening global economy led to a sharp slowdown in growth across the country. Growth slumped in all the federal states in 2012 and the first half of 2013, with the most export-dependent ones – Styria and Upper Austria – particularly hard hit. Burgenland was the front runner in 2012, with growth of 1.6%, ahead of Vorarlberg on 1.4%. The Lower Austrian economy headed the pursuing pack, expanding by 1.3%, while Carinthia and Vienna were the back markers, with growth of 0.1% and 0.3% respectively.

The Vienna/Lower Austria region continued to play a central role in the Austrian economy last year, contributing 42% of the country's gross domestic product (GDP). With regard to the GDP of the states of Vienna (26%) and Lower Austria (16%), it should be noted that some 250,000 Lower Austrian commuters add to Vienna's GDP, and pay their tax and social security contributions in the capital, distorting the figures accordingly.

Unemployment rates in the federal states are chiefly influenced by the major conurbations, the structures of the regional economies, the level of education of the population, topographical conditions and infrastructure. In July 2013 the national unemployment rate, calculated by the Austrian method, was 0.5% up on September 2012, at 7%. At both junctures, joblessness in the states of Carinthia and Vienna was well above the national average. Unemployment in Lower Austria was 0.4% below the national average, and was equal to the rate in Burgenland. Upper Austria, Salzburg and Vorarlberg boasted the lowest unemployment.

Economic growth by states



Source: WIFO Monthly Business Cycle Report for May 2013 and own research

CENTRAL AND EASTERN EUROPE (CEE)

On the cusp of an upturn

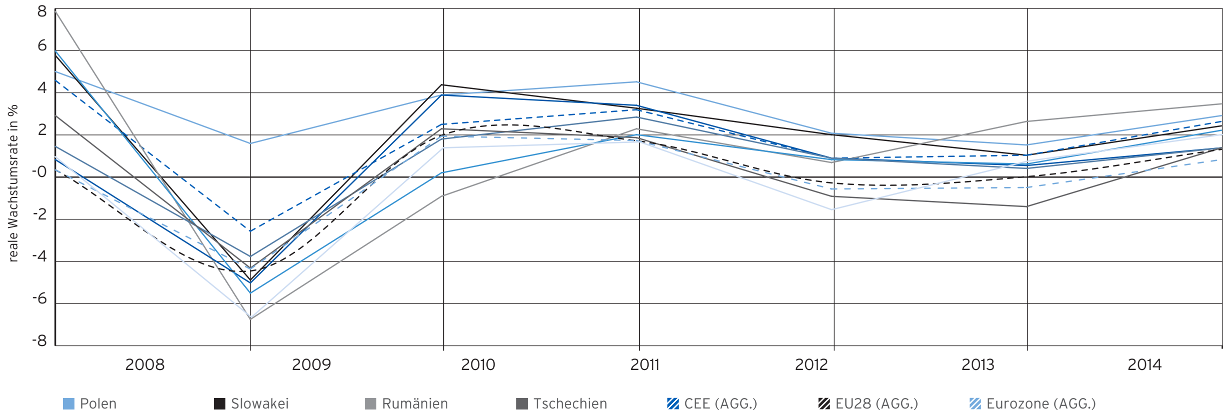
A comparison of economic growth in CEE and the eurozone over time shows that the CEE region has continued to enjoy higher growth rates. This is mainly because of the fact that the region's economic performance still lags Western Europe, and the resultant drive to achieve convergence. The time series shows that in 2013 all but one of the Bank's focus countries recorded positive economic growth The sole exception was the Czech Republic, where GDP contracted by 1.4%. The momentum of recovery is expected to be maintained in 2014, and Bulgaria, Poland, Romania and Slovakia are seen posting growth rates of between 2.2% and 3.5%.

In terms of aggregate growth over the 2008-2013 period, the Polish and Slovak economies were strongest performers, expanding by 19% and 12% respectively. Bulgaria (4.1%) and Romania (5.7%) were mid table, along with Austria (3.5%) and Germany (4.4%). The Hungarian economy shrank by almost 4% over the same period, and the overall output of the EU-28 was down by 0.8%.

In 2013 the gradual pick-up in net exports, and the first signs of a revival in personal consumption and domestic demand were responsible for what was, nevertheless, very hesitant growth. Private consumption held back growth in Bulgaria during the year.

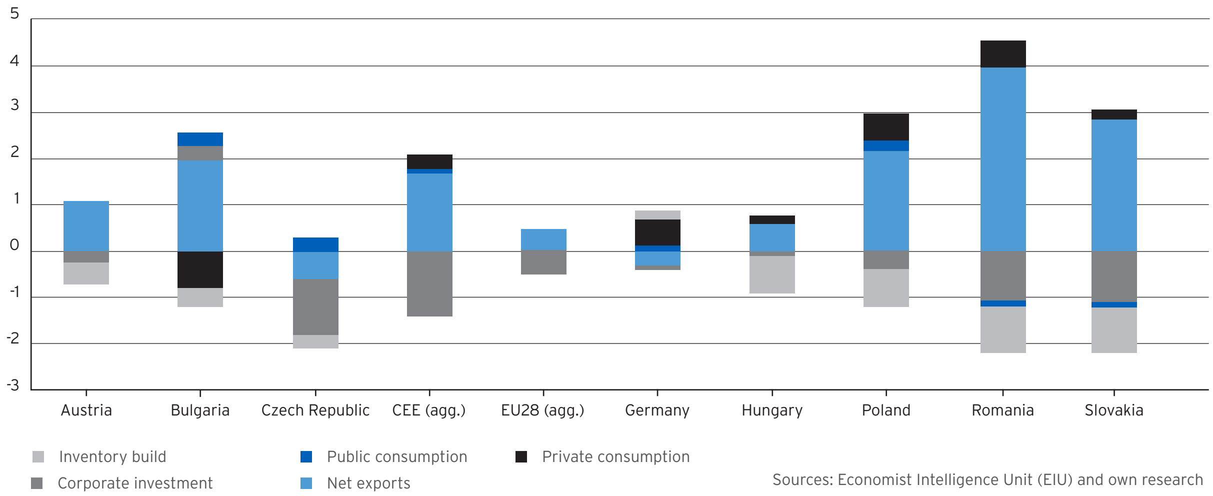
Consumer spending is predicted to deliver a much stronger stimulus to the economies of all of the Bank's target countries in 2014. Net exports are likely to edge down due to a resultant increase in import demand, but are still set to make the second-largest contribution to growth. Business investment and rising inventories – after a protracted phase of rundowns – are also seen helping to drive the upswing. Due to ubiquitous public spending cuts, the state sector is again likely to make only a very muted growth contribution in 2014.

Growth in 2013 and forecast for 2014



Quelle: Economist Intelligence Unit (EIU); eigene Darstellung

Components of growth in 2013



Sources: Economist Intelligence Unit (EIU) and own research

ESI business confidence indicator

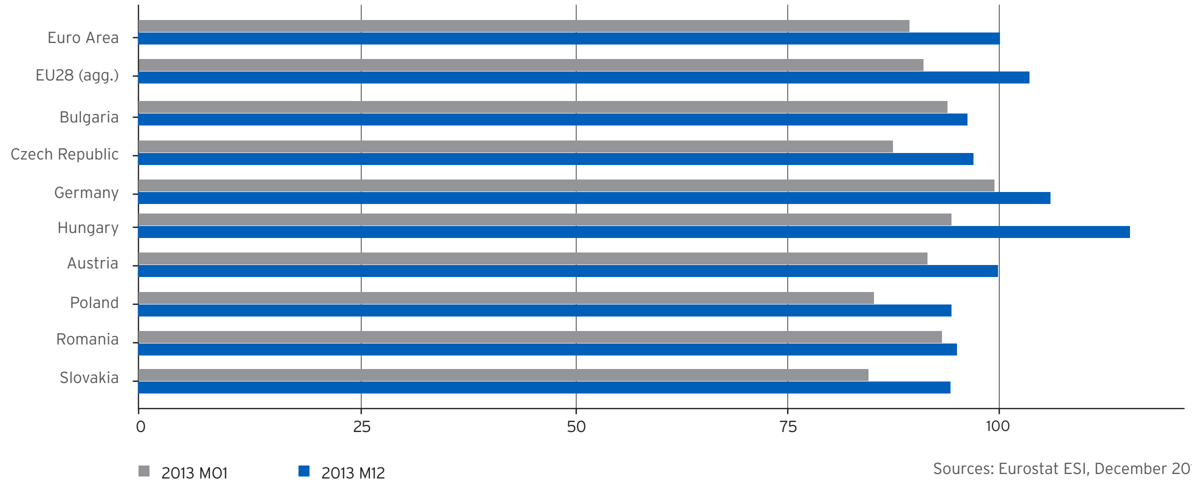
The latest Economic Sentiment Indicator (ESI) reading, based on surveys conducted in November 2013, also lends credence to the recovery and the positive growth forecasts for 2014.

The comparison shows that confidence among the respondents (the sample is always the same size) in a variety of sectors (construction, retail trade, services, industry and consumers) was significantly stronger in 2013 than in the preceding year. This was especially true of Austria, Hungary, Poland and Slovakia, and with regard to managers' assessments of order books and their expectations for the next 12 months. Sentiment in Bulgaria and Romania held steady at high levels, rather than reflecting the anticipated acceleration in growth in both countries in 2014. There is no contradiction in this, as weaker sentiment in some subsectors can distort a positive picture in other areas due to the underlying weighting.

Market developments in the Bank's core market and CEE

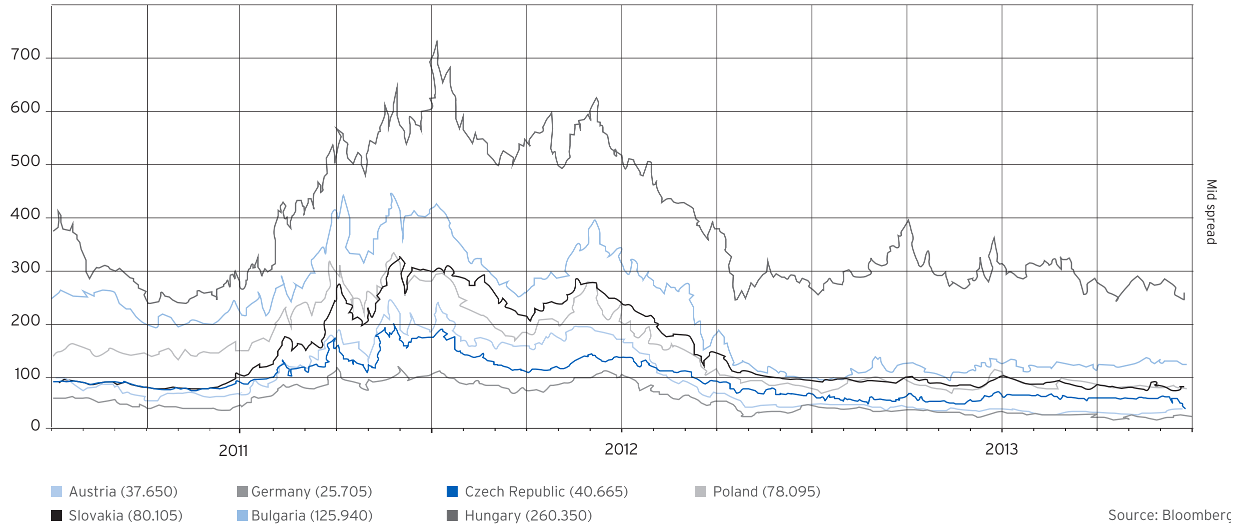
Both the credit default swap (CDS) spreads – with the exception of Bulgaria – and the risk premiums on all the countries' debt fell in comparison to 2012. Bulgaria was faced with a 25% increase to 125 bps due to persistent political turmoil, but this is still a relatively low level. Hungary experienced several intra-year increases in its CDS spread because of domestic political debates and foreign policy moves (including the pull-out from the talks with the IMF on a standby facility and the bad relations with the country's EU partners). The recent formation of a new government has had a positive influence on the Czech Republic's CDS spread.

Comparison of the January 2012 and November 2013 ESI readings



Sources: Eurostat ESI, December 20

CDS spreads, 2011-2013



Source: Bloomberg

Banking sector trends in the eurozone and CEE

Current trends in the European banking sector present a mixed picture. On the one hand, the banks are benefiting greatly from narrower yield spreads, which make refinancing easier and increase the market value of their security portfolios. However, low interest rates hit interest income, and this weighs particularly heavily on the profits of banks that are dependent on retail business.

These two effects are key parameters of banks' ratings. As maturity transformation normally has a greater impact on a bank's overall profitability than its other forms of business, downgrades have continued to outnumber upgrades.

Banks in growth markets or in countries with relatively high interest rates are to some extent insulated from this trend. Both factors apply to the CEE banks, which are continuing to post solid performance.

Besides the woes of the real economy, the banking sector is confronted with a constant source of uncertainty in the shape of financial market volatility. Despite adequate liquidity, and the fact that many banks have returned funds borrowed from central banks, market fears about specific issues can lead directly to wider spreads. Some banking sectors remain vulnerable to such developments, and as a result central banks are still being forced to step in at times. There is also a danger of bubbles' forming in some asset classes.

Basel III and political initiatives aimed at shoring up the European banking sector have brought three issues to the fore:

- **Capitalisation:** The banks are constantly striving to increase their equity ratios, and this is leading in turn to more restrictive lending and dividend policies. This makes it hard for the banks to fulfil their role as financial intermediaries, which has a negative impact on the business sectors of the euro peripherals and some CEE countries.
- **EU-wide bail-in moves:** As European banks are no longer to be rescued without involving investors, the approach to government support will have to be reconsidered. "Bail-in" schemes with investor participation have already been implemented in Denmark in the wake of the financial crisis. So far, there have been no direct effects on banks' ratings.
- **Other policy measures:** Because of the burden imposed on European financial institutions by bank, financial transaction and other taxes, investors have little interest in bank shares at present. These policies work against the banks' efforts to strengthen their equity bases to comply with Basel III.

The harsh business environment in many European countries is likely to change the landscape of their financial sectors over the next few years, and there is good reason to expect strategic alliances and market shake-outs. At the same time, however, financial sectors should benefit from reviving economies. The upbeat mood on stock markets is also good for banks' earnings. To sum up, the European banking sector is currently regrouping and regaining its strength, and regulatory reforms are helping to stabilise it.

FINANCIAL REVIEW

Financial performance in 2013

EARNINGS (IFRS)

Profit for the period attributable to owners of the parent was significantly higher year on year, at EUR 53.7m (2012: EUR 22.8m). The repayment of penalty interest following the Administrative Court of Appeal's annulment of the notice issued by the Financial Market Authority (FMA) in relation to the Augustus Funding Limited case had a significant one-off impact on earnings in 2013. The fall in expenses associated with credit provisions also had an effect, as did the rise in hedging costs, which mainly resulted from the use of OIS discounting for valuing collateralised OTC derivatives following changes in the market standards.

The Gruppe Bank segment made the largest contribution to profits. The Landesbank and Leasing segments also delivered substantial profits for the period, although the Other segment contributed a minor loss before tax.

Net interest income was EUR 19.9m down on the like period of 2012, at EUR 115.4m (2012: EUR 135.4m), owing to the low level of interest rates. Thanks to the steady trend in interest rate margins in the retail business, we saw an improvement in the long-term refinancing base in spite of the rise in interest expense. Net interest income was also affected by the loss on investments accounted for using the equity method, which is also reported under net interest income. This was primarily attributable to measurement losses on associates of HYPO NOE First Facility GmbH (Other segment) and the valuation of the non-profit EWU subgroup (Gruppe Bank segment).

Net losses on credit provisions decreased to EUR 4.8m in the period under review (2012: EUR 21.2m) due to the high level of reversals of credit provisions – which reflected effective workout management – and the decline in the cost of risk.

Net fee and commission income rose to EUR 13.3m (2012: EUR 12.0m).

As a result of the fair value measurement of derivatives used for economic hedges, the Bank made a net trading loss of EUR 0.9m, which was virtually unchanged on the loss of EUR 0.8m reported in 2012.

General administrative expenses jumped by 8.9% year on year to EUR 116.5m. First Facility, which was consolidated in the third quarter of 2012, played a significant part in the increase, accounting for EUR 3.8m of the total in the reporting period. Staff costs increased by 8.9% to EUR 67.4m (First Facility: increase of EUR 3.4m) and other administrative expenses by 8.4% to EUR 43.2m (2012: EUR 39.8m). The 12.7% increase in depreciation, amortisation and impairment to EUR 5.9m chiefly related to the Group headquarters building in St Pölten, which was recognised in full in the annual accounts for the first time in 2013. The statutory financial stability contribution reported under other administrative expenses was unchanged year on year at EUR 6.3m.

There was an improvement in net gains or losses on financial assets, although the net loss of EUR 7.1m in 2012 largely reflected expenses arising from measures aimed at mitigating risk through the disposal of bonds issued by the PIIGS economies, Cyprus and Hungary.

There were net losses of EUR 9.0m on hedges (2012: EUR 2.0m). OIS discounting, which has replaced Euribor discounting as the market standard for pricing collateralised OTC derivatives, played a significant part in these losses.

Net gains of EUR 4.5m on other financial investments – up on the loss of EUR 0.3m recorded a year earlier – were largely generated by the Bank's success in negotiating the redemption of Hungarian local authority bonds in the current reporting period.

Net other operating income was positive by EUR 73.2m (2012: EUR 17.2m), of which EUR 57.9m was attributable to the repayment of penalty interest following the annulment of the notice issued in relation to the Augustus Funding Limited case. First Facility contributed EUR 2.5m of the total.

Profit before tax was EUR 75.0m – an improvement of EUR 44.8m year on year (2012: EUR 30.2m).

The downturn was also mirrored in the following financial performance indicators:

		2013	2012	2011	2010
Return on equity before tax	Profit before tax/ ave. equity	14.3%	6.5%	29.2%	1.9%
Return on equity after tax	Profit for the period/ ave. equity	10.2%	4.9%	22.0%	1.8%
Cost/income ratio	Operating expenses/operating income	59.3%	67.6%	40.4%	76.4%
Risk/earnings ratio	Credit provisions/net interest income	4.1%	15.6%	14.5%	13.1%

*) Intra-year indicators annualised on a daily basis

ASSETS AND LIABILITIES (IFRS)

The HYPO NOE Group's total assets stood at EUR 14.2bn as at 31 December 2013 – a fall of EUR 0.7bn or 4.4% on year-end 2012. The decrease was chiefly driven by a EUR 0.1bn drop in loans and advances to customers, which resulted from Austrian and Hungarian bond redemptions in the Public Finance Department (Gruppe Bank segment).

On the equity and liabilities side there was a reduction of EUR 0.6bn in deposits from banks. There was a net increase of EUR 0.3m in debts evidenced by certificates due to the successful EUR 746.6m senior unsecured bond issue.

EQUITY (IFRS)

IFRS consolidated equity including non-controlling interests was EUR 554.4m, up by EUR 56.9m on year-end 2012. The main reasons for the growth in equity were the profit for the period and the rise in the available-for-sale reserve for remeasurement of financial assets to fair value.

REGULATORY CAPITAL (AUSTRIAN BANKING ACT)

Consolidated total eligible core capital as defined by the Austrian Banking Act was EUR 692.3m as at 31 December 2013 (31 Dec. 2012: EUR 668.5m). Surplus capital was EUR 359.7m (31 Dec. 2012: EUR 317.4m), compared to a capital requirement of EUR 332.7m (31 Dec. 2012: EUR 351.1m). The core capital ratio was 14.7% (31 Dec. 2012: 12.3%), and the equity ratio was 17.9% (31 Dec. 2012: 16.3%).

OPERATIONAL REVIEW

Gruppe Bank segment

HYPO NOE Gruppe Bank AG is the Group's parent and a key financial institution in Vienna and Lower Austria. In 2013 the Bank further established its position as a solid and reliable source of public, business and project finance, real estate financing solutions and treasury services for customers in Austria and the Danube region. The Group continues to pursue a selective approach to operations outside Austria, and is active in Bulgaria, the Czech Republic, Germany, Hungary, Poland, Romania and Slovakia. Staff at the representative offices in Budapest and Prague are native speakers of the local languages. This reflects a personalised approach to customer service and facilitates the transfer of special financing models from Austria to the wider region. We attach great importance to detailed analysis of the market environment as well as the significance of the projects in question for economic development in the regions concerned.

HYPO NOE Gruppe Bank celebrated its 125th anniversary in 2013 with a large number of events and special products. Held in November, a month-long promotion at branches of retail bank subsidiary HYPO NOE Landesbank AG were the highlight of the anniversary year, offering customers the chance to open a special jubilee savings account and culminating in the launch of a book and a short film at the Group's headquarters in St Pölten.

Rating agency Standard & Poor's (S&P) reaffirmed the bank's single-A rating with a negative outlook in 2013. The negative outlook continues to be determined by the credit rating and outlook for the Republic of Austria, which is affected by the ongoing tensions in the euro zone. Among other strengths, S&P singled out the Group's stable ownership and strong capital resources

Public Finance

Our Public Finance Department partners local and regional authorities, public agencies and infrastructure companies. It remains focused on further expanding its business in eastern Austria and with enterprises linked to the federal and state governments.

The department's prime objective is to develop sustainable, integrated solutions for customers, in cooperation with other parts of the Group, and increasingly to figure as a provider of expertise and services – for example by acting as the lead bank for lending syndicates, or by structuring tenders. Public Finance always sets out to understand customers' special requirements and to deliver risk-aware advice and service. In line with our Danube region strategy the bank offers financing solutions to governments and large cities in the wider region on a selective basis.

The Group has strengthened its end-to-end processes for public construction projects in Austria, which allow it to serve as a one-stop shop for the domestic sector. Throughout the design-finance-build-operate cycle, our services are aimed at creating enduring assets and sustainable, long-term returns for public sector clients.

Due to the budget situation facing state governments and local authorities, public-private partnerships (PPPs) and innovative financing solutions for construction projects are in growing demand. The department was involved in implementing of a number of projects in the education and healthcare sectors, such as a kindergarten in Korneuburg which opened in December 2013. In this case cooperation with HYPO NOE Leasing enabled us to reduce the public sector customer's exposure to construction and cost risks. In the fourth quarter, the department also won a tender relating to the upgrade and expansion of St Pölten Hospital.

Another priority is closer cooperation with development banks, including the European Investment Bank (EIB) and Kreditanstalt für Wiederaufbau (KfW), which offer tailored loans that bring many benefits for the Bank's customers. Following the floods in the spring we launched the "HYPO NOE reconstruction package", which facilitated the rapid and straightforward extension of bridging loans to fund the repair of local government infrastructure.

Budgetary constraints, including the stability pact, are having a significant impact on states and local authorities, with large investments being postponed. In this environment the bank is focusing on a formula of close relationships with customers and high-quality advisory services. To support this strategy, customer relationship managers participate in continuous training programmes, often organised in co-operation with partners such as the Lower Austria Community Management Academy and Danube University Krems.

Real Estate Finance

The Real Estate Finance Department works with customers that require finance for commercial property, hotels, retail parks and residential property. It provides traditional financing as well as tailored solutions that draw on a broad portfolio of innovative products, so that financing for each project is suited to the customer's individual needs and objectives. The department is active in selected CEE markets including the Czech Republic and Poland, as well as its core markets of Austria and Germany.

In 2013 we exploited opportunities to develop our portfolio, especially in our foreign operations, that resulted from a number of large German banks retreating from the market. The market environment had a positive effect on the earnings contribution from real estate financing. Investment activities were affected by increased competition and high property prices. 2013 was a challenging year for property development, due to a lack of tenants for some asset classes, resulting in rising vacancy rates. The bank provided finance for a large shopping centre in Austria as well as prominent real estate projects in neighbouring countries, and a restructuring project in Hungary was completed with the successful winding down of assets.

Over the past few years the real estate finance sector has undergone long-lasting changes due to a wide range of factors, and the market is currently characterised by increased competition and tangible pressure on margins. This presents clear challenges for the bank's real estate finance business. The department's highly qualified and motivated staff are determined to take advantage of the changing competitive environment to meet earnings targets in 2014.

Corporate & Project Finance

The Corporate & Project Finance Department is HYPO NOE Gruppe Bank's competence centre for corporate banking, structured finance for companies, and project finance. It aims to provide outstanding universal banking services to corporate customers, with a strong focus on complex tailored finance solutions. In an unstable market environment, HYPO NOE Gruppe Bank has successfully established itself as a dependable partner for Austrian businesses thanks to its high degree of specialist expertise and efficient decision-making processes. Our customers value the bank as a long-term partner that assists companies as they grow, and plays an active and responsible role in regional economic development.

In strategic terms the department focuses mainly on Austrian customers, but it also works with leading companies in the wider Danube region and finances sustainable infrastructure projects. In infrastructure financing in particular, Corporate & Project Financing is capitalising on the bank's long tradition in providing finance to the public sector by offering innovative financing for PPPs. Partners profit from our expertise in structuring solutions, as well as an understanding of the needs of public and private sector customers that the Bank has built up over many years.

The department's team of project and infrastructure finance experts provides targeted financing for social, transportation and energy infrastructure – making an important contribution to creating the infrastructure that can facilitate dynamic economic development in the countries of the Danube region. As part of these activities, in the period under review we were able to build on our established relationships with international financial institutions including the EIB, the European Bank for Reconstruction and Development (EBRD) and Kreditanstalt für Wiederaufbau. In collaboration with KfW we realised a project for a German municipal utility company that attracted international attention.

A selective approach was taken to projects in the renewable energy sector, where we place particular emphasis on project sponsors' long-term strategies. Although the Bank is still strongly committed to supporting renewables and environmentally-friendly technology, the potential of this sector will be determined by the development of individual countries' regulatory frameworks.

The establishment in 2013 of a separate department for church bodies, interest groups and agriculture-related customers reflects our aim to provide enhanced support for these segments.

In 2014 Corporate & Project Finance plans to focus on expanding our relationships with corporate customers in Austria. To this end, in the fourth quarter of 2013 we began an extensive campaign of presentations at Austrian companies, which will continue in 2014 and has already opened up a number of attractive new opportunities.

Although it continues to face a difficult operating environment, Corporate & Project Finance is looking forward to 2014 with optimism and with a clearly defined strategy that is expected to result in an even stronger contribution to the Bank's growth.

Capital Markets

TREASURY

The underlying tone on the bond market in 2013 was very positive, resulting in excellent performance on covered bond markets in particular.

Good timing was essential when managing investments in 2013, as demand for liquid assets was unusually high and spreads narrowed significantly due to broad-based interest from investors. However, the Bank began to adjust its investments at a very early stage and was therefore able to report strong performance in its liquidity portfolio, where the focus was on highly liquid government and covered bonds.

ALM

The priorities for Asset Liability Management (ALM) are the best possible alignment of the bank's assets and liabilities, and optimisation of equity allocation. The medium-term and long-term planning for the Bank as a whole provide an important basis for this work, which also takes account of regulatory requirements, possible market developments, the demands of key stakeholders and the need to ensure long-term liquidity. Interest rate risk management is conducted with a view to achieving the best possible balance of risk and return, while also keeping interest income stable. Derivative financial instruments are used – mainly as hedges – to manage interest rate risk and the structure of the balance sheet.

We took advantage of the steep yield curve in 2013. The interest rate risk can be classified as low relative to the regulatory requirements.

FUNDING

The Bank was very successful in capitalising on market developments to implement its funding strategy. Our first senior unsecured benchmark bond, with a maturity of five years and valued at EUR 500m, was issued at an ideal point in the first half of the year. An extended roadshow held prior to the issue allowed us to reach a completely new target group and set an attractive price for the bond. A number of private placements also took place during the year. In light of attractive spreads and strong market demand, the Bank decided to raise advance refinancing for 2014 towards the end of 2013. This placement provided further proof that the Group is now firmly established on the international stage. The EUR 500m, seven-year benchmark issue was fully subscribed in a very short time and attracted a diverse range of European investors as well as a small number from Asia.

In addition to the established public-sector finance cover pool, in 2013 a mortgage cover pool comprising Austrian and German loans was analysed by rating agency Moody's for the first time. The resulting Aaa rating provides an excellent basis for future issues of mortgage-backed covered bonds. Besides broadening our product portfolio, this will also allow us to satisfy investor demand.

INVESTOR RELATIONS

HYPO NOE Gruppe Bank is committed to providing investors with timely and transparent information on the performance of its business. To this end, we further optimised the presentation of information in the investor relations section of the Bank's website in 2013 and investors received a series of newsletters outlining the latest developments. For the first time we organised an earnings call to coincide with the publication of the Group's annual report, in order to make the results available to investors and analysts immediately, and to allow them to discuss the report directly with the Management Board. An investor presentation held in Vienna also facilitated direct discussions with management. The bank participated in a variety of specialist events during the year with the aim of reaching out more effectively to current and prospective investors, and this resulted in a large number of new business relationships.

Institutional Customers

The Bank sees comprehensive advice and service for institutional customers as a core part of its mission, and has relationships with banks, insurance companies, pension funds, utilities and investment companies in Austria and abroad.

Many of our institutional clients are also closely involved with the Bank as investors. Throughout the year there were numerous opportunities to meet face to face with these customers, in particular at roadshows organised prior to the benchmark bond and covered bond issues.

In 2013 we also began to work with institutional customers on long-term public finance, mainly for infrastructure projects, allowing them to participate directly in financing arrangements put together by the Bank. We will open up further opportunities for cooperation in 2014.

Public Loan Management

The Lower Austrian state government currently extends several billion euro in preferential loans, mainly to private individuals who are building their own homes. Most of these loans are subject to property-specific criteria, with a particular focus on energy-efficient construction. The remainder of the loans are administered for other state government funds.

The state of Lower Austria has commissioned HYPO NOE Gruppe Bank to handle queries from subsidy recipients in relation to account administration, account balances and repayments. We provide 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. The Bank maintains the accounts for many Lower Austrian state government grants, for example those for schools and kindergartens. The HYPO NOE Group also offers assistance with a variety of state government home construction transactions, preparing detailed breakdowns of the existing loan portfolio, providing outsourced data processing, and generating analyses of the payment flows from individual loan tranches and deviations from the original repayment plans, as part of its regular reporting to investors.

The number of loan applications processed for the Lower Austrian state government is rising constantly, and the bank now has direct loans totalling almost EUR 6bn under management on behalf of the state government. The lion's share of this total, approximately EUR 5.5bn, consists of subsidised home loans.

Since 2013 a dedicated online platform has provided borrowers with easy access to account information and tax office confirmations for the past several years. This has contributed to sustainability by further reducing the number of hard-copy account statements and tax office confirmations, traditionally sent out in January, to 65,000, as well as expanding the range of services on offer.

Besides handling day-to-day enquiries from customers, the following will be priorities for Public Loan Management in 2014:

- Conversion of the large volume of subsidised home loans from loans extended directly by the state of Lower Austria to bank loans with interest-based subsidies. The technical infrastructure for this project are currently being put in place and processes are being finalised in consultation with the state of Lower Austria.
- Further development of the electronic tax office confirmation service in the form of a customer portal. Lower Austrian housing subsidy recipients will be able to access information on their subsidised home loans and carry out standard processes for subsidies using an online banking platform.

Participations

The HYPO NOE Group's investments are designed to complement its strategic direction. We enter into and maintain participations provided that they support the Group's primary business objectives. In its capacity as a shareholder representative, the Group encourages, manages and supports the development of the individual companies in which it invests. The Group strives to maintain an up-to-date overview of its equity investments portfolio for the purposes of risk management, controlling and governance. The following changes were made to the portfolio in 2013:

HYPO NOE Immobilienmanagement GmbH was formed as a wholly owned subsidiary of NÖ Hypo Beteiligungsholding GmbH. It is responsible for the company's real estate brokerage activities and adds another link to the Group's real estate services value chain.

On 4 April 2013 NÖ Hypo Beteiligungsholding GmbH acquired a 64% interest in Hauptplatz 18 Entwicklungs- und Verwertungs GmbH. The company owns a property in central Korneuburg that was home to the regional court until 2012 and is now to be devoted to other uses (retail, residential or similar). A comprehensive refurbishment project that takes account of the property's listed-building status is currently under development.

On 1 October 2013 NÖ Hypo Beteiligungsholding GmbH purchased an 89.5% stake in Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H., increasing its interest in the company to 90%. HYPO NOE Leasing GmbH acquired the remaining 10% stake in Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H. The following companies were established in connection with property development projects (wholly owned subsidiary NÖ. HYPO LEASING DECUS Grundstückvermietungs Gesellschaft m.b.H. holds a 90% stake in each):

- Josef-Heinzl-Gasse 1 Immobilienentwicklung GmbH
- Neustift-am-Walde 32 Immobilienentwicklung GmbH

Each project company was formed to manage the construction and sale of a residential development, on sites in the 19th and 13th districts of Vienna, respectively.

In early 2013 the Supervisory Board of Hypo-Banken-Holding Gesellschaft m.b.H. approved the purchase of shares in PayLife Bank GmbH, and the transaction was completed on 19 September.

An assignment agreement was concluded in June 2013 whereby HYPO NOE Landesbank AG assigned its 50% interest in Bonitas Versicherungsservice Gesellschaft m.b.H. to Niederösterreichische Versicherung AG, with effect from 1 July 2013. Insurance brokerage services and advice for the HYPO NOE Group are now provided by HYPO NOE Versicherungsservice GmbH, which was formed as a fully owned subsidiary of HYPO NOE Landesbank AG at the end of 2012.

The HYPO NOE Group held a minority interest of 1% in tecnet Beteiligungs Holding GmbH & Co OG through the Group's wholly owned subsidiary HBV Beteiligungs GmbH, which was transferred to N.vest Unternehmensfinanzierungen des Landes Niederösterreich GmbH on 30 December 2013; tecnet Beteiligungs Holding GmbH & Co OG was subsequently dissolved.

Foreign branches

HYPO NOE Gruppe Bank AG had no foreign branches in 2013, but operated representative offices in the Czech Republic (Prague) and in Hungary (Budapest), both of which were established several years ago.

Branch offices

HYPO NOE Gruppe Bank AG has operated a branch at Wipplingerstrasse 4, 1010 Vienna since 2008.

Landesbank segment

HYPO NOE LANDESBANK AG

HYPO NOE Landesbank AG is responsible for the HYPO NOE Group's retail operations. With 30 branches and a network of field sales staff, it provides outstanding service to private, self-employed and business customers in the Group's core market of Lower Austria and Vienna. The Bank has defined family and housing, health, and education as the pillars of its strategy.

With HYPO NOE Gruppe Bank as its parent and the Lower Austrian state government as its owner, the Bank is well placed to nurture stable long-term customer relationships. Highly experienced and motivated staff put together tailor-made solutions designed to meet customers' highest expectations.

Performance in 2013 was shaped by the very challenging interest rate situation facing retail banks. With interest rates at record lows, the entire sector, including HYPO NOE Landesbank, saw declines in net interest income. Despite this difficult environment the Bank maintained its ambitious growth target. Concerted efforts including packages of special offers coupled with the hard work of our sales staff meant that we were able to achieve this objective. Lending, deposits and the number of customers all grew significantly, bucking the trend in the sector as a whole.

The opening of the Bank's 30th branch at Alt Erlaa in Vienna's 23rd district was symbolic of our growth strategy: at a time when many bank branches are being closed, we are deliberately heading in a different direction. Within our branch-based, multi-channel sales strategy, branches have remained the most important sales channel. The 125th anniversary of HYPO NOE in 2013 was the focal point of sales activities including a large number of special products and offers that made a major contribution to the Bank's positive performance.

In the period under review HYPO NOE Landesbank worked intensively to pursue its strategy as a branch-centred, multi-channel bank. Significant investments were made in our online and mobile banking offering: we expanded the functionality of the online banking platform and launched our first mobile banking app. We also established the HYPO Service Center, a new central sales unit that will offer telephone support to customers and employees. It will act as a single, specialist point of contact for customers, as well as easing the workload of relationship managers so that they can dedicate more time to working closely with individual customers in person.

HYPO NOE Landesbank strengthened its position in the corporate customer segment, consolidating and further expanding relationships with small and medium enterprises (SMEs) in Lower Austria and Vienna, and with the leading housing development companies.

The Bank also took a leading role in terms of its environmental and social responsibilities. Since autumn 2013, branches of HYPO NOE Landesbank in Vienna and the surrounding area have doubled up as registration centres for car2go. car2go's car sharing solutions are now available to many more customers thanks to the Bank's support. Especially in urban areas, car sharing is an increasingly important means of reducing the environmental impact of private transport.

The first half of 2013 was overshadowed by flooding that affected large parts of the country. The Lower Austrian state government set up an account with HYPO NOE Landesbank for donations to the victims, and the HYPO NOE Group became the first donor, pledging EUR 100,000. HYPO NOE Landesbank did its part to support the individuals and businesses affected by providing rapid support and cutting through red tape wherever possible. The Bank earmarked funds of EUR 10m for emergency aid in the form of loans to flood victims in Lower Austria and Vienna. No processing fees were charged for the loans. They were interest-free for one year and had one-year grace periods, and the fixed-interest loans were offered at very favourable rates.

The Bank was able to significantly reduce foreign currency lending, which fell by more than 10% thanks to proactive risk management. This also led to strong performance in terms of the cost of credit risk.

Retail banks are expected to face similar challenges in 2014 to those experienced in 2013. Interest rates will remain low and competitive pressure is expected to increase, with the market subject to weakening consumer sentiment and a decline in savings rates. However, HYPO NOE Landesbank is again targeting growth in 2014, in lending, savings deposits and the number of customers. We will also continue to move in the direction of sustainable profitability, which requires us to pursue innovation at the same time as staying close to our customers. With banks looking to tap into potential sources of income in the corporate customer segment, competition for business with SMEs and major housing developers is expected to remain fierce. In this segment we will also continue to focus on proximity to customers and a solutions-driven approach. The Bank also plans to make an acquisition in the corporate customer segment.

Leasing segment

HYPO NOE LEASING GMBH

HYPO NOE Leasing GmbH provides leasing solutions to the public sector, primarily in the form of complex lease agreements for real estate projects. The company also offers business management and real estate project management services.

HYPO NOE Leasing has become one of Austria's leading providers of lease financing to public agencies, and is synonymous with innovative, flexible leasing solutions. Our vision is to be the most efficient leasing company in Austria, with unrivalled expertise in lease financing for the public sector.

A major highlight during the reporting period was the completion of a large-scale project in St Pölten – the biggest single contract handled by HYPO NOE Leasing and in the Austrian leasing sector as a whole. The company has a strong base of existing leases which was further expanded by this deal.

As expected, the leasing market environment was difficult. The 2012 *Stabilitätsgesetz* (Stability Act) significantly reduced the value-added-tax advantages on real estate leases, which led to a sharp decline in leasing transactions with local authorities. Business with existing customers in Lower Austria remains flat and we are working intensively on cultivating new target groups. However, leasing products face stiff competition from alternative financing models such as PPPs. Margins were satisfactory in 2013 and we were able to meet our financial targets for the year.

The expansion of the leasing business from offering finance leases to assuming additional risks, in particular construction risk, will continue to progress. HYPO NOE Leasing is well positioned to make this change and has already developed the corresponding products and structures. Overall the leasing sector is going through a period of upheaval and business is expected to stagnate or fall off; big-ticket deals like the one completed in 2013 are not a reflection of the general trend.

The market shake-out in the leasing sector in Austria is expected to accelerate, with a number of players pulling out of the public sector business in particular. This represents an opportunity for HYPO NOE Leasing to further consolidate its leadership in this niche market.

Other segment

HYPO NOE REAL CONSULT GMBH

HYPO NOE Real Consult GmbH is active in property development, construction, management and restructuring, and focuses on the Lower Austria and Vienna region. With a comprehensive range of services, the company is a one-stop shop providing personalised support to customers for all of their real estate needs. In 2013 we continued our long-term partnerships with HYPO NOE Gruppe Bank, HYPO NOE Landesbank and HYPO NOE Leasing in relation to lending, disposals and workout management.

On the project development side, a number of high-end home building projects in attractive locations in Vienna were launched in 2013. Construction began at the Karrée Korneuburg project and good progress was made overall. Alongside activities related to the current portfolio, the Project Development unit is actively acquiring new projects, as well as handling development projects for third parties. The department is also responsible for the strategic management of properties owned by the HYPO NOE Group. The outlook for 2014 is good, with a number of projects in the pipeline. These are currently at the appraisal stage.

On the project management front, the company made good progress with some major construction projects in 2013, and completed others including the IST Austria science laboratories in Klosterneuburg. The University of Natural Resources and Life Sciences, Vienna and the Austrian Institute of Technology moved into the University and Research Centre Tulln in 2011, and in 2013 planning for functional improvements and energy-saving adaptations began. The centre was recognised as an "exemplary building" (Vorbildlicher Bau) by the state of Lower Austria in 2013. Thanks to our quality-driven project management approach, we were able to assure continued high levels of client satisfaction in the period under review – not only handing over projects on time and on budget, but also assisting customers with warranty claims and claims for damages.

Our property management activities are increasingly focused on acquiring contracts with third parties, and we are currently introducing a variety of software-based and online tools to support this. Our strategy of concentrating on quality-driven property management has been vindicated by high levels of satisfaction among our clients.

The performance of all three business segments in 2013 has given HYPO NOE Real Consult a solid platform for a successful 2014.

HYPO NOE FIRST FACILITY GMBH

HYPO NOE First Facility GmbH is a non-captive, full-line provider of facility management services in Austria and CEE. Alongside facility management the company offers consulting services on all aspects of property operation, and in 2013 it further consolidated its position as one of the leading full-line providers of facility management services in Austria and CEE.

Austria

In the course of the year HYPO NOE First Facility won a number of new contracts, including for operation of the Ikano building in Wiener Neudorf; the Goldenes Kreuz private hospital in Vienna; the BIZ 2 building; the headquarters of the Lower Austrian state hospital holding company Landeskliniken Holding in St. Polten; SPORT.ZENTRUM. Niederösterreich; and the RHW.2 office tower, the newly constructed headquarters of Raiffeisen-Holding Niederösterreich-Wien. Additionally, a large number of tenant-related projects (e.g. alterations) for properties in the Group's own portfolio were completed. Uncertainties in the property market as a whole led to noticeable initial signs of a slowdown in the award of contracts and projects.

HYPO NOE First Facility continues to pursue a strategy of systematically building up mobile technical services units so as to provide affordable, rapid-response services for small and medium-sized properties as well as larger organisations. A restructuring project began in the fourth quarter of 2013 with the aim of adapting the business in line with market requirements over the long term. Project management responsibility is now allocated on a geographic basis and improvements have been made in the tendering systems. Sales efforts in both the public sector and private customer segments were intensified, and additional cuts in overheads have been achieved.

The company's health sector expertise is now feeding into the design of tailored maintenance and service packages for hospitals. The aim is to generate benefits for hospital operators and enhance the efficiency of technical building services by taking advantage of synergies and HYPO NOE First Facility's experience, expanding the company's role as a preferred partner to the hospitals concerne.

Foreign

In response to the challenging market environment HYPO NOE First Facility embarked on sales drives which have already resulted in major successes. In Romania, following our successful bid to take over operation of Sky Tower, the tallest building in Bucharest, we also won the tender for operation of neighbouring Panorama Mall shopping centre. The company also secured contracts for the management of four new properties in Bulgaria. We streamlined our organisation in Hungary in order to boost profits and enhance effectiveness. The contract for operational management of the Tatracentrum in Slovakia was extended, reflecting the client's confidence in our expertise and reliability and providing the necessary basis for expansion of our presence in Bratislava.

In 2014 we expect to start reaping the benefits of restructuring the mobile service unit. Improvements to internal processes should help to optimise operations throughout the company, allowing us to continue providing the quality demanded by the market. By the end of the year all units will have migrated to the new sMotive facility management software, a move aimed at establishing HYPO NOE First Facility as a market leader. The market situation for our foreign operations is expected to stabilise, with modest growth resulting in improved earnings.

HUMAN RESOURCE MANAGEMENT

Employees' skills, sense of responsibility and health are fundamental to the success of a business.

The challenge for the entire senior management team and the members of the Human Resources (HR) Department is to ensure compliance with a raft of new legal requirements whilst also leaving the necessary leeway for employee development.

Our HR specialists act as reliable and trusting partners for managers and employees alike, while also balancing the personal and legal aspects of the HR policy.

Human resources in 2013: facts and figures

At year-end 2013 the HYPO NOE Group had 913 employees (31 Dec. 2012: 917), 35 of whom were on parental leave. The workforce comprised 496 male and 417 female staff (31 Dec. 2012: 504 male and 413 female). In terms of full-time equivalents (FTEs), there were 836.8 employees at year-end (31 Dec. 2012: 851.0). The head count falls to 798.2 FTE as at 31 December 2013 if non-active employees are excluded. Six people were employed at our representative offices abroad (2012: five). In 2013 a total of 124 vacancies were filled (2012: 142).

The table below shows the changes in employee numbers over time.

Employee numbers in 2013			HC	Ave. HC p.a.			FTE
	Total	m	f	Total	Total	m	f
HYPO NOE Gruppe Bank AG	344	183	161	328.3	310.7	174.1	136.7
HYPO NOE Landesbank AG	345	175	170	330.8	314.2	172.5	141.7
HYPO NOE Real Consult GmbH	50	20	30	50.9	44.1	19.0	25.2
HYPO NOE Leasing GmbH	30	10	20	31.1	27.4	10.0	17.4
HYPO NOE Valuation & Advisory GmbH	5	3	2	4.5	5.0	3.0	2.0
HYPO NOE First Facility GmbH	136	103	33	149.6	132.3	101.9	30.4
HYPO NOE Versicherungsservice GmbH*	1	1	-	1.5	1.0	1.0	-
HYPO NOE Immobilienmanagement GmbH*	2	1	1	1.3	2.0	1.0	1.0
HYPO NOE Group	913	496	417	898.1	836.8	482.4	354.4

Employee numbers in 2012			HC	Ave. HC p.a.			FTE
	Total	m	f	Total	Total	m	f
HYPO NOE Gruppe Bank AG	324	171	153	306.6	296.4	160.5	135.9
HYPO NOE Landesbank AG	325	163	162	317.7	297.9	160.0	137.9
HYPO NOE Real Consult GmbH	50	21	29	46.3	45.6	19.5	26.1
HYPO NOE Leasing GmbH	31	11	20	31.8	28.9	11.0	17.9
HYPO NOE Valuation & Advisory GmbH	4	2	2	2.3	4.0	2.0	2.0
HYPO NOE First Facility GmbH	183	136	47	188.8	178.2	136.0	42.2
HYPO NOE Versicherungsservice GmbH*	-	-	-	-	-	-	-
HYPO NOE Immobilienmanagement GmbH*	-	-	-	-	-	-	-
HYPO NOE Group	917	504	413	893.5	851.0	489.0	362.0

Key: m = male; f = female; FTE = full time equivalent; HC = head count

*Founded in 2013

Organisational issues

One of the leading priorities in 2013 was a changeover to new, integrated and, above all, more efficient HR management software. Payroll accounting, time recording/travel expenses, training administration and our entire applicant management system were successfully migrated to the new system during the year.

The European Banking Authority (EBA) fit and proper requirements came into effect on 22 May 2013. Earlier that month the Austrian Financial Market Authority (FMA) published its guidance on implementing the requirements, which involve assessing the suitability of senior managers, supervisory board members and individuals in key functions. The criteria include personal integrity, experience and professional qualifications. A fit and proper test is carried out when an individual assumes a key position, and subsequent monitoring is designed to ensure the jobholder's continued professional suitability for the post.

HR development

Personal and professional development for executives and other staff members, which is guided by the outcomes of the Group's standardised staff appraisal process, remained a high priority in 2013. A wide range of professional and personal development measures were designed in-house and implemented on a case-by-case basis. A revised performance appraisal for senior managers was introduced with a view to meeting the new requirements established by CRD III. This will be extended to all employees in due course.

An internally designed, multi-stage management development programme comprising appraisals and four other modules was launched for corporate coordinators, department heads and senior executives. The programme is geared towards enhancing leadership skills and developing a common understanding of the role of senior managers. There is also a strong emphasis on resource-based management and creating a suitable framework for this approach throughout the organisation.

The Group-wide development programme for high potentials rolled out in 2012, which gives staff with management potential and specialist expertise the chance to explore their development options, concluded in 2013 with a closing workshop.

A new group of trainees entered the HYPO NOE Trainee Programme in 2013. The programme offered talented university students an opportunity to find out more about and play a part in the workings of the HYPO NOE Group. HYPO NOE Landesbank AG took on a number of new apprentices during the year.

There was also a focus on team development in 2013, in the shape of team retreats and team coaching sessions.

During the year, all participants successfully completed the induction course and basic training which forms part of the collective agreement for employees of the Austrian provincial mortgage banks.

HYPO NOE Landesbank AG staged a series of courses as part of a certification programme designed to enhance employees' skills relating to health, housing and families.

A number of Group-wide events were held with the aim of bringing staff from various parts of the company closer together. The celebrations to mark the bank's 125-year anniversary were invaluable in this respect.

Sustainability and human resource management

The sixth instalment of the Unternehmen in Bewegung health promotion campaign took place in 2013. Employees had access to a range of services, including the extremely popular sports medical examinations including preventive checkups, as well as heart rate variability tests designed to detect early signs of stress.

A number of employee workshops and one of the modules in the management development programme were aimed at encouraging employees to lead healthy lives, and pay attention to body signals and stress indicators, as well as promoting effective, resource-based management.

In cooperation with the Austrian Red Cross we initiated our first-ever Group-wide blood donor programme in 2013. Numerous employees supported the initiative. We plan to repeat this programme at regular intervals, with a view to underlining our commitment to meeting our social responsibilities.

2013 also saw the launch of our mentoring programme, CEO on Wheels. This significant project targets highly qualified people who are wheelchair-bound, giving participants and organisers additional learning opportunities on both a professional and personal level.

Outlook for 2014

The activities of the HR team focus mainly on staff development with the goal of bolstering and expanding operations at our branches, as well as workplace health promotion.

Our second customer satisfaction survey – the first such survey took place two years ago – will be held in the first quarter of 2014. Our internal analysis will concentrate on identifying sources of stress and mental strain at work, and on general health considerations. The aim is to build on the findings of the previous survey, monitor the implementation of related measures and make a significant contribution to promoting health in the workplace.

RISK REPORT

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

All major business activities in pursuit of the Group's corporate strategic goals are planned to reflect strategic risk considerations, with very close attention 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 may therefore only be incurred where risk bearing capacity is sufficient and the return on risk capital is adequate. 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, and on IFRS 7 Financial Instruments: Disclosures.

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 and actively manage all types of banking risks (credit, interest rate, market, liquidity, operational and reputational risk).

The Group's organisational structure provides for a clear separation of front and back office functions (four-eyes principle) at every level up to the Management Board. The front office functions originate business and give initial clearance to transactions, while the back office functions cast a second vote (second opinion) that confers final approval. The internal control regulations require the unanimous approval of the front and back office functions for certain business decisions. There is also a structured process for the approval of exposures requiring resolutions of the Group Supervisory Board.

In principle, all quantifiable risks throughout the HYPO NOE Group are subject to the Group-wide, uniform limit system, which is constantly 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 Internal Capital Adequacy Assessment Process (ICAAP) 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 developments.

The disclosures required for the last time for 2013 under sections 26 and 26a Banking Act in conjunction with the *Offenlegungsverordnung* (FMA Disclosure Order) are on a consolidated basis for the HYPO NOE Group, and are made in a separate document posted on the company's website.

The rules and procedures for introducing new areas of business or products, and entering new markets, require detailed prior analysis of the relevant business risks. Without exception, transactions entailing risks are only permitted if the latter are explicitly covered and authorised in the Group's risk documentation. The Group normally restricts its exposures to areas where it has the necessary expertise to assess and manage the specific risks involved. Where the risk situation is unclear, or where there are methodological uncertainties, the principle of prudence prevails.

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 Group Strategic Risk Management Department, and encompasses the identification, measurement, aggregation and analysis of all the risks assumed.

The HYPO NOE Group identifies, quantifies, monitors and manages risks in accordance with the applicable statutory and commercial requirements. The minimum capital requirement is calculated using the standardised approach (Pillar 1 of Basel II regulations). All material risks are actively managed as part of the Group's internal risk management process (Pillar 2, ICAAP regulations) and in compliance with the disclosure requirements (Pillar 3 of the Basel II regulations). The key elements of this ongoing process are the planning, aggregation, management and monitoring of all risks, assessment of the adequacy of economic capital in relation to the risk profile, and the use and ongoing refinement of appropriate risk management systems.

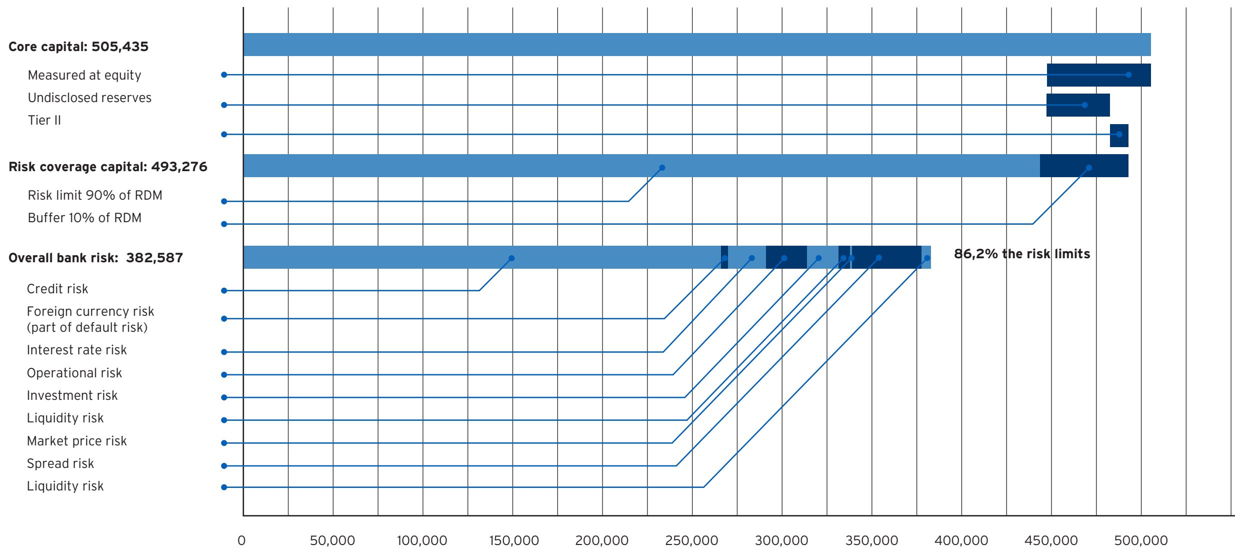
Maintenance of adequate risk bearing capacity is monitored by two control loops

1) The economic capital management control loop serves to protect against the dangers of creditor 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.

The HYPO NOE Group's risks and risk limits (including buffers) for the purposes of economic capital management as at 31 December 2013 are shown below.

In spite of the adverse market environment created by the effects of the financial crisis, the HYPO NOE Group's risk cover as at 31 December 2013 amounted to only 86.2% of the risk limit (including an adequate buffer), and was thus marginally better than at 31 December 2012 (78.4%).



SIGNIFICANT RISK-RELATED DEVELOPMENTS IN 2013

Credit risk

One of the key challenges in credit risk is the worsening trend in the probability of default by borrowers. If the situation continues to deteriorate, higher loan loss provisions and an increase in risk capital requirements in the ICAAP are to be expected. This has been taken into account in the budgetary planning process and, on the basis of an economic analysis, a conservative rating migration of existing customers has been assumed. The Bank's risk bearing capacity has been calculated on the basis of these conservative assumptions. The monthly ICAAP and credit risk reporting analyse the changes in borrowers' credit ratings in the course of the year as a result of migration.

The credit rating procedures for Austrian local authorities and banks were implemented in 2013.

The FMA's revised minimum standards for risk management in connection with foreign currency loans and endowment loans were published early in 2013, and have been incorporated into the HYPO NOE Group's reporting and limit management systems.

Continued refinement of the Group's credit risk management system is seen as a long-term growth driver for the Group. It includes the improvement of the organisational processes for the management of risk (watchlist and continuous evaluation of provisions), tighter monitoring, and active portfolio management (risk transfer and use of modern risk management techniques).

Liquidity risk

The central liquidity management issues in 2013 were: technical implementation of the new regulatory requirements for liquidity risk; acting to meet the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) requirements; making previously unutilised Group liquidity reserves usable for capital market purposes; and further refining the liquidity risk, liquidity management and cost of liquidity models.

Bank-wide stress testing

As part of the internal bank-wide stress test, in 2013 a comprehensive economic study provided the basis for the annual analysis of scenarios relevant to the HYPO NOE Group's business model (e.g. a worsening EU sovereign debt crisis). The impact of the scenarios on credit, investment, interest rate and liquidity risk at subsidiary and Group level, in terms both of regulatory and economic risk-bearing capacity was simulated. The results were presented to management and suitable responses were formulated. Since June 2013, bank-wide stress tests on the basis of the selected scenarios have been carried out every quarter..

Basel III

As a result of the fundamental revision of CRD IV and CRR I and the postponement of the coming into force of Basel III from 1 January 2013 to 1 January 2014, activities in 2013 focused on the implementation of the resulting regulatory requirements and draft directives.

IFRS 9

International Financial Reporting Standard (IFRS) 9 Financial Instruments is planned to come into effect for financial years beginning on or after 1 January 2018. In 2013 we carried out a major evaluation of the new standard and its potential effects.

Risk management systems

In 2014 the HYPO NOE Group will again be investing heavily in IT infrastructure, as well as process, methodology and staff development, in order to ensure that our risk control systems stay in line with the authorised levels of risk tolerance and our business objectives.

Exposure to PIIGS[1] , Cyprus and Hungary

We are continuing to monitor developments in Italy, Ireland, Greece, Spain, Hungary and Cyprus very closely. The HYPO NOE Group has no exposure in Portugal. Exposure in the public finance sector in Hungary was again significantly reduced. With the exception of a EUR 5m loan in Italy ma-

[1] Portugal, Ireland, Italy, Greece and Spain

turing in 2014, there has been no new lending in any of the above countries.

In Cyprus, a EUR 20m, Cypriot state-guaranteed loan to a government-related organisation is currently outstanding. Repayment is currently proceeding in line with the loan agreement, but this is dependent on the allocation of sufficient funding from the national budget.

CREDIT RISK

Credit risk is the danger of a deterioration in creditworthiness, and ultimately the risk of default by a counterparty or the guarantor. Credit risks are of various different types, depending on the products involved: loans involve classic credit risk, for derivatives there is counterparty risk, and for securities issuer risk. Credit risk also includes investment risks.

The HYPO NOE Group calculates regulatory capital for credit risks using the standardised approach required by section 22a Banking Act, and 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:

For private customers, the Group currently employs an applications rating procedure together with behaviour rating for day-to-day evaluation. Business customers are assessed using different rating instruments for start-ups, businesses preparing accounts on a cash basis and those using accrual accounting. 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. For condominium apartments under the *Wohnungseigentumsgesetz* (Condominium Act) credit ratings are evaluated using an in-house application. 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 they are constantly monitored. Unrated loans are generally assigned a conservative 4A rating.

		HYPO NOE Group master scale	Corresponding external ratings	
Grade	**Description**	**Rating grade**	**Moody's**	**S&P**
Investment	**Top grade**	**1A-1E**	**Aaa-Aa3**	**AAA-AA-**
	Excellent or very good	**2A-2E**	**A1-Baa3**	**A+-BBB**
Non-investment	Good, medium or acceptable	3A-3E	Ba1-B1	BB+-B+
	Unsatisfactory	4A-4B	B2	B
	Watchlist	4C-4E	B3-C	B--C
	Default	5A-5E	D	D

Credit risk analysis

Lending is one of the HYPO NOE Group's core businesses, and assuming and managing credit risks, and keeping them within limits is one of the Bank's core competencies. Lending activities, the valuation and classification of collateral, and credit ratings are all governed by strict organisational and substantive rules, the fundamental 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 units are responsible for the full range of activities related to the assessment, monitoring and management of all risks associated with on 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 on providing the second opinions. These units also have sole responsibility for the rating assessments (apart from those in the low-volume retail lending business).

In addition, the operational credit risk management units are 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 initiate countermeasures in good time.

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

Below a given rating level, exposures are classified as "watch loans", or transferred for intensive care to the Workout Management Department. Rescheduled loans are either reclassified for monitoring as watch loans or, where creditworthiness is in doubt, transferred to Workout Management.

The HYPO NOE Group applies rigorous standards as to what constitutes default. All customers meeting at least one of the following criteria are immediately treated as in default:

- Substantial loan more than 90 days overdue (regulatory definition);
- Recognition of an individual impairment allowance, or non-recognition where there is adequate collateral;
- Credit rating related restructuring;
- Insolvency, composition and bankruptcy;
- Loan writedowns or write-offs.

Risk provisions

Specific or collective impairment allowances are recognised for identifiable lending risks.

The individual impairment allowances are determined on the basis of an assessment of the customer's financial situation, taking into account the current valuations of collaterals, the repayment structure and maturities.

Future cash flows (expected repayments) are discounted using the original effective interest rate. If there are collaterals for receivables (e.g. charges on real property or guarantees), the future cash flows from their recoverable amounts less the selling costs must be deducted when measuring the impairment loss (paragraph AG84 IAS 39). Since paragraph 63 IAS 39 requires measurement of an impairment loss to reflect the present value of estimated future cash flows and their expected maturities, all expected interest payments must also be included.

Collective impairment allowances are recognised for reductions in the value of the Group lending portfolio (losses incurred but not reported) as at the end of the reporting period. It is assumed that there are incurred but unreported losses in respect of a given percentage of customers without default ratings at the end of the reporting period.

In calculating these risk provisions, all exposures affected by credit risk that are measured at their carrying values (loans and receivables, and financial instruments held to maturity), and all committed lines of credit and contingent liabilities are allocated either to HYPO NOE Gruppe Bank or HYPO NOE Landesbank. Financial instruments that are not classified as held to maturity and derivatives do not form part of the calculations, as they are measured at fair value. Housing construction loans backed by the Lower Austrian state government are likewise excluded.

Collective impairment allowances are recognised on the basis of expected losses, taking into account: (a) the risk volume; (b) the historical probability of default (PD), i.e. the results of backtesting the rating system; (c) loss given default (LGD) ratios; (d) personal securities for individual customers; and (e) the regulatory risk weightings of special financing arrangements and the period of time between occurrence of the loss and its identification, i.e. the loss identification period (LIP). For reasons of prudence no cure factor is recognised.

The collective impairment allowance is calculated for loans and advances to banks and customers with internal ratings of 2A to 4E on the HYPO NOE Group master scale described above. For 2013, the loss identification period was assumed to be four months for all loans (i.e. the LIP factor is 4/12).

The collective impairment allowance is calculated using the following formula:

Impairment allowance = expected loss * LIP factor

The collective impairment allowances are reported under "Risk provisions" on the assets side of the IFRS statement of financial position, and under "Credit provisions" on the equity and liabilities side.

Credit risk monitoring

For individual customers, risk monitoring is the responsibility of the operational credit risk management units concerned, which verify credit ratings, monitor blacklists drawn up by Credit Services and process loan applications potentially entailing significant risks. In addition, relationship managers are required to prepare comprehensive reviews of the current position as necessary, and in all events at least once a year and irrespective of the amount of any liabilities and of the credit ratings. The reviews are submitted for the attention of the managers with the requisite decision-making authority. Customers giving cause for concern (where significant risk is involved) are monitored by the operational credit risk management units. Where there is a significant deterioration in the risk situation, the exposures are transferred to the specialists in the Workout Management Department, who are not involved in front office approval.

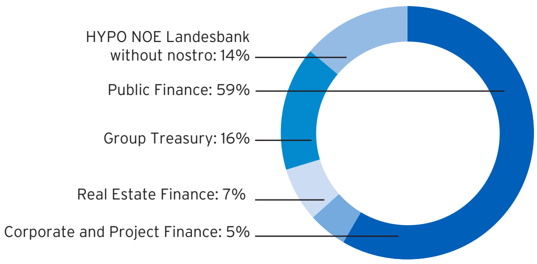
Credit facilities for own investments, money market deposits and derivatives are submitted to the Supervisory Board for authorisation twice a year. Compliance with the limits imposed is monitored on an ongoing basis, and reports are regularly submitted to the Supervisory Board. Approval for such credit lines is chiefly requested for sovereigns, new business from Austrian and international banking groups with good investment grade ratings, or existing customers with good ratings as defined by the above master scale.

The Group 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 monthly credit risk reports, and regular or case-by-case reports on risk-related issues (transfer of accounts to the collections function, overdraft trends, etc.). Management is comprehensively briefed about the Group's risk situation, including in-depth analysis of key issues, at meetings of the Risk Management Committee (RICO), which are held at least six times per year.

Credit risk management

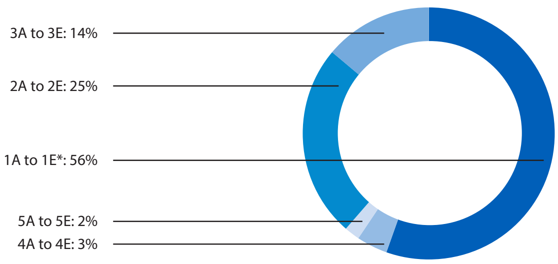
The credit risk management system is based on the following control units:*

	Risk volumes (EUR '000)[1]	
Control unit	**31 Dec. 2013**	**31 Dec. 2012**
Public Finance	8,811,327	8,505,463
Corporate and Project Finance	776,458	726,660
Real Estate Finance	999,673	1,011,130
Group Treasury	2,379,081	2,585,064
HYPO NOE Landesbank without nostro	2,067,916	2,017,811
Total	**15,034,455**	**14,846,128**



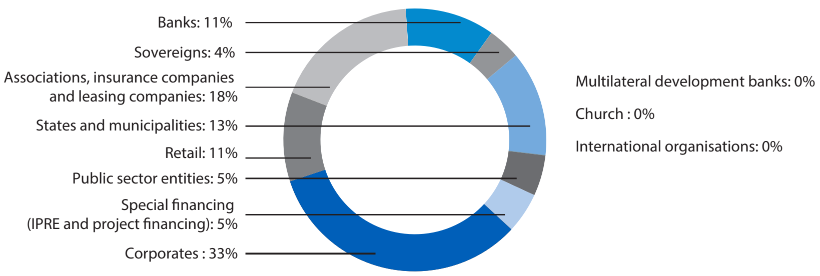
Exposures are also classified by credit ratings, as follows:

	Risk volumes (EUR '000)[1]	
Rating category	**31 Dec. 2013**	**31 Dec. 2012**
1A to 1E*	8,413,331	8,082,493
2A to 2E	3,807,309	3,883,408
3A to 3E	2,122,072	2,068,194
4A to 4E	437,941	564,488
5A to 5E	253,802	247,546
Total	**15,034,455**	**14,846,128**
*hereof 1A (PD = 0.01%) EUR 6,219,332thsd (EUR 5,796,512thsd)		
Investment grade:	1A–2E	
Defaulted :	5A–5E	



The credit risk management system also exerts control via the portfolio segments shown below:

	Risk volumes (EUR '000)[1]	
Segment	**31 Dec. 2013**	**31 Dec. 2012**
Banks	1,618,077	2,003,592
Sovereigns	661,0624	549,774
States and municipalities	1,886,351	1,854,469
Multilateral development banks	19,214	19,115
International organisations	0	0
Public sector entities	779,969	737,034
Special financing (IPRE and project financing)	693,135	693,703
Corporates	4,986,036	4,988,964
Retail	1,698,583	1,767,666
Church	20,978	6,371
Associations, insurance companies and leasing companies	2,661,049	2,225,442
Total	**15,034,455**	**14,846,128**



[1] The exposure volume is the exposure plus 50% of the unused agreed credit facility. The securities are recognised at fair value.

Disclosures in accordance with IFRS 7

Credit risk mitigation

The measurement and classification of collateral are governed by strict organisational rules and procedures, which distinguish between the fair value of collateral recognised for regulatory purposes and its economic value. As a general rule the relationship manager checks the legal status and the economic value of the collateral – with particular reference to the actual market environment – when the application is received, at least once every year when the loan or facility comes up for reapproval, and whenever circumstances require. As part of the credit review process, the operational credit risk management units check the information, the assumptions and the underlying parameters.

The principal categories of collateral admissible for Basel II purposes that are relevant to the HYPO NOE Group are guarantees (largely in the public sector), mortgages and other pledges. A considerable proportion of the HYPO NOE Group total lendings relates to the purchase of subsidised home loans from the Lower Austrian state government. Additional security for this lending is provided by a guarantee from the state government, and the credit risk on these exposures is therefore not a cause for concern.

Default risk

For financial instruments whose carrying amounts represent the maximum default risk, this information is not required. The maximum default risk for the HYPO NOE Group's contingent liabilities is shown below.

EUR '000 Contingent liabilities	As at 31 Dec. 2013	As at 31 Dec. 2012	Change
Acceptances and endorsements	327	327	-
Liabilities arising from guarantees and furnishing of collateral	182,221	149,564	32,657
Credit risks (unutilised facilities)	1,515,671	1,364,204	151,467
Total	**1,698,219**	**1,514,095**	**184,124**

Disclosures of maturities, collaterals and impaired or past due financial assets

The table below shows the value of the collateral received as calculated for regulatory purposes. The receivables of the leasing subsidiary, amounting to approximately EUR 1,549,795thsd (2012: EUR 1,403,974thsd), are shown gross of collateral.

31 Dec. 2013 EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total
Gross carrying amount (not individually impaired)	11,145,987	36,187	3,230	11,185,405
Gross carrying amount (individually impaired)	129,914	7,815	97,103	234,833
Collective impairment allowances	-4,726	-51	-18	-4,795
Individual impairment allowances	-39,828	-2,841	-63,691	-106,360
Net carrying amount	**11,231,347**	**41,110**	**36,625**	**11,309,083**

31 Dec. 2013 EUR '000	Gross carrying amount	Collateral received
Loans and advances to customers and banks, and debt instruments not past due or individually impaired	11,145,987	5,066,775
Loans and advances to customers and banks, and debt instruments overdue but not individually impaired	39,417	18,281
Loans and advances to customers and banks, and debt instruments individually impaired (overdue and not past due)	234,831	37,144
Total	**11,420,235**	**5,122,200**

31 Dec. 2012 EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total
Gross carrying amount (not individually impaired)	11,392,442	43,858	3,446	11,439,746
Gross carrying amount (individually impaired)	76,596	6,025	133,953	216,574
Collective impairment allowances	-4,827	-88	-61	-4,977
Individual impairment allowances	-27,453	-4,341	-76,129	-107,922
Net carrying amount	**11,436,758**	**45,454**	**61,209**	**11,543,421**

31 Dec. 2012 EUR '000	Gross carrying amount	Collateral received
Loans and advances to customers and banks, and debt instruments not past due or individually impaired	11,392,442	5,096,065
Loans and advances to customers and banks, and debt instruments overdue but not individually impaired	47,304	18,495
Loans and advances to customers and banks, and debt instruments individually impaired (overdue and not past due)	216,574	46,369
Total	**11,656,320**	**5,160,929**

As in 2012 there were no cases of collateral taken into possession with the intention of disposal in 2013.

The tables below show risk provisions grouped by the maturities of the underlying transactions and segmented as required for regulatory reporting purposes.

31 Dec. 2013 EUR '000	Not past due	Less than 90 days overdue	More than 90 days overdue	Total
Risk provisions for customers: individual impairment allowances	**-39,828**	**-2,842**	**-63,691**	**-106,360**
Non-credit institutions (banks)	-4,466	-	-	-4,466
Corporates	-30,020	-2,251	-38,626	-70,897
Private customers	-5,342	-591	-25,065	-30,997
Risk provisions for customers and credit institutions: collective impairment allowances	**-4,726**	**-51**	**-18**	**-4,795**
Total risk provisions	**-44,554**	**-2,893**	**-63,709**	**-111,156**

31 Dec. 2012 EUR '000	Not past due	Less than 90 days overdue	More than 90 days overdue	Total
Risk provisions for customers: individual impairment allowances	**-27,453**	**-4,340**	**-76,130**	**-107,922**
Non-credit institutions (banks)	-3,997	-	-54	-4,051
Corporates	-16,804	-3,836	-43,005	-63,645
Private customers	-6,652	-504	-33,071	-40,226
Risk provisions for customers and credit institutions: collective impairment allowances	**-4,827**	**-88**	**-61**	**-4,977**
Total risk provisions	**-32.280**	**-4.428**	**-76.191**	**-112.899**

Rescheduled loans

The tables below show the changes in rescheduled loans, together with analysis by region, by business segment, and by maturity. The receivables consist both of rescheduled instalments and overdue arrears.

As at 31 December 2013, the net carrying amount of rescheduled receivables was inconsiderable in comparison to the total carrying amount of receivables.

Outstanding loans as at 1 Jan. 2013	Increases (+)	Decreases (+)	Outstanding loans as at 31 Dec. 2013	Interest income in profit or loss for existing receivables	Individual impairment allowances	Collective impairment allowances
17,416	11,075	-8,561	**19,929**	1,093	-12,655	-13

Geographical analysis

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Domestic customers	19,929	17,416
Total	**19,929**	**17,416**

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Bank Group	14,316	16,516
NOE Landesbank	5,613	900
Total	**19.929**	**17.416**

31 Dec. 2013 EUR '000	Not past due	Less than 90 days overdue	90 days or more overdue	Total	Collateral received
Gross carrying amount (not individually impaired)	4,024	379	-	4,403	2,505
Gross carrying amount (individually impaired)	15,435	-	92	15,527	340
Collective impairment allowances	-13	-	-	-13	-
Individual impairment allowances	-12,611	-	-44	-12,655	-
Net carrying amount	6,834	379	48	7,261	2,845

Current risk situation

The Group's portfolio of loans and investments 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), 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 construction companies (both large housing associations and private sector builders). Within these low-risk areas there are nevertheless significant risk concentrations (unsecured lending per individual borrower) in the loan portfolio.

Public discussion of the possible insolvency of Hypo Alpe-Adria-Bank International AG in February 2014 prompted the rating agency Moody's reduced the rating of the province of Carinthia from A1 to A2 on 14 February 2014. This means that Carinthia still has an investment-grade rating, but the HYPO NOE Group sees itself compelled to respond specifically to these recent events.

In our view there are at present no reasons to cast doubt on the continued existence and value of the guarantee given by the state of Carinthia. Carinthia currently enjoys an investment-grade rating, nor is there at present any statutory procedure allowing a territorial authority to declare insolvency. There is therefore no justification for writedowns of the receivables backed by Carinthia's state guarantee. Even in the event of the insolvency of Hypo Alpe-Adria-Bank International AG, no losses can arise to the HYPO NOE Group because under section 5 *Kärntner Landesholding-Gesetz* (Carinthia's state guarantee law) creditors can have recourse to the State of Carinthia in case of default. In 2006 and 2007 the HYPO NOE Group subscribed to state guaranteed Hypo Alpe-Adria-Bank International AG bonds maturing in 2016 and 2017. There are no other secured or unsecured loans or advances to Hypo Alpe-Adria-Bank International AG.

A considerable proportion of the HYPO NOE Group's total lending relates to the purchase of subsidised home loans from the Lower Austrian state government. Additional security for this lending is provided by a guarantee from the state government, and the credit risk on these exposures is therefore not a cause for concern.

HYPO NOE Gruppe Bank also finances property projects with excellent or good credit ratings, as well as selected public sector loans, infrastructure enterprises and foreign corporate customers. HYPO NOE Landesbank AG specialises in retail banking, large-scale housing construction (both housing associations and private sector housing) and SME finance.

The credit portfolio shows no notable concentrations of risk from a Group perspective, with the exception of the loans mentioned above.

The HYPO NOE Group regularly calculates the statistically expected loss associated with credit risk exposures on the basis of the default probabilities and the collateral structure. The aim is to ensure that the expected loss on the overall portfolio is adequately covered by risk provisions, and that a conservative approach is taken to any possible shortfalls in risk coverage.

Group Strategic Risk Management regularly checks the non-performing asset (NPA) ratios and NPA coverage of individual members of the Group. The NPA ratio is defined as the total exposure on all default (5A-5E rated) customers divided by total credit risk exposure. As at 31 December 2013, the HYPO NOE Group's NPA ratio was 1.92% (2012: 1.90%). The NPA coverage is defined as risk provisions (individual and collective impairment allowances, and credit provisions) divided by the total exposure on default customers (5A-5E rated). Group coverage at 31 December 2013 was 51.8% (2012: 53.6%).

The non-performing loan (NPL) ratio, defined as total exposure on default customers divided by total loans and advances to customers, is calculated at Group level. As at 31 December 2013 the NPL ratio was 2.37% (2012: 2.35%).

INTEREST RATE RISK

In its approach to the measurement and control of interest rate risk, the HYPO NOE Group distinguishes between period net interest income risk arising from timing differences between the repricing positions for like or different repricing indicators, and present value sensitivity to interest rate changes, which is mainly influenced by long-term interest risk positions. The effects are only partly recognised directly as measurement gains or losses in the statement of comprehensive income, or as net interest income in subsequent periods.

Interest rate risk management

Monitoring and quantification of interest rate risk is the responsibility of a back office department, Group Strategic Risk Management. The analysis is carried out in the SAP banking system. This generates interest rate gap and sensitivity analyses. Positions with unspecified fixed interest rates are modelled and regularly assessed on the basis of statistical methods and/or expert evaluations.

The management of intra-year interest rate risk positions is the responsibility of the Group Treasury Department. Fixed and non-linear interest rate risks are by and large eliminated by the use of hedges. Strategic, long-term, interest-rate-sensitive positions in the banking book are discussed by the Asset Liability Committee and – following approval by the Management Board – managed by Group Treasury. Equity is invested and reported in the form of a rolling fixed income portfolio.

The present value of interest rate risk is limited by means of an absolute limit to be applied in internal risk measurement, which is imposed 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 Oesterreichische Nationalbank (OeNB) interest rate risk statistics.

Current risk situation

The OeNB statistics indicate that in 2013 interest rate risk was modest relative to the regulatory limit (20% of eligible capital), at 6.82% (2012: 2.45%). This is due to the fact that microhedges in the form of interest rate derivatives are used to eliminate interest rate risks on own debt issues and on nostro securities and loans extended. Other derivative interest rate risks or open on-balance-sheet interest rate risk positions are only assumed within strictly defined internal limits and following a rigorous assessment. As a result, the level of such risks is low.

Internal risk reporting

As part of the HYPO NOE Group's risk monitoring activities, interest rate risk sensitivity is assessed on the basis of gap analysis and computed monthly (average of the five worst of ten scenarios). Limits are imposed accordingly. The results are reported to the Bank's relevant specialist departments and units, and discussed at monthly Asset Liability Committee (ALCO) meetings. In addition to parallel shifts

(100 and 200 base points), twists in the yield curve (both on money markets and on capital markets) are also modelled in the scenarios.

The sensitivity analysis captures interest rates in a variety of currency areas as risk factors. This makes it possible to apply a constant, standard measure of risk to all interest rate sensitive products. The analysis enables interest rate risks in various areas of business to be compared, and positions aggregated and netted across the Bank as a whole. In addition, interest rate risk can be compared over time

When using sensitivity analyses, the following problems need to be borne in mind:

- The scenarios may not be good indicators of future events – especially where these are extreme. This could lead to underestimation or overestimation of the risks.
- The assumptions about changes in the risk factors and the relationships between them (e.g. simultaneous twists in the euro and Swiss franc yield curves) may turn out to be false, particularly if extreme events occur. There is no standard methodology for developing interest rate scenarios, and applying other scenarios would generate different outputs.
- The scenarios applied do not provide any indications of the potential losses in situations that are not modelled by them.

In 2013 risk utilisation averaged 52.4% of the total limit of EUR 35.5m (2012: 44.6% of total limit of EUR 42m).

The following table shows the outcomes of the interest risk positions taken by the HYPO NOE Group as at 31 December 2013 (left) and 31 December 2012 (right):

Interest rate risks (assets-liabilities)

	31 Dec. 2013 EUR '000			31 Dec. 2012 EUR '000		
	On-balance sheet	Off-balance sheete	Total	On-balance sheet	Off-balance sheete	Total
Up to 1 month	2,099,774	-906,265	1,193,509	1,434,990	-844,430	590,560
From 1 to 3 months	895,373	-2,680,748	-1,785,375	548,361	-2,720,632	-2,172,272
From 3 to 6 months	1,969,835	-1,993,680	-23,846	2,122,576	-1,448,695	673,881
From 6 months to 1 year	-145,950	683,418	537,468	-99,214	552,846	453,632
From 1 to 2 years	-322,509	65,337	-257,172	-546,106	359,902	-186,204
From 2 to 3 years	-333,746	504,681	170,935	99,037	74,325	173,361
From 3 to 4 years	-1,550,450	1,628,342	77,892	-314,382	478,684	164,302
From 4 to 5 years	-187,481	541,063	353,582	-1,276,902	1,635,015	358,114
From 5 to 7 years	-614,179	936,029	321,850	-142,143	559,836	417,693
From 7 to 10 years	-403,361	543,404	140,044	-533,295	427,910	-105,385
From 10 to 15 years	-324,665	127,342	-197.323	-284,589	51,007	-233,582
From 15 to 20 years	-526,621	508,939	-17,681	-577,934	543,505	-34,429
Over 20 years	-60,062	40,029	-20,033	-412,380	378,641	-33,738

The table below shows the results of the various interest rate scenarios for the HYPO NOE Group as a whole, and of observance of internal limits, as at 31 December 2013 (right-hand table: 31 Dec. 2012).

Interest rate scenario (EUR '000)	As at 31 Dec. 2013		As at 31 Dec. 2012	
	Change in present value	Negative change in present value	Change in present value	Negative change in present value
No shift				
Shift +100 bp	-17,635	-17,635	-13,204	-13,204
Shift -100 bp	14,424		6,805	
Shift +200 bp*	-33,781	-33,781	-25,184	-25,184
Shift -200 bp	17,257		2,413	
Twist CM +100 bp	-2,029	-2,029	8,037	
Twist CM -100 bp	2,472		-9,135	-9,135
Twist MM +100 bp	-9,470	-9,470	-15,694	-15,694
Twist MM -100 bp	7,604		12,095	
Twist 1d +100 bp 30y -250 bp	-2,525	-2,525	-14,449	-14,449
Twist 1d -100 bp 30y +250 bp	1,512		12,647	
Internal risk**	-	-13,088	-	-15,533
Warning level (95% of limit)	**-33,725**		**-39,900**	
Limit/utilisation (%)	**-35,500**	**36.87%**	**-42,000**	**36.98%**

* Regulatory scenario ** Average of five worst deteriorations in net present value

The HYPO NOE Group is gradually refining its interest risk management system. During 2013 the following improvements were implemented:

- The HYPO NOE Group has followed the recommendations in the OeNB's Supplementary Guidelines on ICAAP and for the first time as at 31 August 2013 and on all subsequent reporting dates has excluded non-interest-bearing equity and investments from the analysis of interest rate risk.

MARKET RISK

Market risks are the potential losses that may arise from negative changes in the fair value of positions held, due to movements in exchange rates (currency risk), share prices, indexes or fund unit prices (equity risk), credit spreads (spread risk) or volatility (volatility risk).

Risk management

DThe organisation of the treasury function is based on a clear operational and disciplinary separation of trading activities from processing and control. The division between front and back office functions ensures that the four-eyes principle is adhered to. Structures, decision-making authorities and processes are laid down by the authorisation rules, the minimum requirements for investment and trading activities, and the procedures for the introduction of new products.

Market risk may only be incurred within the authorised limits and with respect to authorised products.

IFRS 7 requirements

The HYPO NOE Group's conservative risk policies are supported by very strict internal limits on open currency positions. Exposure to currency risk is therefore negligible. The various interest rate scenarios are shown in the interest rate risk section. The IFRS 13 Level 3 sensitivity analysis is shown in the Notes (Note 10.3.4 – Level 3 sensitivity analysis).

Current risk situation

The Group does not engage in any business that requires it to maintain a large trading book as defined by the Austrian Banking Act. It maintains a small trading book, under section 22q BWG.

Credit spread risks are particularly important in connection with the Group's own investments, and these risks are monitored and reported on a monthly basis in the risk management report. In 2013 the existing procedures for assessing risk capital were replaced by a methodologically superior approach: the credit spread risk is calculated for the whole nostro portfolio in the bank book using a value-at-risk approach based on historic 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.

Matching currency refinancing and the use of forex derivatives to all intents and purposes eliminate the HYPO NOE Group's exposure to exchange risk. Where foreign currency exposures are not entirely hedged, they are subject to strict limits.

There is only a limited degree of volatility risk, and no equity risk.

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.

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, and to maintain sufficient, cost-effective liquidity coverage at all times.

The HYPO NOE Group differentiates between operational (from intraday up to a maximum of two days), tactical (up to and including one year) and structural (beyond one year) liquidity risk management

The Group's liquidity risk management system centres on:
- Regular analysis of the liquidity position under normal conditions and subject to a number of stress scenarios;
- Reporting to the Management Board;
- Determination of the Bank's medium and long-term refinancing needs including the issuance programme;
- Maintenance and development of the liquidity risk, liquidity management and liquidity costs models;
- Regular reviews and revision of internal transfer prices.

The HYPO NOE Group's liquidity management is based on regular liquidity risk reporting and the medium-term funding and issuance programme, which is drawn up by the Group Treasury Department as part of the annual budgeting process on the basis of liquidity maturity profiles and forecast new business. The programme must be approved by the Management Board. Any decisions regarding issuance that deviate significantly from this framework are taken on a case-by-case basis by the Management Board on the basis of recommendations by Group Treasury.

The HYPO NOE Group refines its liquidity risk management system on an ongoing basis. During 2013 the following improvements were implemented:
- Adaptation of the Group-wide liquidity contingency plan;
- Improvements to the internal structural liquidity risk report;
- Further developments of internal stress scenarios used to assess operational liquidity risk;
- Further developments of the limits system;
- Further development of the liquidity costs model (indirect liquidity costs);

Operational liquidity risk (from intraday up to a maximum of two days)

In order to manage, plan and monitor the Group's daily liquidity requirements, each week the Group Strategic Risk Management Department provides Group Treasury with a report on daily liquidity gaps in existing business for the next 30 days, broken down by currency. Group Treasury forecasts liquidity requirements for the following days by applying assumptions on rolling and new business. It manages liquidity by means of funding from the European Central Bank (ECB) as well as collateralised and uncollateralised money market refinancing.

Tactical liquidity risk (up to one year)

Group Strategic Risk Management provides Group Treasury with a weekly baseline and stress scenario for the next 12 months to assist it with its tactical liquidity management operations. These scenarios take account of contractual payment streams, as well as the anticipated proceeds of new issues, income from new business, extensions of repurchase agreements, and liquidity needs arising from terminations of existing transactions, and compare them with the liquidity reserve.

The table below shows the expected liquidity gaps projected by the baseline scenario as at 31 December 2013, the additional liquidity available from internal and external sources, and the liquidity position including these sources for periods of up to one year, as at the end of the reporting period, with the comparative figures for 2012.

The stress scenario takes into account both bank-specific events (e.g. a rating downgrade) and market-wide shocks (e.g. persistent money or capital market dysfunctionality).

The Management Board receives regular reports on the intra-year liquidity position from ALCO and RICO.

As at 31 Dec. 2013 (EUR m)	Expected liquidity gap	Additional available liquidity	Liquidity position including additions
Up to 1 month	-694	1,832	1,138
From 1 to 3 months	-280	359	78
From 3 months to 1 year	-1,521	2,231	710
Total	**-2,495**	**4,421**	**1,926**

As at 31 Dec. 2012 (EUR m)	Expected liquidity gap	Additional available liquidity	Liquidity position including additions
Up to 1 month	-871	1,779	908
From 1 to 3 months	-505	783	278
From 3 months to 1 year	-1,532	1,459	-73
Total	**-2,908**	**4,021**	**1,113**

Structural liquidity risk (beyond one year)

To support strategic liquidity management and structural analysis of the liquidity risk position, the HYPO NOE Group analyses the expected capital flows over the entire maturities of all on and off-balance sheet transactions. Group Strategic Risk Management monitors periodic and cumulative excess capital inflows and outflows on a monthly basis, and reports on them to Group Treasury and the ALM & Strategic Planning Staff Unit. ALCO receives monthly reports and RICO receives two-monthly reports. The report is also used in the budgetary process as the basis for planning the medium-term funding and issuance programme. Deviations are constantly monitored and corrective action taken as required.

Contingency plan

There is a liquidity contingency plan for the Group to ensure that effective liquidity management can be maintained 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 over control of liquidity management and decides on a case-by-case basis on the action to be taken.

Current risk situation

The HYPO NOE Group's liquidity situation continues to be satisfactory. The Group has sufficient access to short and long-term refinancing options: as well as sufficient assets eligible as collateral for ECB tenders, there is a broad funding portfolio – additional evidence that the current 12-month liquidity position is satisfactory. Optimal use has been made of market developments in longer-term refinancing, enabling measures to secure medium-to-long-term liquidity in the current market environment to be implemented successfully as planned. Particular attention is being paid to issues with long maturities, as issues of bonds backed by state governments are due to end in 2017. In 2013 the Group successfully placed its first senior unsecured benchmark loan, with a five-year maturity and a volume of EUR 500m. In addition, the favourable market environment allowed the placing of a further EUR 500m in 2013 as advance refinancing for 2014, in the form of a seven-year public sector mortgage bond. This meant that the Bank's established position in the Austrian mortgage bond market was further consolidated in 2013. We achieved further diversification of the funding portfolio in 2013 with the implementation of cover funding for mortgage bonds which received Moody's top-grade Aaa credit rating. There were also longer-term private placements amounting to EUR 380m.

During 2013 the new Basel III, LCR and NSFR regulatory indicators for liquidity risk limitation were calculated on the basis of the final published standards. The effects were analysed and reported to HYPO NOE Group management, and measures were agreed and implemented to ensure that the benchmarks were met.

Maturity analysis of financial liabilities

The table below presents a maturity analysis of the undiscounted earliest possible contractual cash flows in connection with non-derivative financial liabilities and off-balance-sheet loan commitments as at 31 December 2013 and 2012. The cash flows comprise payments of interest as well as principal. In the case of liabilities with variable cash flows the future cash flows are calculated on the basis of forward rates.

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Deposits from banks		
Repayable on demand or no fixed term	59,612	55,641
Up to 3 months	889,911	937,005
From 3 months to 1 year	139,446	159,985
From 1 to 5 years	695,969	1,228,313
Over 5 years	364,760	336,341
Total	**2,149,698**	**2,717,286**
Deposits from customers		
Repayable on demand or no fixed term	665,334	669,272
Up to 3 months	149,375	229,624
From 3 months to 1 year	491,882	450,415
From 1 to 5 years	804,944	794,145
Over 5 years	57,408	111,000
Total	**2.168.943**	**2,254,455**
Debts evidenced by certificates		
Repayable on demand or no fixed term	587	603
Up to 3 months	251,735	398,414
From 3 months to 1 year	661,441	531,919
From 1 to 5 years	4,048,827	4,226,356
Over 5 years	3,200,774	2,754,056
Total	**8,163,364**	**7,911,349**
Liabilities held for trading		
Repayable on demand or no fixed term	-	-
Up to 3 months	902	9
From 3 months to 1 year	16	-
From 1 to 5 years	27,605	24,292
Over 5 years	361,253	500,741
Total	**389,775**	**525,043**

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Negative fair value of derivatives (hedge accounting)		
Repayable on demand or no fixed term	-	-
Up to 3 months	268	109
From 3 months to 1 year	1,026	2,709
From 1 to 5 years	51,159	65,852
Over 5 years	370,650	524,959
Total	**423,103**	**593,630**
Other liabilities (inc. economic hedges)		
Repayable on demand or no fixed term	-	-
Up to 3 months	-	371
From 3 months to 1 year	-	-
From 1 to 5 years	-	-
Over 5 years	-	-
Total	**-**	**371**
Other liabilities (excl. economic hedges)		
Repayable on demand or no fixed term	13,767	14,011
Up to 3 months	12,778	15,432
From 3 months to 1 year	17,150	16,173
From 1 to 5 years	19,334	26,886
Over 5 years	2,932	5,367
Total	**65,960**	**77,870**
Subordinated capital		
Repayable on demand or no fixed term	-	-
Up to 3 months	-	-
From 3 months to 1 year	-	-
From 1 to 5 years	210,512	202,435
Over 5 years	-	-
Total	**210,512**	**202,435**

The maturities of existing financial guarantees are shown below.

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Repayable on demand	1,862	1,268
Up to 3 months	953	85,193
From 3 months to 1 year	32,305	9,577
From 1 to 5 years	97,941	21,700
Over 5 years	49,160	31,827
Total	**182,221**	**149,564**

OPERATIONAL RISK

Operational risk is the danger of losses arising directly or indirectly from the inadequacy or failure of internal processes or systems, from human error, or from external events.

In the HYPO NOE Group operational risks are kept under control by regularly adapting and improving internal guidelines, and by means of emergency plans, systems of internal checks, staff training and development, and insurance of various risks.

Current risk situation

Detailed information on operational losses in the year under review was collected in a database. Improvements are seen as a major way of controlling operational risk: as operational risk events and near-miss incidents occur, appropriate improvements must in all cases be defined and implemented. As part of business continuity management, the existing emergency scenario has been extended to include emergency simulations. Development of the early warning and key risk indicators identified in 2012 was continued in 2013. The survey revealed that the outcomes were generally in line with plans, and satisfactory. The Group's methodology for dealing with operational risk has been successfully rolled out in another subsidiary.

One organisational development priority in 2013 was the Group project launched in 2012 to strengthen and develop the internal control system (ICS). The focus was on identifying and assessing risks associated with core processes, and the development and implementation of appropriate countermeasures and controls.

Another Group project in 2013 was concerned with improving the control methodologies for internal and external service agreements. Identifying and controlling the risks involved in service agreements, and any potential conflicts of interest, is of increasing importance for the future.

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.

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 occur through problems with stakeholders – customers, providers of finance, staff, business partners, or the community. The reasons may lie in failure to live up to stakeholders' expectations.

The basis for fulfilling those expectations is essentially a matter of putting effective business processes in place, and of sound risk monitoring and management. The HYPO NOE Group also takes care to avoid business policies and activities associated with unusual tax or legal risks, or with major environmental risks.

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) and strategic risks (the danger of losses arising from decisions concerning the Group's strategic focus and business development). Our approaches to measuring these risks are based on those applied to credit or market risks, and are being continuously improved.

There is a risk that a member bank of the Pfandbriefstelle may be unable to meet its obligations under mortgage bonds issued by the Pfandbriefstelle – particularly in the case of Hypo Alpe-Adria-Bank International AG, which was nationalised in 2009. As shown in its report for the half-year to 30 June 2013, Hypo Alpe-Adria-Bank International AG has liabilities of some EUR 1.2bn on securities issued through the Pfandbriefstelle.

To avoid a potential cross-default resulting from failure to service Hypo Alpe-Adria-Bank International AG's mortgage bonds, under Pfandbriefstelle's emergency plan the other member banks were required to make liquidity available. The HYPO NOE Group is currently able to fulfil its part of the emergency plan.

Under Pfandbriefstelle's articles of incorporation the HYPO NOE Group is jointly and severally liable with the other member banks for Pfandbriefstelle's liabilities. In addition there is the joint liability of the federal states for all outstanding Pfandbriefstelle liabilities that arose before 2 April 2003. In the event of default resulting from the insolvency of one of the member banks, the remaining banks and the federal states would be jointly and severally liable for the Pfandbriefstelle liabilities. At 31 December 2013, the joint and several liability stood at EUR 6.2bn (2012: EUR 7.6bn).

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.

In 2013 provisions were recognised against risks from pending transactions in connection with derivatives and credit restructuring.

The FMA's 2011 ruling on the breach of permitted limits on major investments in the case of the lending to the Augustus special purpose vehicle was rescinded by the Administrative Court of Appeal on 3 October 2013, as contrary to the law. The penalty interest of EUR 57.9m paid under the ruling was repaid, and was included in income in 2013.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM (ICS)

Internal audit

The importance of internal audit as part of a bank's internal control systems is shown by the fact that it is one of the few functions that are statutory requirements under the Austrian Banking Act (section 42[1]).

Banks must establish an internal audit department that reports directly to senior management, and is exclusively devoted to comprehensive, ongoing review of the legality, orderliness and expediency of the operations of the entire enterprise. Internal audit must be adequately resourced to perform its role properly, taking account of the volume of business.

The HYPO NOE Group's internal auditing activities are based on annual audit plans approved by the Group Management Board which, in turn, form part of a multi-year audit road map. This ensures that the audit cycle takes in all areas of operations.

The main focus is on the auditing activities required by law, and particularly close attention is also paid to the various categories of risk (risk-based auditing), i.e. operational, market and credit risk, and to risk management as a whole, as well as efficiency and quality issues. The Audit Department was also involved in a variety of projects. The other departments made extensive use of the Department's advisory services.

In 2013, audits were carried out in accordance with the approved annual plan. Special audit assignments were also undertaken as requested by the Management Board. As a rule, the audit reports contain suggestions for improvements. Implementation of these recommendations is part of the quality assurance side of the auditing work.

The purpose of our internal auditing activities is not only to identify weaknesses but also to provide independent and objective audit services and advice aimed at creating value, improving business processes, and as a result enhancing the overall performance of the HYPO NOE Group.

In addition, the internal audit function assists the organisation in attaining its objectives by evaluating and helping to improve the effectiveness of its risk management, internal controls, and management and supervisory processes on the basis of a systematic and targeted approach.

The Management Board was notified of the audit findings orally and in writing, in a timely manner, and the Supervisory Board Audit Committee received regular written and oral information; a summary of this information was provided to the Supervisory Board itself.

Sufficient numbers of suitably qualified staff (ongoing staff training and development are a matter of course), an audit culture that takes account of current knowledge and needs, and effective networking within the organisation ensure that the Audit Department delivers optimum performance and fulfils its responsibilities in the Group.

Relationship between the ICS and the accounting process

In 2013 the ongoing development of methods for the identification, quantification, monitoring and management of operational risk, and of the ICS as a whole was once again a high priority.

The ICS encompasses all of the control and audit activities directed to ensuring that our processes comply with the law and our internal standards, and are adhered to. Within the system, distinctions are drawn between risk management and internal audit activities, and the accounting activities associated with the preparation of the annual financial statements in conformity with the relevant standards.

The ICS ensures that business information is correctly captured, analysed and assessed, and incorporated into the Bank's accounting.

The main features of the Bank's internal control and risk management system, and their significance for the accounting process are summarised below.

The Management Board is responsible for designing and establishing an internal control and risk management system that meets the Bank's needs with regard to its accounting process.

The Group Accounting Department is responsible for all accounting matters and for issuing instructions designed to maintain compliance with Group-wide standards. Directives have been drawn up to assist it in performing its duties.

The ICS encompasses accounting-related instructions and processes aimed at correct and appropriate recording of business transactions, including:

- The employment of the Group's assets;
- Recording of all the information required to draw up the annual financial statements;
- Prevention of unauthorised purchases and sales which could have a material impact on the annual results; and
- Establishment of risk-based decision-making authorities and monitoring instruments.
- The chart of accounts is tailored to the special requirements of the Bank.
- Vouchers are stored according to systematic, chronological criteria, and provide an adequate audit trail.
- The processes involved in the preparation of the separate parent entity and consolidated financial statements, and parent and Group operational and financial reviews have been documented, as have the related risks and controls.
- The departments involved in the accounting process are adequately resourced in terms of the quantity and quality of their staff. Standardised training programmes ensure that staff have the necessary skills for their roles in the system. However, the bedrock of the control system is the integrity and ethical standards of the individual employees concerned. The example set by senior executives is extremely important.
- The functions of the main departments involved in the accounting process – Group Accounting and Controlling – are clearly demarcated and managed as separate departments at Management Board level.
- Departmental responsibilities are unambiguously assigned.
- The computer systems employed are protected against unauthorised access by appropriate control mechanisms.
- Accounting data is audited for its completeness and correctness on a sample basis.
- All data-entry processes related to accounting are subject to the four-eye principle; checks are carried out by Accounting, or by trained staff in the various operational departments, in accordance with internal regulations.
- The computer centre validates posting lists, revenue reports, valuation lists and lists of Banking Act requirements, etc., and corrects them where necessary on a daily and monthly basis, subjecting them to automated checks. Group Accounting performs plausibility checks and prepares trial balances.
- Monthly reports are sent to the Oesterreichische Nationalbank in accordance with the statutory reporting requirements for banks. These are forwarded via the computer centre, and Group Accounting performs plausibility checks and corrects any errors.
- IT security checks are one of the cornerstones of the internal control system. Sensitive activities are firewalled by taking a restrictive approach to IT authorisations.

Monitoring of the ICS takes place at different levels. Internal organisational arrangements underpin monitoring of the ICS at the process level. Supervisors ensure that controls are actually performed, for example, by performing spot checks.

All internal audit activities are subject to Group-wide standards based on the Austrian Banking Act, the FMA Minimum Standards for Internal Auditing and international best practice. The independent internal audit function regularly reviews compliance by departments and other organisational units with the internal regulations. Accounting procedures were the subject of an internal audit in 2012, which meant quality assurance for the ICS was a priority in 2013. The corresponding support project also covered accounting procedures.

The Management Board ensures that Company-wide monitoring of the ICS is in place by laying the organisational groundwork (designation of those responsible, creation of appropriate information systems, etc).

The Supervisory Board Audit Committee exercises its oversight function by holding regular discussions on the current status of the ICS.

The ICS ensures that all transactions are properly recorded, processed and documented. It also makes sure that asset and liability items in the annual financial statements are recognised, reported and measured in accordance with the applicable legal and regulatory requirements.

The ICS is adapted to changed circumstances and requirements on an ongoing basis. Like any control system, however well it is resourced, operated and monitored, the internal accounting control system can only provide an adequate and not an absolute assurance that its objectives will be attained. The identification of any changes required in the light of new risks, and ongoing monitoring of the system and assessment of its effectiveness are seen as key tasks. The main priorities in this respect will be improving the effectiveness and efficiency of operational processes, minimising operational risk by making improvements to those processes, and refining the ICS.

RESEARCH AND DEVELOPMENT

Business performance was again a major focus in the drive to increase cohesion within the Group in 2013. Building on the results of the previous year, we made progress in leveraging synergies and strengthening our position as a long-term partner for our customers.

The new HYPO NOE headquarters in St. Pölten is now firmly established as the hub of the Group's business operations. We are able to offer customers a new line of products from the HYPO NOE First Facility GmbH portfolio, enhancing our reputation as a one-stop-shop for finance, construction and management solutions for various types of real estate.

Proximity to our customers is one of the Group's key strengths. In light of current trends, we see the development of our online and mobile banking services as a natural extension of our current sales channels. HYPO NOE's mobile banking service offers consumers secure and flexible banking wherever they may be. The app can be downloaded from all major app stores and regular updates add features such as transaction-template management and QR code scanning to improve usability and save our customers time.

In 2013 we launched a number of health-related research programmes, including detailed analysis of the impact of demographic and socio-economic change on the retail market. The fundamental social and economic shifts which lie ahead, and the ways in which wealth is transferred and distributed between the generations are important considerations in our business strategy.

An internal management project designed to evaluate all aspects of our business in terms of established sustainability criteria also got under way. The aim is to identify potential improvements in sustainability and capitalise on these as part of a continuous internal learning process.

Our process management methods were extended and more deeply embedded within the Group with a view to improving internal procedures and avoiding coordination problems. Process analysis and related improvements are also intended to foster the growth of a learning organisation.

GROUP OUTLOOK FOR 2014

Sustainability, trust, reliability and close ties to our home region – the HYPO NOE Group will focus on these strengths in 2014. As a regional bank with a history stretching back more than 125 years, cultivating our Lower Austrian roots will be a major priority. HYPO NOE Landesbank AG's 30 branches are a reflection of our close ties with the region, and we will enhance their strategic position as key customer service channels and points of first contact.

The HYPO NOE Group has an excellent track record in real estate and infrastructure financing in Lower Austria, Vienna and the Danube region. This core competence is central to our corporate image, and allows us to create a competitive advantage by offering favourable terms, flexible solutions, and quick and reliable project implementation. In 2014 we will also continue to build on our excellent position in public finance. This segment plays a key role in our media relations and marketing activities in light of our stable domestic ownership structure, and operating policies that promote a trustworthy, reliable image. Corporate finance in our core market is expected to be the Group's principal source of growth, and our market development activities in 2014 will also focus on church bodies, interest groups and the agriculture sector. In addition we plan to open a representative office in Bucharest, Romania, and our office in the Bulgarian capital Sofia will also begin operations in the course of the year.

The forecasts for 2014 reflect a broad and more positive consensus on the outlook for economic growth and for the various capital market segments. Growth of 3.8% is anticipated in the USA – a year-on-year increase of one percentage point. After contracting by around 0.4% in 2013, the eurozone economy is seen expanding by 1.1% this year, while Chinese growth will be on a par with last year. At 1.7% (2013: 0.3%), Austrian economic growth is forecast to outpace that of the eurozone.

In general, the predictions for the European economy are cautiously optimistic in light of the improved figures recorded early in 2014 and the fact that the stimulus measures implemented in individual countries and at EU level in the past few years have started to bear fruit. Industry is currently driving Europe's economic recovery, and the services sector is merely providing a solid foundation, with growth at a low level. Measures designed to stimulate domestic demand are seen as carrying the largest downside risk, and the continued growth in exports is a similarly significant factor. The modest growth forecast for 2014 will not have a major impact on the labour market. According to the analysts, Germany will play a decisive part in determining eurozone economic policy. However, with European Parliament elections just around the corner, additional economic impetus and concerted action are unlikely.

The main challenges will be reducing the euro area's high unemployment rate, regulating the financial industry and the related process of deleveraging. As things stand, the programmes of reform adopted by the ECB and other major central banks are likely to be accompanied by expansive monetary policies. However, short-term setbacks may occur on account of the structural problems facing the European economy. Interest rates are expected to be kept low, in order to give economic recovery programmes time to take root. We will continue to actively manage interest rate risk in 2014, and to take advantage of selected opportunities in connection with banking book management, in line with our conservative approach to risk.

Although rising prices on global stock markets were underpinned by low interest rates and an upturn in corporate profits, investors' increased appetite for risk and their decision to turn a blind eye to certain risk factors should be treated with scepticism. If economic growth is in line with the forecasts for 2014, and this is also reflected in a further increase in company profits, it could be another good year for equities.

The prospects for the USA and the euro area are still upbeat, although the predictions for emerging markets are more cautious, mainly as a result of political unrest in countries such as Thailand, Turkey, Ukraine and Russia, as well as structural problems. Investors were left disappointed by the negative or below-average financial market performance seen in some emerging countries in 2013. Several emerging market currencies are still facing persistent downward pressure, in particular the Turkish lira.

The international community is keeping a critical eye on the political situation in Hungary, and following a period of relative calm, the country may again find itself at the centre of the financial markets' attention. However, the momentum of recovery in many parts of Eastern Europe is expected to be maintained in 2014, and Bulgaria, Poland, Romania and Slovakia are seen posting growth rates of between 2.2% and 3.5%.

Further issues of senior unsecured bonds and mortgage bonds with longer maturities will be an important part of the Group's refinancing strategy this year, and will continue to play a vital role in developing a diversified, long-term refinancing base. In addition to the established public-sector finance cover pool, in 2013 a mortgage cover pool comprising Austrian and German loans was analysed by rating agency Moody's for the first time. The resulting Aaa rating provides a very good basis for future issues of mortgage-backed covered bonds.

Investors in HYPO NOE Group will again be able to rely on a regular stream of transparent information through a number of channels in 2014, including our website and newsletter, and face-to-face discussions at our roadshows.

In organisational terms, our main aim is to identify potential synergies and minimise redundancies in processes involving different Group companies. Our organisational development activities in 2014 will focus primarily on the implementation of legal requirements such as the Bank Intervention and Restructuring Act (BIRG) and the International Financial Reporting Standards. We will also be driving forward our Group-wide process optimisation efforts, with a view to integrating the continuous improvement process more closely into our organisational structures.

Our most important Group-wide HR project was initiated in 2013. It is geared towards strengthening and expanding operations at our branches, and includes the evaluation and implementation of strategic HR development measures. Workplace health promotion will also be a leading priority for our HR team in 2014.

Step-by-step introduction of the Basel III regulations will continue during the year. Preparations for this have been well under way for some years now, and the implementation phase got began earlier this year. The Group has one of the highest equity ratios in the Austrian banking industry. The steps taken in the past few years and our risk-based approach to promoting awareness of profit mean that the HYPO NOE Group can look forward to a positive year in 2014.

EVENTS AFTER THE REPORTING PERIOD

Following the formation of a new Austrian government at the end of 2013, the cabinet presented the legislative agenda for the next five years. This includes a new austerity package which will have wide-ranging implications for the country's financial institutions. In February 2014 Parliament passed the *Abgabenänderungsgesetz* (Tax Amendment Act), which increases the assessment basis and the tax rate for the financial stability levy. Recent information suggests that this will result in a significant rise in the tax payable by the Group. Additionally, in the next few years a deposit insurance fund will be set up, with financial institutions allocating money to the fund in accordance with the level of secured deposits.

Following the emergency nationalisation of Hypo Alpe-Adria-Bank International AG in 2009, media debate has concentrated on various aspects of the restructuring package. In mid-February the Austrian government announced plans to hand responsibility for winding up Hypo Alpe-Adria to a public authority. It is not possible to accurately assess the details of the winding-up plan or the consequences for Austrian taxpayers. The Group's exposure to Hypo Alpe-Adria-Bank International amounts to EUR 225m and consists entirely of state-guaranteed bonds. The Group has no outstanding loans with Ukrainian borrowers. The Group's Hungarian local authority bonds were fully redeemed at the end of February 2014, which is reflected in the reversal of impairment allowances in the 2013 consolidated financial statements.

In late 2013 the European Commission put forward a proposal for a Single Resolution Mechanism (SRM), which was issued as a joint opinion in the first few weeks of 2014. It is assumed that the proposal will be adopted by the eurozone countries in early March. Allocations to the SRM would also be based on the level of secured deposits, and all banks subject to liquidation would have access following a transitional phase.

In January 2014 the Commission announced the postponement of the introduction of the Single European Payments Area (SEPA) from 1 February to 1 August 2014. In SEPA no differentiation is made between domestic and international payments. As a result, it will be possible to execute cross-border banking transactions inside the euro area within one working day.

St. Pölten, 17 March 2014
The Management Board

Peter Harold
Chairman of the Management Board

Nikolai de Arnoldi
Member of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

IN ACCORDANCE WITH IFRS

HYPO NOE GRUPPE

STATEMENT OF COMPREHENSIVE INCOME

Profit or loss (EUR '000)	(Notes)	2013	2012	Change
Interest and similar income	(7.1)	569,974	552,314	17,660
thereof: income from investments accounted for using the equity method		-6,619	*3,686*	*-10,305*
Interest and similar expense	(7.2)	-454,542	-416,944	-37,598
Net interest income		**115,433**	**135,371**	**-19,938**
Credit provisions	(7.4)	-4,781	-21,157	16,376
Net interest income after risk provisions		**110,652**	**114,214**	**-3,562**
Fee and commission income		16,305	15,104	1,201
Fee and commission expense		-3,011	-3,119	108
Net fee and commission income	**(7.5)**	**13,294**	**11,985**	**1,309**
Net trading income	(7.6)	-934	-804	-130
General administrative expenses	(7.7)	-116,487	-106,965	-9,523
Net other operating income	(7.8)	73,247	17,199	56,048
Net gains or losses on disposal of consolidated subsidiaries	(7.9)	150	-	150
Net gains or losses on available-for-sale financial assets	(7.10)	-479	-7,217	6,738
Net gains or losses on financial assets designated as at fair value through profit or loss	(7.11)	50	97	-47
Net gains or losses on hedges	(7.12)	-8,983	1,973	-10,956
Net gains or losses on other financial investments	(7.14)	4,512	-256	4,768
Profit before tax		**75,021**	**30,226**	**44,795**
Income tax expense	(7.15)	-21,326	-7,418	-13,908
Profit for the year		**53,695**	**22,808**	**30,887**
Non-controlling interests	(7.16)	-18	-37	19
Profit attributable to owners of the parent		**53,677**	**22,771**	**30,906**

Other comprehensive income (EUR '000)	2013	2012
Profit attributable to owners of the parent	**53,677**	**22,771**
Items that will not be reclassified to profit or loss		
Change in actuarial gains or losses (before tax)	1,129	-2,746
Change in deferred tax	-282	686
Items that may be reclassified subsequently to profit or loss		
Change in available-for-sale financial instruments (before tax)	19,520	77,701
Change in a cash flow hedge (before tax)	-2,500	-956
Exchange differences on translating foreign operations accounted for using the equity method (before tax)	-16	-4
Change in deferred tax	-4,251	-19,185
Total other comprehensive income	**13,600**	**55,497**
Total comprehensive income attributable to owners of the parent	**67,277**	**78,268**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets (EUR '000)	(Notes)	As at 31 Dec. 2013	As at 31 Dec. 2012	Change
Cash and balances at central banks	(8.1)	56,609	71,644	-15,035
Loans and advances to banks	(8.3)	773,381	894,317	-120,936
Loans and advances to customers	(8.4)	10,590,574	10,735,077	-144,503
Risk provisions	(8.5)	-111,156	-112,899	1,743
Assets held for trading	(8.6)	457,965	607,414	-149,449
Positive fair value of hedges (hedge accounting)	(8.7)	377,938	617,935	-239,997
Available-for-sale financial assets	(8.8)	1,801,467	1,825,600	-24,133
Financial assets designated as at fair value through profit or loss	(8.9)	4,200	4,662	-462
Financial assets held to maturity	(8.10)	-	10,009	-10,009
Investments accounted for using the equity method	(8.11)	44,437	53,514	-9,077
Investment property	(8.12)	65,545	52,256	13,289
Intangible assets	(8.14)	2,172	2,194	-22
Property, plant and equipment	(8.14)	86,460	67,507	18,953
Deferred tax assets	(8.15)	3,874	5,342	-1,468
Other assets	(8.16)	56,280	27,125	29,155
Total assets		**14,209,746**	**14,861,697**	**-651,951**

Equity and liabilities (EUR '000)				
Deposits from banks	(8.18)	2,149,698	2,717,286	-567,588
Deposits from customers	(8.19)	2,168,943	2,254,455	-85,512
Debts evidenced by certificates	(8.20)	8,163,364	7,911,349	252,015
Liabilities held for trading	(8.21)	389,775	525,043	-135,268
Negative fair value of hedges (hedge accounting)	(8.22)	423,103	593,630	-170,527
Provisions	(8.23)	50,362	47,748	2,614
Current tax liabilities	(8.24)	12,454	17,006	-4,552
Deferred tax liabilities	(8.24)	21,175	16,962	4,213
Other liabilities	(8.25)	65,960	78,241	-12,281
Subordinated capital	(8.26)	210,512	202,435	8,077
Equity (including non-controlling interests)*	(8.27)	554,400	497,542	56,858
Equity attributable to owners of the parent		553,254	496,977	56,277
Non-controlling interests		1,146	565	581
Total equity and liabilities		**14,209,746**	**14,861,697**	**-651,951**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR '000, as at 31 Dec. 2013	Balance at 1 Jan. 2013	Profit/loss for the year	Dividends paid	Changes in scope of consolidation	Other comprehensive income	Balance at 31 Dec. 2013
Share capital	51,981	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	191,824
Retained earnings	286,762	53,677	-11,000	-	-	329,439
IAS 19 reserve	-5,498	-	-	-	847	-4,651
Available-for-sale reserve	-29,964	-	-	-	14,640	-15,324
Cash flow hedge reserve	1,875	-	-	-	-1,875	-
Currency translation reserve	-3	-	-	-	-12	-15
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**496,977**	**53,677**	**-11,000**	**-**	**13,600**	**553,254**
Non-controlling interests	565	18	-	563	-	1,146
TOTAL EQUITY	**497,542**	**53,695**	**-11,000**	**563**	**13,600**	**554,400**

EUR '000, as at 31 Dec. 2012	Balance at 1 Jan. 2012	Profit/loss for the year	Dividends paid	Changes in scope of consolidation	Other comprehensive income	Balance at 31 Dec. 2012
Share capital	51,981	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	191,824
Retained earnings	275,891	22,771	-11,900	-	-	286,762
IAS 19 reserve	-3,439	-	-	-	-2,059	-5,498
Available-for-sale reserve	-88,240	-	-	-	58,276	-29,964
Cash flow hedge reserve	2,592	-	-	-	-717	1,875
Currency translation reserve	-	-	-	-	-3	-3
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**430,608**	**22,771**	**-11,900**	**-**	**55,497**	**496,977**
Non-controlling interests	528	37	-	-	-	565
TOTAL EQUITY	**431,135**	**22,808**	**-11,900**	**-**	**55,497**	**497,542**

See Note 4.17 for notes to the consolidated statement of changes in equity (including non-controlling interests) and Note 8.27 Equity for additional disclosures.
The dividend payment to a domestic corporation with a material interest was not subject to a corporation tax deduction under Austrian tax law.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	(Notes)	As at 31 Dec. 2013	As at 31 Dec. 2012
Profit for the year (before non-controlling interests)		**53,695**	**22,808**
Non-cash comprehensive income items			
Amortisation and depreciation		9,140	10,671
Allocations to, and reversals of provisions and risk provisions		20,305	8,229
Gains on disposal of financial assets, and property, plant and equipment		-5,434	5,343
Other adjustments		-30,521	-6,339
Changes in assets and liabilities due to operating activities after adjustments for non-cash components			
Loans and advances to banks		121,154	-310,182
Loans and advances to customers		-52,400	-895,226
Available-for-sale financial assets		43,040	60,637
Other operating assets		-12.764	78,712
Deposits from banks		-595,326	329,793
Deposits from customers		-40,788	-219,143
Debts evidenced by certificates		493,841	929,734
Other operating liabilities		-11,435	18,176
Cash flows from operating activities		**-7,494**	**33,214**
Proceeds from sale of/redemption of:			
Financial assets held to maturity		10,009	5,010
Investments in associates		599	25
Property, plant and equipment, intangible assets and investment property		3,944	3,526
Purchase of:			
Investments in associates		-185	-1,397
Property, plant and equipment, intangible assets and investment property		-11,343	-31,263
Sale of subsidiaries	(7.9)	26	-
Acquisition of subsidiaries	(3.1)	-7,151	-4,500
Cash flows from investing activities		**-4,101**	**-28,600**
Dividends paid		-11,000	-11,900
Subordinated debt		8,077	191
Cash flows from financing activities		**-2,923**	**-11,709**
Effects of exchange rate changes on cash and cash equivalents		**-517**	**-**

EUR '000	(Notes)	As at 31 Dec. 2013	As at 31 Dec. 2012
Cash and cash equivalents at end of previous period		**71,644**	**78,739**
Cash flows from operating activities		-7,494	33,214
Cash flows from investing activities		-4,101	-28,600
Cash flows from financing activities		-2,923	-11,709
Effects of exchange rate changes on cash and cash equivalents		-517	-
Cash and cash equivalents at end of period		**56,609**	**71,644**
Payments for taxes, interest and dividends (included in cash flows from operating activities)			
Income taxes refunded/paid		-26,212	2,990
Interest received		573,138	541,701
Interest paid		-454,046	-417,238
Dividends received		16	955

Cash and cash equivalents consist of cash on hand and balances at central banks (see Note 8.1 Cash and balances at central banks). See Note 6 for additional information on the consolidated statement of cash flows.

NOTES

TO THE CONSOLIDATED FINANCIAL STATEMENTS AND GOVERNING BODIES

HYPO NOE
GRUPPE

1. GENERAL INFORMATION

HYPO NOE Gruppe Bank AG, domiciled at Hypogasse 20, 3100 St. Pölten, Austria is the ultimate parent of the companies included in consolidation. It is registered in the register of companies under FN 99073 x. HYPO NOE Gruppe Bank AG has operated a branch at Wipplingerstrasse 4, 1010 Vienna since 2008.

HYPO NOE Gruppe Bank AG is one of Austria's largest Landesbanken (state banks), and provides a comprehensive range of financial and facility management services in conjunction with its subsidiaries. As the parent company of a group that also includes **HYPO NOE Leasing GmbH** and **HYPO NOE Real Consult GmbH**, **HYPO NOE Gruppe Bank AG** mainly serves large state and local government clients. It specialises in providing services related to public finance, real estate finance and treasury for clients based in Austria and abroad. **HYPO NOE Landesbank AG** is a full-service bank for retail customers, professionals and business customers in Lower Austria and Vienna with 30 branches. **HYPO NOE First Facility GmbH** is one of the leading full-line facility management service providers in Austria and the CEE region.

The 2013 consolidated financial statements will be published in the Wiener Zeitung on 10 April 2014, and posted under Investor Relations/Publications/Reports on the Group's website (www.hyponoe.at).

2. ACCOUNTING POLICIES

The consolidated financial statements of the HYPO NOE Group for the year ended 31 December 2013 were drawn up in accordance with section 245a UGB (Austrian Business Code) and section 59a BWG (Banking Act), as well as Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002. The statements were prepared on the basis of the International Financial Reporting Standards (IFRSs) and International Accounting Standards (IAS) 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).

The consolidated financial statements have been prepared in accordance with the IFRS/IAS standards and interpretations thereof adopted and published by the European Union up to 31 December 2013, and applicable to the business activities of the HYPO NOE Group.

AMENDED STANDARDS APPLIED TO THE 2013 FINANCIAL STATEMENTS

Apart from the Improvements to IFRSs, the following amended standards are relevant to the 2013 consolidated financial statements:

IFRS 13 Fair Value Measurement – mandatory for reporting periods beginning on or after 1 January 2013

IFRS 13 defines fair value, which was previously governed by a variety of standards. The focus is on the measurement of fair value. This new standard has resulted in the unification of the disclosures made in the notes, and in the provision of additional information, which has resulted in an increased administrative workload for the HYPO NOE Group.

Due to the fact that an improved methodology has become standard practice, since 2013 the Group has been using OIS discounting in place of Euribor discounting to value collateralised OTC derivatives. The derivatives measured at fair value are all part of economically hedged positions. However, where a different discounting method is applied to the underlyings, this results in temporary fluctuations in income that fully reverse by the time that the transactions mature.

IAS 19 Employee Benefits – mandatory for reporting periods beginning on or after 1 January 2013

The HYPO NOE Group adopted the revised IAS 19 early, and it was applied to the financial statements for the year ended 31 December 2011. The amendments to the standard relate to the recognition of actuarial gains and losses in other comprehensive income (OCI) and the elimination of the "corridor" approach. The HYPO NOE Group's financial reporting was not affected by this change, as actuarial gains and losses were already shown in OCI before adoption of the revised standard. Another amendment concerns the expected return (at the discount rate) on plan assets. The HYPO NOE Group does not have any plan assets.

IFRS 7 Financial Instruments: Disclosures – mandatory for reporting periods beginning on or after 1 January 2013

The new requirements affect financial instruments that are only subject to certain netting agreements, regardless of whether they are actually set off in the statement of financial position. The disclosure requirements are met in the notes to these annual financial statements.

NEW AND AMENDED STANDARDS NOT APPLIED TO THE 2013 FINANCIAL STATEMENTS

The following standards which entered into effect in 2013 were not applied, as they were not relevant to any material transactions within the HYPO NOE Group. They could, however, affect the accounting treatment of future transactions or agreements.

IAS 12 Income Taxes – mandatory for reporting periods beginning on or after 1 January 2013

This standard relates to investment property measured at fair value and revalued non-depreciable property, plant and equipment. Under the Group's accounting policies, investment property and non-depreciable property, plant and equipment are measured at cost.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine – mandatory for reporting periods beginning on or after 1 January 2013

IFRIC 20 does not affect the HYPO NOE Group's financial statements.

IFRS 1 in relation to government loans at below-market rates of interest – mandatory for reporting periods beginning on or after 1 January 2013

This standard applies only to the first-time adoption of IFRS and therefore does not affect the Group.

NEW AND AMENDED STANDARDS ADOPTED, BUT NOT YET APPLIED

The following IFRS standards and interpretations which have already been issued, but are not yet mandatory, are relevant to the consolidated financial statements, but have not been applied early:

IFRS 10 Consolidated Financial Statements – mandatory in the EU for reporting periods beginning on or after 1 January 2014

IFRS 10 creates a consistent definition of control, and thus a uniform basis for establishing whether a parent-subsidiary relationship exists, and for determining the scope of consolidation. This standard replaces IAS 27 Consolidated and Separate Financial Statements (2008) and SIC 12 Consolidation – Special Purpose Entities, both of which were relevant to the Group's financial reporting.

This will not result in any significant changes in the consolidation of the Group's financial statements.

IFRS 11 Joint Arrangements – mandatory in the EU for reporting periods beginning on or after 1 January 2014

IFRS 11 establishes principles for financial reporting by parties to arrangements where there is joint control of a joint venture or joint operation. The new standard replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contribution by Venturers. The main change from IAS 31 is the elimination of proportionate consolidation as a method of accounting for joint ventures; in future, the equity method will have to be used. As the HYPO NOE Group does not employ proportionate consolidation, the new standard will not affect the manner in which it accounts for joint ventures.

IFRS 12 Disclosure of Interests in Other Entities – mandatory in the EU for reporting periods beginning on or after 1 January 2014

IFRS 12 governs the disclosures in the notes regarding subsidiaries, associates, unconsolidated structured entities and joint arrangements. The additional disclosure requirements will result in an increased administrative workload for the HYPO NOE Group.

IAS 27 (2011) Separate Financial Statements – mandatory in the EU for reporting periods beginning on or after 1 January 2014

IAS 27 has been revised to bring it into line with IFRS 10, IFRS 11 and IFRS 12.

These adjustments will have no influence on the consolidated financial reporting of the HYPO NOE Group.

IAS 28 (2011) Investments in Associates and Joint Ventures – mandatory in the EU for reporting periods beginning on or after 1 January 2014

IAS 28 has been harmonised with IFRS 10, IFRS 11 and IFRS 12.

These adjustments will have no influence on the consolidated financial reporting of the HYPO NOE Group.

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) – mandatory for reporting periods beginning on or after 1 January 2014

The offsetting model established by IAS 32 is retained as such, but the new disclosure requirements call for the statement of the gross amounts before offsetting and the net amounts after offsetting in the notes. The standard set out in IFRS 7 is met in the notes to these annual financial statements.

IAS 36: disclosures on the recoverable amount of non-financial assets – mandatory for reporting periods beginning on or after 1 January 2014

The amendment to IAS 36 has removed the need to apply the standard to all cash-generating units. Disclosure of the recoverable amount is now only required when an impairment loss is recognised during a particular reporting period.

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) – mandatory for reporting periods beginning on or after 1 January 2014

Amendments to IAS 39 and IFRS 9: The continuation of hedges is permitted provided that novation is based on a statutory or regulatory obligation to interpose a central counterparty. Consequently this has no effect on the Group's hedge accounting.

IFRS 21 Levies – mandatory for reporting periods beginning on or after 1 January 2014

IFRIC 21 offers guidelines on recognising a liability to pay a levy imposed by a government. The Interpretation addresses the accounting for levies imposed on companies by governments (including regulators and similar bodies) in accordance with laws and/or regulations. It does not apply to taxes (see IAS 12 Income Taxes), fines and other penalties, liabilities arising from emissions trading programmes, nor to cash outflows covered by other standards. This will have no influence on the consolidated financial reporting of the HYPO NOE Group.

IFRS 9 Financial Instruments – mandatory for reporting periods beginning on or after 1 January 2018

On 20 February 2014 the IASB decided that application of IFRS 9 will be mandatory for reporting periods beginning on or after 1 January 2018.

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. The technical implementation of IFRS 9 Financial Instruments: Classification and Measurement will involve a considerable workload for the HYPO NOE Group with regard to the categorisation of financial instruments. Under IFRS 9 (2009) financial assets are classified and measured on the basis of the business model for managing such assets and the contractual cash flow characteristics of the assets. IFRS 9 (2010) also introduced a number of supplementary amendments with regard to financial liabilities. An IASB project aimed at implementing minor amendments to the classification and measurement requirements of IFRS 9, and introducing new standards related to the impairment of financial assets and to hedge accounting is currently under way. The application of these standards is expected to have an impact on the Group's financial assets, but not on its financial liabilities.

In 2014 the HYPO NOE Group will build on the progress made in previous years on the Bank's internal IFRS 9 project and identify further technical and professional requirements for the implementation of the standard, in order to prepare effectively for any amendments made by the IASB.

3. ACCOUNTING AND MEASUREMENT POLICIES

The consolidated financial statements of the HYPO NOE Group for the year ended 31 December 2013 comprise the statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes. The segment information is contained in the notes.

The risk report forms part of the operational and financial review, prepared in compliance with section 267 UGB (Austrian Business Code). Disclosures required by IFRS 7 and IFRS 13 that relate to the nature and extent of risks associated with financial instruments are also discussed in the risk report.

These consolidated financial statements are based on the separate financial statements of all the consolidated Group companies as at 31 December 2013, drawn up in accordance with IFRS. The HYPO NOE Group applies uniform Group-wide accounting policies.

The consolidated financial statements have been prepared on a going concern basis.

The Group's significant accounting policies are discussed below.

The methods described are uniformly and consistently applied to these consolidated financial statements unless otherwise stated.

Income and expenses are recognised on an accrual basis. They are recorded and reported in the periods to which they are attributable. Premiums and discounts are amortised using the effective interest method; the accrued interest is included in the item under which the underlying financial instrument is carried.

All the estimates and judgements required by IFRS accounting are best estimates made in accordance with the relevant standards. The estimates are reviewed on an ongoing basis, and are based on experience and other factors including expectations regarding future events which appear reasonable under the circumstances. Particularly frequent use of estimates and assumptions was made when valuing investments, recognising deferred tax assets attributable to tax loss carryforwards, recognising credit provisions (estimating recoverable amounts and calculating default probabilities), as well as performing fair value measurement (on the basis of observable market data). Where heavy reliance on estimates was necessary, the assumptions made in respect of the items concerned are explained in separate notes.

The reporting currency is the euro. All figures are presented in thousand euro (EUR thsd/EUR '000) unless otherwise stated. The tables below may contain rounding differences.

3.1 BASIS 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. Apart from the parent, HYPO NOE Gruppe Bank AG, the statements include a total of 64 domestic subsidiaries in which the parent directly or indirectly holds more than half of the voting rights or which it controls by other means. Besides the parent bank a total of 57 domestic subsidiaries were included in consolidation in 2012.

In addition, 37 domestic and six foreign companies are accounted for using the equity method. In 2012 the equity method was used to account for 38 domestic and six foreign companies in the Group's consolidated financial statements.

The Group's holdings in these companies are set out in Note 3.2.

Subsidiaries are included in the consolidated financial statements at the date on which control is obtained. Control exists where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Consolidation is performed in accordance with IFRS 3 Business Combinations, using the purchase method. The identifiable assets acquired, liabilities assumed and non-controlling interests are recognised at their acquisition date fair values. Any excess of the cost over the fair value of the net assets acquired is reported as goodwill. Negative differences are recognised directly in profit or loss following an additional review. The carrying value of the goodwill is tested for impairment once a year and whenever there is an indication of impairment. Such indicators include material deviations from the original strategic objectives, forecasts or the business plan of the companies in question, as well as deteriorations in market conditions.

The forecasts (budgets) provided by the management of the respective company form the basis of the impairment test, and these are compared with historic values and the conditions on the particular market.

Value in use is calculated using the discounted cash flow (DCF) method, applying a discount rate based on the weighted average cost of capital (WACC).

Under IFRS 1, it is not necessary to apply IFRS 3 to business combinations that occurred before the effective date of IFRS 3. Because of this the consolidation method used for the UGB consolidated financial statements was applied. The cost of the investments was netted against the share of the carrying value of their equity held at the date of consolidation. The resultant positive and negative differences arising on consolidation were set off against the reserves.

The share of the equity and profit or loss of majority-owned subsidiaries of the HYPO NOE Group attributable to non-controlling interests is separately reported, as "Non-controlling interests" in the statement of changes in equity and also in item 7.16, after net profit, in the statement of comprehensive income.

The results of subsidiaries acquired or divested during the year are recognised in the statement of comprehensive income, in accordance with the actual acquisition or disposal dates.

All material intra-group transactions are eliminated on consolidation.

The HYPO NOE Group does not apply proportionate consolidation.

Joint ventures (IAS 31) and associates (IAS 28) are accounted for using the equity method unless they are immaterial to the presentation of the Group's assets, finances and earnings, are not associated with risks and rewards of ownership, or are not-for-profit organisations (see Note 3.2 Investments). If an entity accounted for using the equity method applies accounting policies diverging from those of the Group, adjustments are made to align the investee's accounting policies to the Group IFRS policies. Joint ventures and associates are reported under a separate item in the statement of financial position (Note 8.11 Investments accounted for using the equity method), and under "Income from investments accounted for using the equity method" as a sub-item of "Interest and similar income" (Note 7.1 Interest and similar income).

Interests in non-consolidated subsidiaries and other investments are measured at fair value or at amortised cost. Impairment is recognised immediately, and is reported under Note 8.8. Available-for-sale financial assets and Note 3.2 Investments.

CHANGES IN 2013

Formations

The following new formations were included in the consolidated financial statements for the first time in 2013.

VITALITAS Grundstückverwaltung GmbH was registered on 11 January 2013 as a wholly owned subsidiary of HYPO NOE Leasing GmbH.

HYPO NOE Immobilienmanagement GmbH was registered on 21 March 2013 as a wholly owned subsidiary of NÖ Hypo Beteiligungsholding GmbH.

Strategic Real Estate GmbH was registered on 18 May 2013 as a wholly owned subsidiary. HYPO NOE Gruppe Bank AG holds a 51% interest in this entity, and HYPO NOE Landesbank AG 49%.

Neustift-am-Walde 32 Immobilienentwicklung GmbH was registered on 28 June 2013 as a 90% subsidiary of NÖ. HYPO LEASING DECUS Grundstückvermietungs Gesellschaft m.b.H.

Josef-Heinzl-Gasse 1 Immobilienentwicklung GmbH was registered on 29 June 2013 as a 90% subsidiary of NÖ. HYPO LEASING DECUS Grundstückvermietungs Gesellschaft m.b.H.

Strategic Real Estate GmbH was registered on 17 July 2013 as a wholly owned subsidiary of SRE Ungarn Holding 1 GmbH.

Acquisitions

Under an agreement signed on 4 April 2013, NÖ Hypo Beteiligungsholding GmbH acquired a 64% interest in Hauptplatz 18 Entwicklungs- und Verwertungs GmbH. The company is included in the consolidated financial statements of the HYPO NOE Group.

On 1 October 2013 NÖ Hypo Beteiligungsholding GmbH acquired an 89.5% stake in Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H, in addition to its existing 0.5% interest, while HYPO NOE Leasing GmbH purchased the remaining 10%. Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H was included in consolidation in the fourth quarter of 2013.

Disposals

HYPO NOE Real Consult GmbH sold 75% of its wholly owned subsidiary Orchisgasse 66 Liegenschaftserrichtungs- und -verwertungs GmbH to a third party (Hart & Haring Bauträger GmbH) and 25% to another consolidated Group company, NÖ Hypo Beteiligungsholding GmbH. The name of the divested company has been changed to Hart & Haring Liegenschaftsentwicklungs GmbH.

Further information on this disposal is given under Note 7.9 Gains or losses on disposal of consolidated subsidiaries.

The remaining 25% interest in Hart & Haring Liegenschaftsentwicklungs GmbH held by the Group is accounted for using the equity method in these annual financial statements.

The 50% interest in V2 FM GmbH (parent HYPO NOE First Facility GmbH), previously accounted for using the equity method, was deconsolidated due to the sale of the entire holding on 4 March 2013.

The 50% stake in Bonitas Versicherungsservice Gesellschaft m.b.H (parent: HYPO NOE Landesbank AG), previously accounted for using the equity method, was deconsolidated due to the sale of the entire holding on 1 July 2013.

Changes of name

Orchisgasse 66 Liegenschaftserrichtungs- und -verwertungs GmbH was renamed Hart & Haring Liegenschaftsentwicklungs GmbH with effect from 30 January 2013.

BHN Sileo GmbH, a company accounted for using the equity method, was renamed as Backhausen GmbH on 24 January 2013.

DETAILED DISCLOSURES ON ACQUISITIONS

Hauptplatz 18 Entwicklungs- und Verwertungs GmbH

Under an assignment agreement signed on 4 April 2013, NÖ Hypo Beteiligungsholding GmbH acquired a 64% interest in Hauptplatz 18 Entwicklungs- und Verwertungs GmbH. The acquiree was consolidated on the acquisition date.

The purchase price for Hauptplatz 18 was a total of EUR 989 thousand (thsd).

The transaction costs of EUR 31thsd were recognised as legal and consultancy costs in 2013.

The identified assets acquired and liabilities assumed as at the consolidation date, measured at fair value, are set out below.

As at 4 Apr. 2013, EUR '000	Fair value as at acquisition date
Assets	
Loans and advances to banks	137
Investment property	1,658
Tax assets	5
Other assets	25
Total assets - assets acquired	**1,825**
Liabilities	
Deposits from banks	132
Other liabilities	148
Total equity and liabilities - liabilities assumed	**280**
Net assets	**1,545**
Acquisition of 64% of net assets	989
Non-controlling interests of 36%	556
Goodwill	-
Consideration (paid entirely in cash)	**989**

None of the goodwill is expected to be tax deductible.

The contribution of Hauptplatz 18 Entwicklungs- und Verwertungs GmbH to the HYPO NOE Group's profit before tax since consolidation is shown in the following table:

4 Apr.-31 Dec. 2013	EUR '000
Interest and similar expense	-4
Net interest income after risk provisions	**-4**
General administrative expenses	-26
Net gains or losses on other financial investments	-21
Profit before tax	**-52**

If the acquisition of Hauptplatz 18 Entwicklungs- und Verwertungs GmbH had taken place on 1 January 2013, its contribution to the Group's profit before tax would have been negative by EUR 52thsd.

Cash flows from the acquisition of subsidiaries	EUR '000
Consideration paid in cash and cash equivalents	-989
less cash and cash equivalents acquired	–
Cash flows from the acquisition of subsidiaries	**-989**

Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H.

On 1 October 2013 NÖ Hypo Beteiligungsholding GmbH acquired an 89.5% stake in Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H, in addition to its existing 0.5% interest, while HYPO NOE Leasing GmbH purchased the remaining 10%. Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H was included in consolidation with effect from the acquisition date.

The company was acquired primarily with a view to keeping cash outflows related to properties used by the Bank within the Group, among other reasons.

The purchase price for Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H. totalled EUR 6,162thsd. A consideration of EUR 5,170thsd was paid to the company's ultimate parent. The transaction costs of EUR 20thsd were recognised as legal and consultancy costs in 2013.

The identified assets acquired and liabilities assumed as at the consolidation date, measured at fair value, are set out below.

As at 1 Oct. 2013, EUR '000	Fair value as at acquisition date
Assets	
Loans and advances to banks	227
Investment property	17,660
Property, plant and equipment	21,176
Other assets	98
Total assets – assets acquired	**39,161**
Liabilities	
Deposits from banks	25,580
Tax liabilities	1,759
Other liabilities	460
Total equity and liabilities – liabilities assumed	**27,799**
Net assets	**11,362**
Consideration paid to the ultimate parent	-5,170
Existing interest of 0.5%	-30
Goodwill	-
Consideration for acquisition of 99.5% interest (paid entirely in cash)	**6,162**

None of the goodwill is expected to be tax deductible.

The contribution of Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H. to the HYPO NOE Group's profit before tax since consolidation is shown in the following table:

1 Oct.-31 Dec. 2013	EUR '000
Interest and similar income	24
Interest and similar expense	-113
Net interest income after risk provisions	**-89**
General administrative expenses	-146
Net other operating income	81
Net gains or losses on other financial investments	-497
Profit before tax	**-651**

If the acquisition of Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H. had taken place on 1 January 2013, it would have contributed a loss of EUR 1,160thsd to the Group's profit before tax.

Cash flows from the acquisition of subsidiaries	EUR '000
Consideration paid in cash and cash equivalents	-6,162
less cash and cash equivalents received	-
Cash flows from the acquisition of subsidiaries	**-6,162**

3.2 INVESTMENTS

The following consolidated, directly or indirectly held Group companies were included in the IFRS consolidated financial statements of HYPO NOE Gruppe Bank AG as at 31 December 2013:

Company name	Domicile	Holding	thereof indirect interest	Reporting date	Segment
65 consolidated subsidiaries					
HYPO NOE Gruppe Bank AG	St. Pölten			As at 31 Dec. 2013	Gruppe Bank
HYPO NOE Landesbank AG	St. Pölten	100.00%	-	As at 31 Dec. 2013	Landesbank
HYPO NOE Leasing GmbH	St. Pölten	100.00%	-	As at 31 Dec. 2013	Leasing
CALCULATOR Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	As at 31 Dec. 2013	Leasing
CURIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	As at 31 Dec. 2013	Leasing
FAVIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
NÖ. Verwaltungszentrum – Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
PROVENTUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
Sana Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
Telos Mobilien – Leasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
Treisma Grundstücksverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
VIA-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
HYPO Niederösterreich-Immobilienleasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
HYPO Niederösterreichische Liegenschaft GmbH	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Other
NEUROM Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
NÖ. HYPO LEASING URBANITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
AELIUM Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
NÖ. HYPO LEASING Landeskliniken Equipment GmbH	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
Obere Donaustrasse 61 Liegenschaftserrichtungs- und -verwertungs GmbH	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Other
NÖ. HYPO LEASING AGILITAS Grundstücksvermietung Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	As at 31 Dec. 2013	Leasing
ALARIS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	As at 31 Dec. 2013	Leasing
CALLIDUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
CLIVUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
COMITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
NÖ. HYPO LEASING FIRMITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
NÖ. HYPO LEASING GERUSIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	As at 31 Dec. 2013	Leasing
PINUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	99.00%	99.00%	As at 31 Dec. 2013	Leasing
NÖ. HYPO LEASING STRUCTOR Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	As at 31 Dec. 2013	Leasing
VIRTUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing

VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	65.00%	65.00%	As at 31 Dec. 2013	Leasing
VESCUM Grundstückvermietungs GmbH	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
VITALITAS Grundstückverwaltung GmbH	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
SATORIA Grundstückvermietung GmbH	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	66.67%	66.67%	As at 31 Dec. 2013	Leasing
Landeskrankenhaus Tulln-Immobilienvermietung Gesellschaft m.b.H.	St. Pölten	100.00%	56.42%	As at 31 Dec. 2013	Leasing
Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Other
HYPO-REAL 93 Mobilien-Leasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
NÖ. HYPO LEASING DECUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	-	As at 31 Dec. 2013	Other
NÖ. HYPO LEASING MENTIO Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
NÖ. HYPO LEASING NITOR Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
NÖ. HYPO LEASING MEATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	As at 31 Dec. 2013	Leasing
NÖ. HYPO LEASING ASTEWOG Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	As at 31 Dec. 2013	Leasing
NEMUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	As at 31 Dec. 2013	Leasing
HYPO NOE Real Consult GmbH	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Other
HYPO NOE Immobilienmanagement GmbH	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Other
HBV Beteiligungs-GmbH	St. Pölten	100.00%	-	As at 31 Dec. 2013	Other
ZELUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Leasing
Benkerwiese Verwaltungs- und Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Other
Steinmüllergasse 64 Development GmbH	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Other
Benkerwiese Mietergemeinschaft GmbH	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Other
Josef-Heinzl-Gasse 1 Immobilienentwicklung GmbH	St. Pölten	90.00%	90.00%	As at 31 Dec. 2013	Other
Neustift-am-Walde 32 Immobilienentwicklung GmbH	St. Pölten	90.00%	90.00%	As at 31 Dec. 2013	Other
HYPO NOE First Facility GmbH	Vienna	100.00%	100.00%	As at 31 Dec. 2013	Other
HYPO NOE Versicherungsservice GmbH	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Landesbank
Strategic Equity Beteiligungs-GmbH	St. Pölten	100.00%	49.00%	As at 31 Dec. 2013	Other
Hauptplatz 18 Entwicklungs- und Verwertungs GmbH	St. Pölten	64.00%	64.00%	As at 31 Dec. 2013	Other
Strategic Real Estate GmbH	St. Pölten	100.00%	49.00%	As at 31 Dec. 2013	Other
SRE Ungarn Holding 1 GmbH	Vienna	100.00%	100.00%	As at 31 Dec. 2013	Other
HYPO NOE Valuation & Advisory GmbH	St. Pölten	100.00%	10.00%	As at 31 Dec. 2013	Other
NÖ Hypo Beteiligungsholding GmbH	St. Pölten	100.00%	-	As at 31 Dec. 2013	Other
HYPO Immobilien-Beteiligungsholding GmbH	St. Pölten	100.00%	-	As at 31 Dec. 2013	Other
HYPO Alpha Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Other
HYPO Beta Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Other
HYPO Gamma Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Other
HYPO Delta Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	As at 31 Dec. 2013	Other

The following Group investments were accounted for using the equity method:

*EUR '000 Company name	Domicile	Holding	thereof indirect interest	IFRS share of equity*	Measurement gains or losses*	Reporting date
21 joint ventures accounted for using the equity method in accordance with IAS 31						
CULINA Grundstückvermietungs Gesellschaft m.b.H.				293	6	As at 31 Dec. 2013
	St. Pölten	50.00%	25.00%	377	142	As at 31 Dec. 2012
FACILITAS Grundstückvermietungs Gesellschaft m.b.H.				59	-12	As at 31 Dec. 2012
	St. Pölten	50.00%	25.00%	72	-3	As at 31 Dec. 2011
FORIS Grundstückvermietungs Gesellschaft m.b.H.				982	70	As at 31 Dec. 2012
	Vienna	50.00%	25.00%	912	50	As at 31 Dec. 2011
VALET-Grundstückverwaltungs Gesellschaft m.b.H.				763	-174	As at 31 Dec. 2013
	St. Pölten	50.00%	50.00%	937	-113	As at 31 Dec. 2012
NÖ. HYPO LEASING – Sparkasse Region St. Pölten Grundstückvermietungs Gesellschaft m.b.H.				147	-6	As at 31 Dec. 2013
	St. Pölten	50.00%	50.00%	164	-1	As at 31 Dec. 2012
LITUS Grundstückvermietungs Gesellschaft m.b.H.				1,371	19	As at 31 Dec. 2013
	St. Pölten	50.00%	25.00%	1,352	26	As at 31 Dec. 2012
TRABITUS Grundstückvermietungs Gesellschaft m.b.H.				169	11	As at 31 Dec. 2012
	Vienna	50.00%	25.00%	159	-194	As at 31 Dec. 2011
Adoria Grundstückvermietungs Gesellschaft m.b.H.				616	12	As at 31 Dec. 2012
	Vienna	50.00%	25.00%	603	13	As at 31 Dec. 2011
CONATUS Grundstückvermietungs Gesellschaft m.b.H.				–	-217	As at 31 Dec. 2012
	St. Pölten	50.00%	25.00%	217	-22	As at 31 Dec. 2011
UNDA Grundstückvermietungs Gesellschaft m.b.H.				47	-1	As at 31 Dec. 2012
	St. Pölten	50.00%	25.00%	48	-2	As at 31 Dec. 2011
Aventin Grundstückverwaltungs Gesellschaft m.b.H.				1,448	17	As at 31 Dec. 2012
	Horn	50.00%	50.00%	1,431	-13	As at 31 Dec. 2011
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.				1,787	530	As at 31 Dec. 2012
	Vienna	50.00%	50.00%	1,256	89	As at 31 Dec. 2011
Palatin Grundstückverwaltungs Gesellschaft m.b.H.				796	10	As at 31 Dec. 2013
	St. Pölten	50.00%	50.00%	1,008	628	As at 31 Dec. 2012
Purge Grundstücksverwaltungs-Gesellschaft m.b.H.				11	-7	As at 31 Dec. 2012
	Vienna	50.00%	50.00%	18	-4	As at 31 Dec. 2011
Viminal Grundstückverwaltungs Gesellschaft m.b.H.				462	13	As at 31 Dec. 2012
	Vienna	50.00%	50.00%	655	4	As at 31 Dec. 2011
NÖ Raiffeisen Kommunalprojekte Service Gesellschaft m.b.H. and NÖ.HYPO Leasinggesellschaft m.b.H. – Strahlentherapie OG				75	3	As at 31 Dec. 2013
	St. Pölten	50.00%	50.00%	72	6	As at 31 Dec. 2012
N.Ö. Gemeindegebäudeleasing Gesellschaft m.b.H.				33	-71	As at 31 Dec. 2012
	Vienna	33.30%	-	104	-6	As at 31 Dec. 2011

*EUR '000 Company name	Domicile	Holding	thereof indirect interest	IFRS share of equity*	Measure-ment gains or losses*	Reporting date
N.Ö. Kommunalgebäudeleasing Gesellschaft m.b.H.				-	-238	As at 31 Dec. 2012
	Vienna	33.30%	-	238	-22	As at 31 Dec. 2011
NÖ-KL Kommunalgebäudeleasing Gesellschaft m.b.H.				350	-51	As at 31 Dec. 2012
	Vienna	33.30%	-	402	-63	As at 31 Dec. 2011
Quirinal Grundstücksverwaltungs Gesellschaft m.b.H.				171	6	As at 31 Dec. 2012
	Vienna	33.33%	-	182	4	As at 31 Dec. 2011
NÖ. HYPO Leasing und Raiffeisen-Immobil-ien-Leasing Traisenhaus GesmbH & Co OG				1,054	28	As at 31 Dec. 2012
	St. Pölten	50.00%	50.00%	1,044	36	As at 31 Dec. 2011

22 investments accounted for using the equity method in accordance with IAS 28

Holdings of over 50% are accounted for using the equity method in the consolidated financial statements owing to significant influence and materiality criteria.

Company name	Domicile	Holding	thereof indirect interest	IFRS share of equity*	Measure-ment gains or losses*	Reporting date
Hotel- und Sportstätten-Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG				583	-10	As at 31 Dec. 2013
	St. Pölten	45.41%	45.41%	593	2	As at 31 Dec. 2012
NÖ Beteiligungsfinanzierungen GmbH				1,386	19	As at 31 Dec. 2012
	Vienna	21.00%	21.00%	1,367	29	As at 31 Dec. 2011
Niederösterreichische Vorsorgekasse AG				1,677	157	As at 31 Dec. 2012
	St. Pölten	49.00%	-	1,580	209	As at 31 Dec. 2011
Hart & Haring Liegenschaftsentwicklungs GmbH				-	-9	As at 31 Dec. 2013
	St. Pölten	25.00%	25.00%	-	-	As at 31 Dec. 2012
Franz-Glaser-Gasse 28 Immobilienentwicklung GmbH				-	-	As at 31 Dec. 2013
	St. Pölten	50.00%	50.00%	-	-	As at 31 Dec. 2012
Ernst Hora Elektroinstallationen Gesellschaft m.b.H.				-	-	As at 31 Dec. 2013
	Vienna	100.00%	100.00%	-	14	As at 31 Dec. 2012
first facility Ingatlankezelö Korlátolt Felelösségü Társaság				546	-327	As at 31 Dec. 2012
	Budapest	100.00%	100.00%	887	-10	As at 31 Dec. 2011
first facility Imobilie SRL				78	8	As at 31 Dec. 2012
	Bucharest	55.00%	55.00%	79	-22	As at 31 Dec. 2012
first facility Bulgaria EOOD				326	-55	As at 31 Dec. 2013
	Sofia	100.00%	100.00%	381	13	As at 31 Dec. 2012
first facility Macedonia dooel				16	-19	As at 31 Dec. 2013
	Skopje	100.00%	100.00%	34	-1	As at 31 Dec. 2012
first facility - Slovakia s.r.o.				114	10	As at 31 Dec. 2012
	Bratislava	100.00%	100.00%	104	-	As at 31 Dec. 2011
first facility d.o.o				41	-71	As at 31 Dec. 2012
	Belgrade	51.00%	51.00%	114	11	As at 31 Dec. 2012
Niederösterreichische Facility Management GmbH				499	-419	As at 31 Dec. 2013
	Wiener Neustadt	40.00%	40.00%	1,405	487	As at 31 Dec. 2012

*EUR '000 Company name	Domicile	Holding	thereof indirect interest	IFRS share of equity*	Measure-ment gains or losses*	Reporting date
Backhausen GmbH				1,436	237	As at 31 Dec. 2013
	St. Pölten	44.00%	44.00%	1,199	-8	As at 31 Dec. 2012
Gemeinnützige Wohnungsgesellschaft „Austria“ Aktiengesellschaft	Mödling	44.39%	44.39%	Included in EWU consolidated financial statements		As at 31 Dec. 2012
„Wohnungseigentümer“ Gemeinnützige Wohnbaugesellschaft m.b.H.	Mödling	44.75%	44.75%			As at 31 Dec. 2012
GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H	Maria Enzersdorf	42.60%	42.60%			As at 31 Dec. 2012
EWU Wohnbau Unternehmensbeteiligungs-Aktieng-esellschaft (consolidated financial statements)				23,135	-7,278	As at 31 Dec. 2013
	Vienna	44.79%	-	30,521	1,612	As at 31 Dec. 2012
HYPO Capital Management AG				2,382	336	As at 31 Dec. 2012
	Vienna	25.00%	-	2,382	211	As at 31 Dec. 2011
Gemdat Niederösterreichische Gemein-de-Datenservice Gesellschaft m.b.H.				1,079	252	As at 31 Dec. 2012
	Korneu-burg	32.50%	-	1,087	414	As at 31 Dec. 2011
KASERNEN Projektentwicklungs- und Beteiligungs GmbH				134	24	As at 31 Dec. 2012
	Vienna	25.00%	-	110	3	As at 31 Dec. 2011
NÖ. Landeshauptstadt – Planungsgesellschaft m.b.H.				369	-33	As at 31 Dec. 2012
	St. Pölten	39.00%	39.00%	402	16	As at 31 Dec. 2011
Two investments deconsolidated in 2013						
V2 FM GmbH		-	-	-	518	As at 31 Dec. 2012
	Vienna	50.00%	50.00%	-	51	As at 31 Dec. 2011
Bonitas Versicherungsservice Gesellschaft m.b.H.		-	-	-	92	As at 31 Dec. 2012
	St. Pölten	50.00%	50.00%	18	101	As at 31 Dec. 2011
Total			**	**44,437**	**-6,619**	***

*Note 8.11 Investments accounted for using the equity method
**Note 7.1 Interest and similar income

The 50% interest in V2 FM GmbH (parent: HYPO NOE First Facility GmbH), previously accounted for using the equity method, and the 50% interest in Bonitas Versicherungsservice Gesellschaft m.b.H (parent: HYPO NOE Landesbank AG) were deconsolidated due to the sale of the both holdings in their entirety (see Note 3.1 Basis of consolidation, "Changes in 2013").

The following companies in which the Group holds interests of more than 50% were treated as AFS investments due to their being immaterial, or not associated with risks and rewards of ownership.

*EUR '000 Company name	Domicile	Holding	thereof indirect interest	Registered capital*	Profit/loss reported in register of companies*	Reporting date
Non-consolidated AFS investments (interest more than 50%)						
Castellum Schallaburg Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	-139	-22	As at 31 Dec. 2012
				-117	-23	As at 31 Dec. 2011
VIA DOMINORUM Grundstückverwertungs Gesellschaft m.b.H.	St. Pölten	95.00%	95.00%	-6,544	497	As at 31 Dec. 2012
				-7,041	-107	As at 31 Dec. 2011
WPS-Wirtschaftspark Sieghartskirchen Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	-1,346	-63	As at 31 Dec. 2012
				-1,283	-128	As at 31 Dec. 2011
Wilax Wien-Laxenburg NÖ Veranstaltungs Gesellschaft mbH	St. Pölten	100.00%	100.00%	12	-2	As at 31 Dec. 2012
				14	-3	As at 31 Dec. 2011
Wohnpark Schrems Liegenschaftsverwertungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	-124	-18	As at 31 Dec. 2012
				-105	-23	As at 31 Dec. 2011
SRE Sziget Center Korlátolt Felelösségü Társaság	Budapest	100.00%	100.00%	1	-	As at 31 Dec. 2013
				-	-	As at 31 Dec. 2012

The following companies, in which the Group has interests of 20-50%, were treated as AFS investments due to immateriality or the absence of risks and rewards of ownership.

*EUR '000 Company name	Domicile	Holding	thereof indirect interest	Registered capital*	Profit/loss reported in register of companies*	Reporting date
Non-consolidated AFS investments (interest 20-50%)						
NÖ Kulturwirtschaft GesmbH. (consolidated financial statements)	St. Pölten	40.52%	40.52%	6,576	1,962	As at 31 Dec. 2012
				4,631	297	As at 31 Dec. 2011
Psychosoziales Zentrum Schiltern Gesellschaft m.b.H.	Schiltern, Langenlois	26.67%	-	1,388	375	As at 31 Dec. 2012
				1,012	91	As at 31 Dec. 2011
EFH-Beteiligungsgesellschaft m.b.H.	Vienna	50.00%	-	27	-3	As at 31 Dec. 2012
				30	-3	As at 31 Dec. 2011
SPORTZENTRUM Niederösterreich GmbH (previously NÖ. Landes-Sportschulanlagenbetriebsgesellschaft m.b.H.)	St. Pölten	49.00%	49.00%	61	1	As at 31 Dec. 2012
				60	-	As at 31 Dec. 2011

During the reporting period the Group reduced its interests in the following companies from 20% to 15%:
- Pöchlarner Kommunalimmobilienverwaltungs Gesellschaft m.b.H.
- Melker Kommunalimmobilienverwaltungs Gesellschaft m.b.H.
- Loosdorfer Kommunalimmobilien Gesellschaft m.b.H.
- Schwarzauer Kommunalimmobilienverwaltungs Gesellschaft m.b.H.

As a result, these companies are not included in the table of AFS interests of 20-50%.

3.3 FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

IAS 39 requires the recognition of all financial assets and liabilities in the consolidated statement of financial position.

The regular way purchase or sale of derivatives and financial instruments is recognised on the trade date.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or the transfer criteria established by IAS 39 are fulfilled. Financial liabilities are derecognised when they are extinguished or the obligations have expired.

Fair value is defined as the purchase price paid in an orderly transaction between market participants at the measurement date.

Financial instruments are initially recognised at fair value plus transaction costs. Quoted market prices form the basis of the subsequent measurement of financial instruments accounted for at fair value. In the absence of a market price or a price quoted on an active market, the future cash flows of a non-option financial instrument are discounted to present value applying the relevant interest rate. Measurement is performed using standard financial valuation techniques. Options pricing models are used to value options and other financial instruments with similar characteristics, applying current market inputs. Equity instruments are reported at cost if the fair value is not reliably measurable.

The present value of derivatives (e.g. interest rate swaps, cross currency swaps, FX forwards and forward rate agreements) is calculated by discounting the replicating cash flows. Over-the-counter (OTC) currency and interest rate options are measured using option pricing models such as the Black Scholes or Hull White models (Note 10.3 Fair value disclosures in accordance with IFRS 7).

Customer swaps are measured using an internal model based on the DCF method, taking account of the current interest rate and basis spread curves. Suitable models are used in the measurement of embedded options. Counterparty risk and the Bank's exposure to credit risk (credit value adjustment and debt value adjustment) are taken into consideration when calculating the fair value of all unsecured customer derivatives. However, since issuance by customers is at best minimal and it is thus not possible to determine credit spreads on the basis of quoted prices, the credit spreads for instruments with matching maturities are calculated using CDS index curves in line with the customer's credit rating and the sector in which the respective counterparty operates.

3.4 FINANCIAL ASSETS

IAS 39 classifies financial assets into the following four categories:

1. Loans and receivables (LAR)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market (see Note 8.3 Loans and advances to banks, and Note 8.4 Loans and advances to customers).

Loans and receivables are measured at amortised cost (gross), and impairments to them as credit provisions, under "Risk provisions" (Note 8.5 Risk provisions and credit provisions).

Additional information on the fair value of loans and receivables measured at amortised cost is given under Note 10.3 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

2. Assets held for trading (HFT)

Financial instruments acquired for the purpose of reselling them in the near term, or forming part of a portfolio that the entity intends to resell in the near term with the objective of generating a profit, must be classified as assets held for trading. This category also includes all derivatives other than those used as hedging instruments.

In the HYPO NOE Group most of the assets classified in this way represent the positive fair value attributable to derivatives used for interest rate or foreign exchange related transactions (Note 8.6 Assets held for trading).

Measurement is at fair value. Realised and unrealised gains and losses, and measurement gains and losses are recognised in profit or loss (Note 7.6 Net trading income).

Where available, market prices are applied in the determination of fair value (Level 1). In the absence of market prices, fair value is calculated on the basis of observable inputs (Level 2). Unobservable inputs may also be applied (Level 3). Detailed information on this item is given under 10.3 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

3. Available-for-sale (AFS) financial assets

This is a residual category to which all non-derivative financial assets are assigned that are not classified under another category.

In the case of the HYPO NOE Group these are shares and other variable income securities, bonds, public debt certificates and other fixed income securities, holdings in non-consolidated subsidiaries (over 50%), holdings in associates (20-50%) and other investments (less than 20%) (see Note 8.8 Available-for-sale financial assets).

Subsequent measurement is at fair value. Measurement gains and losses are recognised in the revaluation reserve (AFS reserve) under other comprehensive income, taking deferred tax into account (statement of changes in equity and statement of comprehensive income).

In the event of disposal of the asset, the difference between amortised cost and the carrying amount recognised in equity, under the AFS reserve (revaluation reserve), is reversed through profit or loss in the statement of comprehensive income. Gains and losses are reversed over the remaining life of the asset using the effective interest method. In the event of credit-related impairment, an impairment loss is recognised (Note 7.10 Net gains or losses on available-for-sale financial assets). In the event of reversal of impairment losses, equity instruments are revalued via the AFS reserve, and debt instruments through profit or loss.

Where available, market prices are applied in the determination of fair value (Level 1). In the absence of market prices, fair value is calculated on the basis of observable inputs (Level 2). Unobservable inputs may also be applied (Level 3), and if the fair value cannot be calculated, assets are measured at cost (also Level 3).

In the case of the HYPO NOE Group's holdings in non-consolidated subsidiaries (over 50%), holdings in associates (20-50%) and other investments (less than 20%), the preferred approach for the measurement of fair value is the DCF method. Alternatively, the dividend discount model or the market value method may be applied. The Group's subsidiaries also provide figures in the form of forecasts and budgets.

4. Financial assets designated as at fair value through profit or loss (FVPL)

When the fair value option (FVO) is taken, financial assets that are not held for trading are irrevocably assigned to this category, and are subsequently measured at value fair through profit or loss (Note 8.9 Financial assets designated as at fair value through profit or loss).

However, this classification may only be made if one of the following criteria is met:

a. The financial instrument contains one or more significant embedded derivatives;
b. It eliminates or significantly reduces a measurement or recognition inconsistency;
c. A group of financial assets and/or financial liabilities is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Measurement is at fair value. Realised gains and losses, and unrealised measurement gains and losses are recognised in profit or loss under 7.11 Net gains or losses on financial assets designated as at fair value through profit or loss.

Where available, market prices are applied in the determination of fair value (Level 1). In the absence of market prices, fair value is calculated on the basis of observable inputs (Level 2). Unobservable inputs may also be applied (Level 3). Detailed information on this item is given under Note 10.3 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

5. Financial investments held to maturity (HTM)

Non-derivative financial assets with fixed or determinable payments and fixed maturities normally meet the criteria for assignment to this category. In the case of the Bank it consists entirely of bonds, public debt certificates and other fixed income securities (Note 8.10 Financial assets held to maturity).

Designation of investments as held to maturity requires an intention and ability to hold these until maturity.

Measurement is at amortised cost, and gains and losses are amortised over the remaining lives of the assets using the effective interest method. Any impairment losses are recognised in profit or loss.

The HYPO NOE Group has no investments assigned to this category.

3.5 FINANCIAL LIABILITIES

IAS 39 classifies financial liabilities into the following four categories:

1. Other financial liabilities

This category comprises the financial liabilities, including debt evidenced by certificates, for which the option of measurement at fair value through profit or loss was not taken (liabilities at cost [LAC]) (see Note 8.18 Deposits from banks, Note 8.19 Deposits from customers and 8.20 Debts evidenced by certificates).

Measurement is normally at amortised cost. Gains and losses are amortised over the remaining lives of the liabilities using the effective interest method, and are taken to interest expense.

Additional information on the fair value of other financial liabilities measured at amortised cost is given under Note 10.3 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

2. Liabilities held for trading (HFT)

Financial instruments purchased for the purpose of reselling them in the near term, or forming part of a portfolio that the entity intends to resell in the near term with the objective of generating a profit, must be classified as liabilities held for trading. This category also includes all derivatives other than those used as hedging instruments.

In the HYPO NOE Group most of the assets classified in this way represent the negative fair value attributable to derivatives used for interest rate or foreign exchange related transactions (Note 8.21 Liabilities held for trading).

Measurement is at fair value. Realised gains and losses, and measurement gains and losses are recognised in profit or loss (Note 7.6 Net trading income).

Where available, market prices are applied in the determination of fair value (Level 1). In the absence of market prices, fair value is calculated on the basis of observable inputs (Level 2). Unobservable inputs may also be applied (Level 3). Detailed information on this item is given under Note 10.3 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

3. Financial liabilities designated as at fair value through profit or loss (FVPL)

When the fair value option (FVO) is taken, financial liabilities that are not held for trading are irrevocably assigned to this category, and subsequently measured at value fair through profit or loss. However, this classification may only be made if:

a.) The financial instrument contains one or more significant embedded derivatives;

b.) It eliminates or significantly reduces a measurement or recognition inconsistency;

c.) A group of financial liabilities or financial assets and financial liabilities is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Measurement is at fair value. Realised gains and losses, and measurement gains and losses are recognised in profit or loss.

The HYPO NOE Group has no liabilities assigned to this category.

3.6 EMBEDDED DERIVATIVES

Financial instruments are referred to as "structured products" where they consist of a host contract and multiple embedded derivatives, and the latter are an integral component of the contract and cannot be separately traded.

IAS 39 states that embedded derivatives must be separated from the host contracts and accounted for as independent derivatives if:
- The structured financial instrument is not measured at fair value through profit or loss;
- The economic characteristics and risks of the embedded derivative are not clearly and closely related to those of the host contract;
- The terms of the embedded derivatives meet the definition of a derivative.

Measurement gains and losses are recognised in the statement of comprehensive income. Derivatives that are not subject to the separation requirement are measured together with the host contract, in accordance with the general rules for the category concerned.

3.7 HEDGE ACCOUNTING

Derivatives are measured at fair value. Measurement gains and losses are recognised in profit or loss unless the derivative in question meets the criteria for IFRS cash flow hedge accounting.

The IFRS hedge accounting rules govern the measurement of derivatives that are purchased to hedge an underlying transaction. The latter is classified into one of the above categories. A hedging relationship exists where the underlying and hedging transaction, and the hedged risk are designated. The hedging relationship is regarded as highly effective if the fair value or cash flow changes in the underlying and the hedge largely offset each other (hedge ratio of 80-125%). The effectiveness of the hedge must be reliably measurable, and is monitored throughout the annual reporting period. The cumulative dollar offset method is used for retrospective measurement of hedge effectiveness, and regression analysis for prospective measurement.
- Fair value hedge:
- A hedge of the exposure of assets and liabilities to changes in fair value. Gains and losses on measurement of the derivative and underlying are reported in the statement of comprehensive income, under "Net gains or losses on hedges" (Note 7.12).
- Cash flow hedge:
- A hedge of the exposure to variability in cash flows that is attributable to an identifiable and determinable risk associated with a recognised asset or liability or a highly probable forecast transaction. The effective portion of the change in fair value is recognised in the statement of comprehensive income, under "Change in cash flow hedge". The gain or loss attributable to the ineffective portion is immediately recognised in profit or loss and reported in the statement of comprehensive income, under "Net gains or losses on hedges" (Note 7.12).

The HYPO NOE Group mainly uses fair value hedges. These are employed to hedge the fair value of both assets and liabilities (underlyings). Interest rate risk and currency risk are hedged simultaneously. In addition, cash flow hedges are used to hedge the risk of fluctuations in cash flows (interest payments) from assets and liabilities (underlyings).

Analyses of hedges by the underlying transactions hedged are shown in Note 8.7 Positive fair value of hedges (hedge accounting) and Note 8.22 Negative fair value of hedges (hedge accounting).

3.8 LEASE ACCOUNTING

Additional information on the leasing business can be found under Note 10.5 Leasing.

The HYPO NOE Group as a lessor

The main determinant of the classification of, and hence the method of accounting for leases is not the legal ownership of the leased property but the substance of the lease. If substantially all the risks and rewards incidental to legal ownership are transferred by the lessor, then under IAS 17 the lease is a finance lease; otherwise it is an operating lease. Most of the lease agreements concluded by the HYPO NOE Group as a lessor are classifiable as finance leases. Consequently, instead of recognising the assets, the present value of the future lease payments is reported under "Loans and advances to customers", taking account of any residual values. Agreed lease payments are apportioned between the finance charge, recognised in profit or loss, and the reduction in the outstanding liability.

The HYPO NOE Group as a lessee

All the lease agreements concluded by the HYPO NOE Group as a lessee are operating leases. This means that leased vehicles are not stated as assets in the consolidated statement of financial position. The lease instalments are recognised as general administrative expenses (see Note 7.7 General administrative expenses).

3.9 INVESTMENT PROPERTY

Land and buildings held to earn rentals or for capital appreciation are classified as investment property. In cases of mixed occupation, significant parts of land and buildings used by third parties are reported as investment property provided that the conditions for separate letting or sale are met. Land held for a currently undetermined future use is also reported in this category (Note 8.12 Investment property).

Investment property is measured at amortised cost. Depreciation is on a straight-line basis, over the normal useful lives of the assets. The following useful lives, which correspond to the actual useful lives of the properties concerned, are applied:

- Buildings and building alterations 25-50 years

Rental income, depreciation, gains and losses on disposal, and any impairment are recognised in profit or loss (Note 7.1 Interest and similar income and Note 7.14 Net gains or losses on other financial investments).

Fair value is determined on the basis of independent valuations; the valuers use the income approach (Note 10.3.1 Fair value).

3.10 RISK PROVISIONS

Specific or collective impairment allowances are recognised for identifiable lending risks.

The individual impairment allowances are determined on the basis of an assessment of the customer's financial situation, taking into account the Workout Management Unit's current assessment of collateral, the repayment structure and maturities.

Future cash flows (expected repayments) are discounted using the most recent effective interest rate. If there are collaterals for receivables (e.g. charges on real property or guarantees), the future cash flows from their recoverable amounts less the selling costs must be deducted when measuring the impairment loss. Since paragraph 63 IAS 39 requires measurement of an impairment loss to reflect the present value of estimated future cash flows and their expected maturities, all expected interest payments must also be included.

Collective impairment allowances are recognised for reductions in the value of the Group lending portfolio (losses incurred but not reported) as at the end of the reporting period. It is assumed that there are incurred but unreported losses in respect of a given percentage of customers without default ratings at the end of the reporting period.

In calculating these risk provisions, all exposures affected by credit risk that are measured at their carrying values (loans and receivables, and financial instruments held to maturity), and all committed lines of credit and contingent liabilities are allocated either to HYPO NOE Gruppe Bank or HYPO NOE Landesbank. Financial instruments that are not classified as held to maturity and derivatives do not form part of the calculations, as they are measured at fair value.

Housing construction loans backed by the Lower Austrian state government are likewise excluded.

In 2013 the method for determining collective impairment allowances was adapted so that the consideration of personal securities now includes both the level of any guarantees, which was previously determined with a view to mitigating risk, and the creditworthiness of a guarantor.

Collective impairment allowances are recognised on the basis of expected losses, taking into account: (a) the risk volume; (b) the historical probability of default (PD), i.e. the results of backtesting the rating system; (c) loss given default (LGD) ratios; (d) personal securities for individual customers; and (e) the regulatory risk weightings of special financing arrangements and the period of time between occurrence of the loss and its identification, i.e. the loss identification period (LIP).

The collective impairment allowance is calculated for loans and advances to banks and customers with internal ratings of 2A to 4E, using the HYPO NOE Group master scale described in the risk report (part of the operational and financial review). For 2013, the loss identification period was assumed to be four months for all loans (i.e. the LIP factor is 4/12).

The collective impairment allowance is calculated using the following formula:

Impairment allowance = expected loss * LIP factor

Total risk provision in respect of loans and advances carried as assets is disclosed on the assets side of the consolidated statement of financial position, as a deduction after "Loans and advances to banks" and "Loans and advances to customers" (Note 8.5 Risk provisions and credit provisions). The risk provisions for off-balance-sheet transactions are included in the "Provisions" item (Note 8.23 Provisions). Allocations to and reversals of impairment allowances and risk provisions arising from the lending business are reported in the statement of comprehensive income, under "Credit provisions" (see Note 7.4 Credit provisions for a detailed analysis).

Note 8.5 Risk provisions and credit provisions provides quantified and narrative disclosures on the individual and collective customer impairment allowances. Impairment of AFS assets is discussed under Note 3.4 Financial assets.

A summary of all impairment losses recognised in accordance with IFRS 7 and IFRS 13 is set out in Note 7.3 Impairment losses (summary table). Further information on credit risk and gross exposure is given in the risk report contained in the operational and financial review.

3.11 REPURCHASE AGREEMENTS

Repurchase agreements are agreements under which the transferor transfers the legal title to assets to the transferee for a specified period, for consideration. At the same time it is agreed that the assets will be retransferred to the transferor at a later date, in return for an agreed sum. In accordance with IAS 39 the transferor continues to recognise the assets as it retains substantially all the risks and rewards of ownership. The transferor recognises a liability, and the transferee a receivable, equal to the amount received/paid. In 2013 the HYPO NOE Group entered into repurchase agreements as a transferor. The amounts concerned are detailed in Note 8.18.2 Repurchase agreements entered into as a transferor.

3.12 CURRENCY TRANSLATION

In compliance with IAS 21, monetary assets and liabilities denominated in foreign currencies, non-monetary items measured at fair value, and unsettled cash transactions are translated at the mid spot rate, and unsettled forward transactions at the mid forward rate ruling at the end of the reporting period.

Non-monetary assets and liabilities carried at amortised cost are stated at the buying rate.

As all of the consolidated subsidiaries draw up their financial statements in euro (the functional currency), it was not necessary to translate any statements into the reporting currency.

4. NOTES ON INDIVIDUAL ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

4.1 CASH AND BALANCES AT CENTRAL BANKS

"Cash and balances at central banks" comprises cash on hand and balances at central banks that are repayable on demand. The balances are stated at nominal value (Note 8.1 Cash and balances at central banks).

Interest income is reported under "Interest and similar income" (Note 7.1).

4.2 LOANS AND ADVANCES

The "Loans and advances to banks" and "Loans and advances to customers" items largely relate to loans, lease receivables (see also Note 10.5 Leasing), overnight money and time deposits, and unlisted securities. They include accrued interest but are gross of impairment losses (Note 8.3 Loans and advances to bank and Note 8.4 Loans and advances to customers). Measurement is at amortised cost and the net present value of lease receivables.

Interest income is reported under "Interest and similar income" (Note 7.1).

4.3 ASSETS HELD FOR TRADING

This item mainly comprises the positive fair value of derivatives that do not qualify for hedge accounting (Note 8.6 Assets held for trading).

Realised gains and losses, and measurement gains and losses are reported under the "Net trading income" item (Note 7.6).

4.4 POSITIVE AND NEGATIVE FAIR VALUE OF HEDGES (HEDGE ACCOUNTING)

The positive and negative fair value of hedges is reported separately, on the assets, and equity and liabilities sides of the consolidated statement of financial position, provided that they qualify for hedge accounting under IAS 39 (Note 8.7 Positive fair value of hedges (hedge accounting) and 8.22 Negative fair value of hedges (hedge accounting)). Measurement gains and losses on fair value hedges are recognised in profit or loss, under "Net gains or losses on hedges" (Note 7.12).

Current income from hedges is reported under Note 7.1 Interest and similar income.

4.5 AVAILABLE-FOR-SALE (AFS) FINANCIAL ASSETS

This item mainly relates to bonds and other fixed income securities.

It also includes AFS equities and other variable income securities, holdings in non-consolidated subsidiaries and equity interests not held for sale (Note 8.8 Available-for-sale financial assets).

Measurement gains and losses are reported under other comprehensive income, net of deferred tax, as an available-for-sale reserve (consolidated statement of changes in equity and "Other comprehensive income" in the statement of comprehensive income).

Gains and losses on disposal, and measurement gains and losses are recorded under "Net gains and losses on available-for-sale assets" (Note 7.10).

4.6 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

The item is confined to financial assets that were designated as at fair value through profit or loss on initial recognition (Note 8.9 Financial assets designated as at fair value through profit or loss).

In the HYPO NOE Group this item includes debt instruments managed by the former HYPO Absolute Return fund, which management designated as at fair value through profit or loss on initial recognition.

4.7 FINANCIAL ASSETS HELD TO MATURITY

Bonds held to maturity are reported under this item. These are measured at amortised cost (Note 8.10 Financial assets held to maturity).

The Group has no holdings following redemption of the bonds in their entirety during the reporting period. These assets made no contribution to earnings.

4.8 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in associates and arrangements where there is joint control are recognised at cost, and are included in the consolidated statement of financial position at the date on which a significant influence is obtained. In subsequent periods the carrying amount of the holdings is adjusted for changes in equity and the entire carrying amount is tested for impairment (see Note 8.11 Investments accounted for using the equity method and Note 3.2 Investments).

The Bank's share of the annual profit or loss, and any impairment losses or reversals of impairment losses are recorded under "Income from investments accounted for using the equity method", which is a sub-item of "Interest and similar income" (Note 7.1 Interest and similar income). Exchange differences from investments accounted for using the equity method are reported under the Currency translation reserve item in the consolidated statement of changes in equity.

4.9 INTANGIBLE ASSETS, AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets acquired for consideration with determinable useful lives are stated at cost less straight-line amortisation and any impairment losses. Under certain circumstances, intangible assets arising from asset movements are to be stated at reliably measurable development costs less straight line amortisation and any impairment losses. As at the end of the reporting period there were no internally generated intangible assets.

Positive differences (goodwill) arising in the course of business combinations as defined in IFRS 3 are also included under intangible assets. Details are provided under Note 3.1 Basis of consolidation.

Land and buildings, and equipment, fixtures and furnishings used by the HYPO NOE Group in the course of its own business activities are reported as property, plant and equipment. Property, plant and equipment is measured at cost less depreciation.

Note 8.14 Intangible assets, and property, plant and equipment gives a breakdown of intangible assets, and property, plant and equipment.

Depreciation and amortisation are on a straight-line basis, over the normal useful lives of the assets. The following useful lives are applied:

- Buildings and building alterations — 25-50 years
- Equipment, fixtures and furnishings — 4-10 years
- Software/hardware — 3-5 years

Any indications of impairment in property, plant and equipment are assessed on the basis of expert opinions, and impairments are recognised where necessary. Goodwill is tested for impairment once a year or whenever there is an indication of impairment, and impairment losses are recognised where necessary.

Depreciation and amortisation, and impairments are reported in the statement of comprehensive income (see Note 7.7 General administrative expenses and the detailed disclosures in Note 7.7.3 Depreciation, amortisation and impairment). Gains and losses on disposal of property, plant and equipment are recognised under "Net other operating expenses/income" (Note 7.8).

Professional assessors are responsible for calculating the fair value of land and buildings. When applying the historical cost model, the fair value is only stated when it differs materially from the carrying amount. In the event of any deviation, this is reported in Note 10.3 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

4.10 TAX ASSETS AND LIABILITIES

Since 2008 use has been made of the option of group taxation. HYPO NOE Gruppe Bank AG acts as the tax group parent company. To this end the parent concluded group taxation agreements governing tax contributions, reporting duties and due dates with each group member.

Current and deferred tax assets and liabilities are reported under the respective items in the consolidated statement of financial position (Note 8.15 Tax assets and 8.24 Tax liabilities).

Current tax assets and liabilities are measured at the amount expected to be paid to/recovered from the taxation authorities, on the basis of the current tax rates.

Deferred tax assets and liabilities are measured according to the balance sheet liability method, whereby the tax base of an asset is compared with the IFRS carrying amount, and deferred tax recognised for the temporary difference. If a tax liability is probable when the temporary difference reverses, a deferred tax liability is recognised. Deferred tax assets are recognised for temporary differences that result in tax reductions when they reverse. Offsetting of deferred tax assets and liabilities is performed on a company-by-company basis. Pursuant to IAS 12, deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised for tax loss carryforwards if it is probable that sufficient taxable profit will be available. The HYPO NOE Group's tax loss carryforwards are recognised in Austria and in general there are no restrictions on their realisation. The relevant calculations are based on updated budgets, and a distinction is made between realisable and non-realisable tax loss carryforwards. The carrying amounts of deferred tax assets arising from tax loss carryforwards and temporary differences are reviewed at the end of each reporting period.

The recognition and reversal of deferred tax assets and liabilities is either in profit or loss, under "Income tax", or in equity (Note 7.15 Income tax) if the item itself is recognised outside profit or loss (e.g. the revaluation reserve for AFS financial instruments).

4.11 OTHER ASSETS

The "Other assets" item (Note 8.16 Other assets) largely relates to accruals and deferrals, other non-bank receivables (e.g. trade receivables and amounts due from the tax authorities in respect of other taxes), property classified as inventory, and derivatives used in connection with banking book management. Property classified as inventory is reported at acquisition or construction cost.

The accounting method used for such property is assessed on the basis of the net realisable value, which is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The net realisable value is determined by means of an expert assessment by HYPO NOE Valuation & Advisory GmbH. Costs are estimated on the basis of the implementation costs for the respective project. Other non-bank receivables are measured at amortised cost.

The positive fair value of derivative financial instruments is reported under "Other assets" if they do not qualify for hedge accounting and instead represent economic hedges used in connection with banking book management.

Gains and losses on the measurement and disposal of hedges are reported under "Net gains or losses on hedges" (Note 7.12) in the statement of comprehensive income. Property classified as inventory is reported in the statement of comprehensive income under item 7.8 Net other operating income.

4.12 DEPOSITS FROM BANKS AND CUSTOMERS; DEBTS EVIDENCED BY CERTIFICATES

Deposits from banks and customers, including debts evidenced by certificates, are carried at amortised cost (Note 8.18 Deposits from banks, Note 8.19 Deposits from customers and Note 8.20 Debts evidenced by certificates). Gains and losses on debts evidenced by certificates are amortised at constant effective rates of interest over the maturities of the liabilities.

Interest expense is reported under "Interest and similar expense" (Note 7.2).

Where hedge accounting is applied, the movements in the fair value of the underlying are recognised in profit or loss, under "Net gains or losses on hedges" (Note 7.12).

4.13 LIABILITIES HELD FOR TRADING

The negative fair value of derivatives held for trading that are measured at fair value is disclosed under this item (Note 8.21 Liabilities held for trading).

Realised gains and losses, and measurement gains and losses are reported under the "Net trading income" item (Note 7.6).

4.14 PROVISIONS

The following items are reported under "Provisions" (Note 8.23 Provisions):
- Long-term provisions for pensions and similar obligations; and
- Other provisions.

Long-term provisions for pensions and similar obligations

There are both defined contribution and defined benefit plans in the HYPO NOE Group. Under the defined contribution schemes, defined contributions are paid to an external fund. As the employer has no legal or other obligation to make additional payments, there is no need to recognise a provision.

There are also defined benefit pension, and termination and jubilee benefit commitments. These plans are "unfunded", in that the benefits are entirely internally funded. The long-term employee benefit provisions are measured using the projected unit credit method, in accordance with IAS 19. Future obligations are measured on the basis of a report by an independent actuary. Recognition in the consolidated statement of financial position is according to the present value of the defined benefit obligation. Actuarial gains and losses on the termination benefit and pension provision are recognised in equity, under the "IAS 19 reserve" item in the statement of changes in equity, and in the statement of comprehensive income, under "Other comprehensive income". However, actuarial gains and losses on the jubilee benefit provision are shown under "General administrative expenses" in the statement of comprehensive income (Note 7.7).

Measurement of the long-term employee benefit provisions is based on the statutory retirement ages of 60 for women and 65 for men.

The discount rate applied to measurement at the end of the reporting period was 3% p.a. (2012: 3.25% p.a.). As in previous years, this was determined on the basis of investment-grade industrial bonds and finalised in consultation with experts in the eurozone. Future salary increases of 3.5% p.a. (2012: 4.5%) and future pension increases of 2.5% p.a. (2009: 3.5% p.a.) are assumed. An adjustment of 7% p.a. for employee turnover was applied to the jubilee benefit provisions.

Measurement is based on the biometric estimates contained in the latest Austrian actuarial table for pension insurance, the AVÖ 2008 – P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler, Angestelltenbestand. Use of this table for the measurement of employee benefit obligations is recommended by the Actuarial Association of Austria.

Other provisions

"Other provisions" are recognised when there is a present obligation as a result of a past event, it is probable that it will be necessary to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Long-term provisions are discounted if the effect is material. The measurement of contingent liabilities and impending losses is based on best estimates. Details of the assumptions used in the estimates and an explanation of the amounts can be found in Note 8.23 Provisions.

Contingent liabilities are recognised in respect of off-balance-sheet liabilities such as those arising from sureties, guarantees and pledging of collaterals.

Allocations to and reversals of "Other provisions" are mainly shown under "Net other operating income" (Note 7.8). Movements in provisions for credit risks are reported in the statement of comprehensive income under "Credit provisions" (Note 7.4).

4.15 OTHER LIABILITIES

"Other liabilities" (Note 8.25 Other liabilities) are stated at amortised cost where they relate to accruals and deferrals or "Sundry other liabilities". The negative fair value of derivative financial instruments is reported under "Other liabilities" if they do not qualify for hedge accounting and instead represent economic hedges used in connection with banking book management. Gains and losses on measurement are reported under "Net gains or losses on hedges" (Note 7.12) in the statement of comprehensive income.

Long-term incentive plan

Since 2012 the HYPO NOE Group has enabled members of top management (key management) to benefit from the long-term profitability of the Company and the growth of shareholder value. The long-term incentive plan (LTIP) is a important means of aligning the interests of key employees with those of the Company, and gives them a strong incentive to work for its long-term success.

The LTIP takes the form of a phantom share plan which replicates the value of the Company's shares. Valuation is according to the adapted Viennese method (weighted net asset value and income approach), and value growth is capped at 11% p.a.

The eligible plan members are entitled to convert the phantom shares allocated to them into cash after a five-year minimum holding period has expired. This is reported under Note 7.7.1 Staff costs.

4.16 SUBORDINATED CAPITAL

Subordinated liabilities as defined by Austrian banking legislation are reported as subordinated capital (Note 8.26 Subordinated capital).

Subordinated liabilities are certificated or uncertificated liabilities which, in the event of liquidation or insolvency, are subordinated to the claims of other creditors. Interest expense is reported under "Interest and similar expense" (Note 7.2).

4.17 EQUITY (INCLUDING NON-CONTROLLING INTERESTS)

"Share capital" is the capital paid in by the shareholders in accordance with the articles of association.

The "Capital reserves" contain the share premiums paid in excess of nominal value when shares are issued.

As was the case a year earlier, at 31 December 2013 there were 7,150,000 registered shares of no par value in issue. Of these, 70.49% or 5,040,000 shares were held by NÖ Landes-Beteiligungsholding GmbH and 29.51% or 2,110,000 shares by NÖ BET GmbH. At year-end 2013 the share capital (issued capital) of HYPO NOE Gruppe Bank AG was also unchanged, at EUR 51,980,500.

The retained earnings reserves required by statute and the articles of association, and the other retained earnings, as well as the liability reserve pursuant to section 23(6) Banking Act, the general banking risk fund, the untaxed reserves (net of deferred tax) and consolidated profit/loss (comprising the accumulated profit or loss brought forward, the profit or loss for the year, and dividends) are reported under "Retained earnings". The differences arising on first-time adoption of IFRS, which were offset against equity, are also reported under "Retained earnings".

The IAS 19 reserve comprises the actuarial gains and losses on the long-term employee benefit provisions (pensions and termination benefits), net of deferred tax.

The available-for-sale reserve contains the measurement gains and losses (net of deferred tax) on financial assets classified as available for sale.

The financial instruments attributable to the cash flow hedge category (net of deferred tax) are reported under the cash flow hedge reserve.

The non-controlling interests are minority interests in subsidiaries, and are reported as a separate equity item, in accordance with IAS 1.

For the disclosures relating to equity see Note 8.27 Equity. The movements in individual equity items are shown in the consolidated statement of changes in equity.

5. SEGMENT INFORMATION

The Bank's segment reporting is in accordance with IFRS 8. The segment information is derived from the quarterly reports drawn up by the Management Board, which is the "chief operating decision maker".

The information provided on individual segments is drawn from the IFRS financial statements of the companies attributed to those segments. The same accounting policies as those described in Note 2 Accounting policies are applied to the preparation of these statements. The four reportable segments, which are based on the structure of the Group's business activities, and the reconciliation of consolidated profit are as follows:

Gruppe Bank

This segment aggregates the income and expense items related to relationships with large customers – chiefly state and local government clients (public finance, real estate and treasury business).

Landesbank

As in the previous reporting period, these sub-group statements are for two subsidiaries, and contain the retail and business customer operations, with the emphasis on housing finance as well as the funding for large non-profit housing association building projects provided by HYPO NOE Landesbank AG. The earnings contributions of HYPO NOE Versicherungsservice GmbH from its insurance brokerage business are also included in this segment.

Leasing

This segment groups together the subsidiaries that operate in the leasing business (see Note 3.8 Lease accounting). These are IFRS subgroup financial statements for 38 (2012: 37) consolidated subsidiaries.

VITALITAS Grundstückverwaltung GmbH was first included in this segment in 2013.

Other

This segment is used to provide information on a sub-group with 24 subsidiaries (2012: 18) which are neither leasing companies nor banks.

The following companies were also included in the Other segment in 2013 due to their formation or acquisition during the year:
- HYPO NOE Immoblienmanagement GmbH
- Strategic Real Estate GmbH
- Neustift-am-Walde 32 Immoblienentwicklung GmbH
- Josef-Heinzl-Gasse 1 Immoblienentwicklung GmbH
- SRE Ungarn Holding 1 GmbH
- Hauptplatz 18 Entwicklungs- und Verwertungs GmbH
- Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H.

Orchisgasse 66 Liegenschaftserrichtungs- und -verwertungs GmbH was divested.

Consolidation

This segment is used to provide information on consolidation adjustments.

Further details can be found in Note 9. Segment information (see Note 9.1.1 Segment profit or loss and Note 9.1.2 Segment assets and liabilities). Note 3.2 Investments contains a table listing the consolidated subsidiaries and showing the segments they are assigned to.

6. CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated statement of cash flows in accordance with IAS 7 shows the change in cash and cash equivalents held by the HYPO NOE Group due to the cash flows from operating, investing and financing activities, and movements in exchange rates. The cash flows from operating activities are presented according to the indirect method.

The cash flows from operating activities in the main relate to cash inflows and outflows arising from loans and advances to banks and customers, and from available-for-sale financial assets, as well as deposits from banks and customers, and debts evidenced by certificates.

The cash flows from investing activities largely concern cash inflows and outflows arising from property, plant and equipment, financial assets held to maturity, and the acquisition and disposal of subsidiaries.

Dividends paid to owners of the parent account for the majority of the cash flows from financing activities. Cash flows from changes in exchange rates were reported separately for the first time in 2013.

Cash and cash equivalents consist of cash on hand and balances at central banks repayable on demand.

7. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

7.1 INTEREST AND SIMILAR INCOME

The loss on investments accounted for using the equity method is chiefly attributable to the remeasurement of the EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft sub-group and to the impairment losses on associates of HYPO NOE First Facility GmbH (Note 3.2 Investments).

7.1.a Interest and similar income

A change in the accounting presentation led to the transfer of part of the "Loans and advances to customers" item to "Credit provisions".

EUR '000	2013	2012
Interest income from:		
Cash and balances at central banks	59	98
Loans and advances to banks	5,175	7,211
Loans and advances to customers	218,564	253,102
Bonds, public debt certificates and other fixed-income securities	58,424	61,662
Hedges (hedge accounting)	172,914	135,822
Other interest income	101,038	73,147
thereof income from investments accounted for using the equity method	*-6,619*	*3,686*
Income from investment property:	*1,204*	*1,732*
rental income	*2,605*	*3,177*
depreciation	*-1,401*	*-1,445*
Current income from:		
Leases	13,782	20,336
Shares and other variable-income securities	3	3
Investments in associates	14	934
Total	**569,974**	**552,314**

7.1.b Interest and similar income by IAS 39 measurement categories

A change in presentation introduced in 2013 resulted in some transfers between the "Loans and receivables (LAR)" and "Impaired loans and advances (unwinding)" items. Another change in an accounting policy was the reclassification of part of the "Loans and receivables (LAR)" as "Credit provisions".

EUR '000	2013	2012
Interest and similar income from:		
Loans and receivables (LAR)	226,662	264,858
Available-for-sale (AFS) assets	58,181	62,195
Assets held to maturity (HTM)	39	172
Assets measured using the fair value option (FVO)	221	233
Assets held for trading (HFT)	97,882	60,850
Impaired loans and advances (unwinding)	3,226	36
Hedges (hedge accounting)	172,914	135,822
Interest income attributable to other periods	150	189
Income from investments accounted for using the equity method	-6,619	3,686
Income from investment property:	1,204	1,732
rental income	*2,605*	*3,177*
depreciation	*-1,401*	*-1,445*
Current lease income	13,782	20,336
Current origination and commitment fees	2,332	2,205
Total	**569,974**	**552,314**

7.2 INTEREST AND SIMILAR EXPENSE

7.2.a Interest and similar expense

EUR '000	2013	2012
Interest expense on:		
Liabilities to central banks	-544	-4,097
Deposits from banks	-11,851	-19,019
Deposits from customers	-32,255	-47,734
Debts evidenced by certificates	-203,446	-198,199
Subordinated capital	-3,274	-3,850
Hedges (hedge accounting)	-105,646	-83,277
Other interest expense	-97,526	-60,768
Total	**-454,542**	**-416,944**

7.2.b Interest and similar expense by IAS 39 measurement categories

EUR '000	2013	2012
Interest expense on:		
Financial liabilities measured at amortised cost (LAC)	-251,945	-273,269
Financial liabilities held for trading (HFT)	-96,951	-60,398
Hedges (hedge accounting)	-105,646	-83,277
Total	**-454,542**	**-416,944**

7.3 IMPAIRMENT LOSSES (SUMMARY TABLE)

2013, EUR '000		(-)	(+)	Total recognised in reporting period
Impairment losses on financial assets not measured at fair value through profit or loss (FVTPL):		**-31,098**	**24,733**	**-6,365**
Available-for-sale (AFS) financial assets	(7.10)	-229	29	-200
Loans and receivables (LAR) (inc. finance leases) measured at amortised cost	(7.4)	-30,869	24,704	-6,165
Impairments according to IAS 36:		**-1,608**	**-**	**-1,608**
Property, plant and equipment		-	-	-
Investment property	(7.14)	-525	-	-525
Investments accounted for using the equity method	(7.1)	-1,083	-	-1,083
Total		**-32,706**	**24,733**	**-7,973**

2012, EUR '000		(-)	(+)	Total recognised in reporting period
Impairment losses on financial assets not measured at fair value through profit or loss (FVTPL):		**-36,904**	**14,495**	**-22,409**
Available-for-sale (AFS) financial assets	(7.10)	-1,247	637	-610
Loans and receivables (LAR) (inc. finance leases) measured at amortised cost	(7.4)	-35,657	13,858	-21,799
Impairments according to IAS 36:		**-345**	**-**	**-345**
Property, plant and equipment	(7.7.3)	-208	-	-208
Investment property	(7.14)	-137	-	-137
Investments accounted for using the equity method		-	-	-
Total		**-37,249**	**14,495**	**-22,754**

7.4 CREDIT PROVISIONS

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

EUR '000		2013	2012
Allocations to:		**-30,184**	**-32,563**
Individual impairment allowances	(7.3)	-27,411	-30,288
Collective impairment allowances	(7.3)	-2,364	-2,129
Other credit provisions		-409	-146
Reversals of:		**18,237**	**13,824**
Individual impairment allowances	(7.3)	13,899	10,853
Collective impairment allowances	(7.3)	2,546	2,183
Other credit provisions		1,792	788
Receipts from impaired assets	(7.3)	**8,259**	**822**
Direct write-offs	(7.3)	**-1,094**	**-1,404**
Impairments of loans and receivables	(7.3)	**-**	**-1,836**
Total		**-4,781**	**-21,157**

Since 2013 the "Receipts from impaired assets" item has included receipts from assets that have been written down as opposed to written off, and amounts previously reported as "Interest and similar income" have been stated as "Credit provisions".

7.5 NET FEE AND COMMISSION INCOME

EUR '000	2013	2012
Fee and commission income	**16,305**	**15,104**
Loans and advances	1,917	1,765
Securities and custody account business	3,997	3,156
Payment transactions	5,523	5,740
Foreign exchange, foreign notes and coins, and precious metals	420	321
Other services	3,704	3,603
Diversification	522	473
Other fee and commission income	222	46
Fee and commission expense	**-3,011**	**-3,119**
Loans and advances	-82	-78
Securities and custody account business	-1,344	-1,319
Payment transactions	-1,173	-1,322
Other services	-20	-15
Diversification	-392	-385
Total	**13,294**	**11,985**

7.6 NET TRADING INCOME

EUR '000	2013	2012
Interest rate transactions	2,143	-1,006
Foreign exchange transactions	-3,220	170
Other transactions	143	32
Total	**-934**	**-804**

The improvement in the interest rate transactions largely reflects the difference between the present value of customers' derivatives and the related hedges.

The deterioration in the foreign exchange transactions is due to the decline in the present value of customer derivatives and the related hedges, as well as economic hedges (i.e. investments not qualifying for hedge accounting) of issues and open foreign exchange positions.

7.7 GENERAL ADMINISTRATIVE EXPENSES

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

EUR '000	2013	2012
Staff costs	-67,418	-61,892
Other administrative expenses	-43,169	-39,832
Depreciation, amortisation and impairment	-5,901	-5,238
Total	**-116,487**	**-106,965**

7.7.1 Staff costs

EUR '000	2013	2012
Wages and salaries	-51,699	-47,196
*thereof phantom share based cash incentives**	-517	-350
Social security costs	-10,718	-9,475
Cost of voluntary employee benefits	-1,390	-1,436
Retirement benefit costs	-1,785	-2,303
Termination benefit costs	-1,826	-1,482
thereof expenses for provident fund	-574	-474
Total	**-67,418**	**-61,892**

* For information on share based remuneration see 4.15 Other liabilities

The significant increase in "Staff costs" is explained by the fact that the additional personnel expenses arising from the acquisition of HYPO NOE First Facility GmbH at the start of the second half of 2012 were recognised on a pro rata basis, whereas in 2013 they were included on a full-year basis. This raised staff costs by EUR 3,419thsd.

	2013	2012
Average number of employees (inc. staff on parental leave)	898	894

EUR '000	2013	2012
Salaries of Management Board members	**-846**	**-798**
Supervisory Board members' expenses (non-employees)	**-82**	**-85**
Supervisory Board members' salaries	**-427**	**-318**
Remuneration of key management personnel (other than the members of the Management Board and Supervisory Board of the parent):	**-10,675**	**-9,783**
current remuneration	*-9,000*	*-8,194*
short-term employee benefits	*-1,291*	*-1,031*
post-employment benefits	*-388*	*-396*
other long-term benefits	*17*	*-62*
Provision for termination benefits	*-13*	*-100*

EUR '000	2013	2012
Termination benefit expenses inc. provident fund for:	**-1,826**	**-1,482**
Management Board	-36	-34
Key management personnel	-225	-191
Other employees	-1,565	-1,257
Pension expenses for:	**-1,785**	**-2,303**
Management Board	-59	-58
Key management personnel	-368	-359
Other employees (including former employees)	-1,358	-1,886

The "Supervisory board members' expenses" item forms part of "Other administrative expenses", but is shown in the supplementary information on staff costs in the interests of clarity.

In 1997 HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG negotiated a works agreement on the provision of retirement, invalidity and surviving dependants' pensions by a pension fund. HYPO NOE Leasing GmbH also concluded such an agreement in 2009.

In order to implement these agreements, pension fund contracts were made with Viktoria Volksbanken Pensionskassen AG.

The contracts oblige the employer to contribute 2.7% of employees' eligible salaries (including administrative costs and insurance tax) to the fund. The percentages applicable to senior management personnel are 4%, 6% and 10%. The employer's contributions vest five years after payments begin. Eligibility for employer's contributions is conditional on five years' service; eligible pre-service time is counted.

Key management in the HYPO NOE Group comprises "identified staff" and "identified staff with less material impact".

7.7.2 Other administrative expenses

EUR '000	2013	2012
Premises	-6,355	-6,144
Office and communication expenses	-1,379	-1,651
IT expenses	-7,627	-7,084
Legal and consultancy costs	-6,355	-5,337
Advertising and entertainment costs	-6,739	-5,880
Cost of transfers of liability	-1,352	-1,536
Other administrative expenses	-13,362	-12,200
Total	**-43,169**	**-39,832**

EUR '000	2013	2012
The "Legal and consultancy costs" include the following fees of the auditors of the consolidated financial statements:		
Annual audit	-610	-588
Other auditing services	-124	-174
Tax advice	-44	-103
Other services	-227	-338

EUR '000	2013	2012
Sundry other administrative expenses:		
Financial stability contribution (bank tax)	-6,309	-6,309
Cost of compliance with company law	-1,088	-987
Training costs	-1,066	-964
Vehicle and fleet expenses	-1,202	-1,046
Insurance	-381	-285
Travel expenses	-517	-483
Cost of information procurement and payment transactions	-1,037	-481
Sundry other administrative expenses	-1,761	-1,645
Total	**-13,361**	**-12,200**

7.7.3 Depreciation, amortisation and impairment

EUR '000		2013	2012
Depreciation and amortisation:	(8.14)	**-5,901**	**-5,030**
Intangible assets		-735	-644
Buildings used by Group companies		-1,758	-961
Equipment, fixtures and furnishings (including low value assets)		-3,408	-3,425
Impairment	(8.14)	**-**	**-208**
Land		-	-208
Total		**-5,901**	**-5,238**

7.8 NET OTHER OPERATING INCOME

EUR '000	2013	2012
Other rental income	**402**	**295**
Gains/losses on	**245**	**1,272**
disposal of intangible assets, and property, plant and equipment	245	1,272
Net gains or losses on recognition and reversal of provisions	**-4,332**	**538**
Sundry other operating income/expenses:	**76,932**	**15,094**
Sundry other operating income	87,582	22,102
Sundry other operating expenses	-10,650	-7,008
Total	**73,247**	**17,199**

The repayment of EUR 57,866thsd in penalty interest is reported as income under "Sundry other operating income".

Another significant change in this item is the marked increase in staff costs due to the fact that the additional personnel expenses arising from the acquisition of HYPO NOE First Facility GmbH at the start of the second half of 2012 were recognised on a pro rata basis, whereas in 2013 they were included on a full-year basis. The impact of full-year consolidation on "Sundry other operating income" was EUR 6,348thsd, and that on "Sundry other operating expenses" was EUR 3,814thsd.

"Sundry other operating income/expenses" includes a net gain of EUR 2,033thsd (2012: EUR -278thsd) on currency translation (see Note 7.13 Net gains and losses on financial assets and liabilities).

This item also includes EUR 6,436thsd (2012: EUR 6,585thsd) in administrative and intermediation fees.

7.9 NET GAINS OR LOSSES ON DISPOSAL OF CONSOLIDATED SUBSIDIARIES

Orchisgasse 66 Liegenschaftserrichtungs- und -verwertungs GmbH has been divested and renamed as Hart & Haring Liegenschaftsentwicklungs GmbH. For details of this transaction please see 3.1 Basis of consolidation, Changes in 2013, Disposals.

EUR '000	2013	2012
Loans and advances to banks	7	-
Other assets	4,007	-
Total assets	**4,014**	**-**
Deposits from banks	4,025	-
Tax liabilities	23	-
Other liabilities	81	-
Total liabilities	**4,129**	**-**
Proceeds of disposal	26	-
+ Fair value of remaining interest held by the Group	9	-
- Assets disposed of	-4,014	-
+ Liabilities disposed of	4,129	-
Net gains or losses on disposal of consolidated subsidiaries	150	-
Net gains or losses recognised in profit or loss	**150**	**-**

EUR '000	2013	2012
Consideration received in cash and cash equivalents	26	-
Less cash and cash equivalents sold	-	-
Cash flows from the sale of subsidiaries	**26**	**-**

7.10 NET GAINS OR LOSSES ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

EUR '000		2013	2012
Income from financial assets		**336**	**1,635**
Gains on disposal	(7.13)	307	998
Write-ups	(7.3)	29	637
Expenses arising from financial assets		**-815**	**-8,852**
Losses on disposal	(7.13)	-586	-7,605
Impairment losses	(7.3)	-229	-1,247
Total		**-479**	**-7,217**

The "Losses on disposal" reported in 2012 were largely attributable to the disposal of Cypriot, Greek and Hungarian government bonds, as well as Spanish bank bonds.

7.11 NET GAINS OR LOSSES ON FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

EUR '000	2013	2012
Net gains or losses on financial assets	**50**	**97**
Equity	–	-5
Debt instruments	50	102
Total	**50**	**97**

7.12 NET GAINS OR LOSSES ON HEDGES

Gains or losses on the hedged items attributable to hedged risk and to remeasurement of hedging instruments to fair value (hedge accounting) are recognised under this item. as are the outcomes of early terminations of cash flow hedges.

EUR '000	2013	2012
Hedge accounting	**-9,155**	**1,869**
Net gains or losses on hedged items	67,792	34,486
Net gains or losses on hedging instruments	-78,835	-34,497
Net gains or losses on cash flow hedges	1,888	1,880
Other derivative financial instruments (economic hedges)	**172**	**104**
Foreign exchange transactions	172	104
Total	**-8,983**	**1,973**

The net loss on hedges is principally attributable to changed market standards which led to internal refinements in the methodology for valuing hedged OTC derivatives, involving the use of OIS discounting. The derivatives measured at fair value are all part of economically hedged positions. However, where a different discounting method is applied to the other part of a closed position, this inevitably results in temporary fluctuations in income that fully reverse by the time the transactions mature.

7.13 NET GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES

EUR '000		2013	2012
Net realised gains or losses on financial assets and liabilities not measured at fair value through profit or loss		**4,898**	**-6,616**
Available-for-sale financial assets	(7.10)	-279	-6,607
Loans and receivables (inc. finance leases)	(7.14)	4,308	-9
Other		869	-
Net gains or losses on financial assets and liabilities held for trading	(7.6)	**-933**	**-804**
Interest rate instruments and related derivatives		2,143	-1,006
Foreign exchange trading		-3,220	170
Other (including hybrid derivatives)		144	32
Gains or losses on financial assets and liabilities designated as at fair value through profit or loss	(7.11)	**50**	**97**
Gains or losses on hedge accounting	(7.12)	**-8,983**	**1,973**
Net gains on currency translation	(7.8)	**2,033**	**-278**
Total		**-2,935**	**-5,628**

7.14 NET GAINS OR LOSSES ON OTHER FINANCIAL INVESTMENTS

EUR '000	2013	2012
Gains or losses on disposal of receivables and promissory notes	**4,308**	**-9**
Investment property	**43**	**-399**
Proceeds of disposals	3,616	1
Carrying amounts of disposals	-2,747	-
Let investment property	-753	-391
Vacant investment property	-73	-9
Net gains or losses on other financial investments	**161**	**152**
Other income from other financial assets	161	152
Total	**4,512**	**-256**

These relate to the premature redemption of unlisted bonds.

7.15 INCOME TAX EXPENSE

This item includes all taxes payable on profits for the reporting period.

EUR '000	2013	2012
Current income tax	-21,917	-6,927
Deferred income tax	591	-491
Total	**-21,326**	**-7,418**

A reconciliation of the expense that would result from applying the standard rate of corporation tax to the actual reported tax expense is shown below.

EUR '000	2013	2012
Profit before tax	75,021	30,226
x income tax rate	25%	25%
= anticipated income tax expense	**-18,755**	**-7,556**
Tax deductions	**-1,705**	**1,281**
Tax-free income from investments	-23	719
Other tax-free income	571	125
Investments accounted for using the equity method	-2,253	437
Additions to tax liability	**-347**	**-235**
Non-deductible expenses	-347	-235
Tax effects of other differences	**-518**	**-908**
Adjustments to and non-recognition of deferred tax	–	-920
Previous years	-370	57
Prepayments	-7	-8
Other adjustments	-141	-36
Total	**-21,326**	**-7,418**

A total of EUR 4,534thsd in net deferred tax liabilities (2012: EUR 18,499thsd) was recognised directly in equity.

EUR '000	2013	2012
Deferred tax recognised in other comprehensive income		
Actuarial gains and losses in accordance with IAS 19	-282	686
Available-for-sale (AFS) financial instruments	-4,880	-19,425
Cash flow hedge (effective portion)	625	239
Currency translation reserve	4	1

Notes 8.15 Tax assets and 8.24 Tax liabilities provide a detailed analysis of the deferred tax assets and liabilities.

7.16 NON-CONTROLLING INTERESTS

EUR '000	2013	2012
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	-59	-64
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	7	27
Josef-Heinzl-Gasse 1 Immobilienentwicklung GmbH	12	-
Neustift-am-Walde 32 Immobilienentwicklung GmbH	8	-
Hauptplatz 18 Entwicklungs- und Verwertungs GmbH	14	-
Total	**-18**	**-37**

See Note 3.2 Investments for detailed information on changes in the profit attributable to non-controlling interests.

8. NOTES TO THE STATEMENT OF FINANCIAL POSITION

8.1 CASH AND BALANCES AT CENTRAL BANKS

"Cash and balances at central banks" comprises cash on hand and balances at central banks that are repayable on demand. The balances are stated at nominal value.

Narrative Note 4.1 contains a discussion of this item.

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Cash on hand	13,964	13,569
Balances at central banks	42,645	58,075
Total	**56,609**	**71,644**

8.2 LOANS AND ADVANCES

The "Loans and advances to banks" (Note 8.3 Loans and advances to banks) and "Loans and advances to customers" (Note 8.4 Loans and advances to customers) items largely relate to loans extended, lease receivables, overnight money and time deposits, and unlisted securities.

See narrative Note 4.2 Tax assets and liabilities for a discussion of income tax.

8.3 LOANS AND ADVANCES TO BANKS

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Domestic banks	194,909	219,558
Foreign banks		
Central and Eastern Europe (CEE)	31,145	56,622
Rest of the world (ROW)	547,327	618,137
Total	**773,381**	**894,317**

8.4 LOANS AND ADVANCES TO CUSTOMERS

8.4.1 Customer group analysis

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Public sector customers	5,375,767	5,337,065
Business customers	1,704,755	1,761,748
Housing developers	1,501,264	1,506,006
Retail customers	1,931,506	2,039,003
Professionals	77,282	91,255
Total	**10,590,574**	**10,735,077**

8.4.2 Geographical analysis

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Domestic customers	9,124,498	9,134,166
Foreign customers		
Central and Eastern Europe (CEE)	578,802	659,805
Rest of the world (ROW)	887,274	941,106
Total	**10,590,574**	**10,735,077**

8.5 RISK PROVISIONS AND CREDIT RISK PROVISIONS

The loans and advances to customers include EUR 67,342thsd in interest-free loans and advances, of which unsecured loans and advances ammounting to EUR 46,764thsd were impaired (2012: EUR 73,387thsd; EUR 45,991thsd in impairments).

See Note 3.10 Risk provisions for an additional narrative explanation.

8.5.1 Analysis of risk provisions and credit risk provisions by customer groups

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

The "Other changes" column reflects customer reclassifications, e.g. from retail to business where customers enter self-employment, or vice versa (e.g. when self-employment ceases due to retirement).

EUR '000	As at 1 Jan. 2013	Change in scope of cons.	Exchange differences	Allo-cations	Utilis-ation	Rever-sals	Unwind-ing	Other changes	As at 31 Dec. 2013
Risk provisions for customers: individual impairment allowances	**-107,922**	**-**	**18**	**-27,411**	**12,728**	**13,899**	**3,226**	**-899**	**-106,361**
Public sector customers	-7,357	-	-	-3,270	-	21	275	-	-10,331
Business customers	-64,854	-	18	-19,189	11,250	8,756	1,998	-682	-62,703
Housing developers	-14	-	-	-	-	-	-	13	-
Retail customers	-32,429	-	-	-4,879	1,152	4,756	861	-682	-31,222
Professionals	-3,269	-	-	-73	326	367	92	452	-2,105
Risk provisions for customers: collective impairment allowances	**-4,977**	**-**	**-**	**-2,364**	**-**	**2,546**	**-**	**-**	**-4,795**
Subtotal: risk provisions for customers	**-112,899**	**-**	**18**	**-29,775**	**12,728**	**16,445**	**3,226**	**-899**	**-111,156**
Credit provisions	-6,535	-	11	-409	450	1,792	1	-	-4,690
Total	**-119,433**	**-**	**29**	**-30,184**	**13,178**	**18,238**	**3,226**	**-899**	**-115,846**

EUR '000	As at 1 Jan. 2012	Change in scope of cons.	Exchange differences	Allo-cations	Utilis-ation	Rever-sals	Unwind-ing	Other changes	As at 31 Dec. 2012
Risk provisions for customers: individual impairment allowances	**-99,008**	**-**	**-10**	**-30,288**	**10,495**	**10,853**	**36**	**-**	**-107,922**
Public sector customers	-5,101	-	-	-3,336	-	1,070	10	-	-7,357
Business customers	-55,608	-	-10	-19,372	5,672	4,542	18	-96	-64,854
Housing developers	-14	-	-	-7	-	4	-	4	-14
Retail customers	-34,079	-	-	-6,723	3,918	4,202	8	245	-32,429
Professionals	-4,206	-	-	-850	905	1,035	-	-153	-3,269
Risk provisions for customers: collective impairment allowances	**-4,998**	**-33**	**-**	**-2,129**	**-**	**2,183**	**-**	**-**	**-4,977**
Subtotal: risk provisions for customers	**-104,006**	**-33**	**-10**	**-32,417**	**10,495**	**13,036**	**36**	**-**	**-112,899**
Credit provisions	-10,165	-	-11	-146	3,000	788	-	-	-6,535
Total	**-114,171**	**-33**	**-21**	**-32,563**	**13,495**	**13,824**	**36**	**-**	**-119,433**

The risk report which forms part of the operational and financial review contains information on rescheduled receivables, maturities and collaterals.

8.5.2 Geographical analysis of risk provisions

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Domestic	-96,419	-97,155
Foreign		
Central and Eastern Europe (CEE)	-7,751	-9,950
Rest of the world (ROW)	-6,986	-5,794
Total risk provisions	**-111,156**	**-112,899**

8.6 ASSETS HELD FOR TRADING

See narrative Note 4.3 Assets held for trading for a discussion of this item.

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Positive fair value of derivatives held for trading (banking book)		
Interest rate derivatives	450,611	593,506
Foreign exchange derivatives	6,438	8,557
Other assets held for trading	916	5,351
Total	**457,965**	**607,414**

8.7 POSITIVE FAIR VALUE OF HEDGES (HEDGE ACCOUNTING)

The positive and negative fair value of hedges is reported separately, on the assets, and equity and liabilities sides of the consolidated statement of financial position, provided that they qualify for hedge accounting under IAS 39.

See narrative Note 4.4 Positive and negative fair value of hedges (hedge accounting) for a discussion of this item.

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

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Assets	**14,115**	**3,782**
Loans and advances to customers	11,657	315
Financial assets	2,458	3,467
Liabilities	**363,824**	**614,153**
Deposits from banks	2,863	1,805
Deposits from customers	52,794	98,381
Debts evidenced by certificates	308,167	513,967
Total	**377,938**	**617,935**

8.8 AVAILABLE-FOR-SALE FINANCIAL ASSETS

This item mainly relates to bonds and other fixed income securities.

It also includes AFS equities and other variable income securities, holdings in non-consolidated subsidiaries, and equity interests.

See Note 4.5 Available-for-sale (AFS) financial assets for a narrative explanation.

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Shares and other variable-income securities	200	201
Bonds, public debt certificates and other fixed-income securities	1,797,546	1,821,156
Interests in non-consolidated subsidiaries (over 50%)	127	146
Interests in associates (20-50%)	490	522
Other investments	3,104	3,575
Total	**1,801,467**	**1,825,600**

8.9 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

See narrative Note 4.6 Financial assets designated as at fair value through profit or loss for a discussion of this item.

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Bonds, public debt certificates and other fixed-income securities	4,200	4,662
Total	**4,200**	**4,662**

8.10 FINANCIAL ASSETS HELD TO MATURITY

Bonds held to maturity are reported under this item.

See narrative Note 4.7 Financial assets held to maturity for a discussion of this item.

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Bonds, public debt certificates and other fixed-income securities	-	10,009
Total	**-**	**10,009**

The bonds were redeemed during the reporting period, leaving the Group with no holdings.

8.11 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

See Note 3.1 Basis of consolidation and Note 3.2 Investments for details of carrying amounts.

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Banks	3,064	2,946
Non-banks	41,373	50,568
Total	**44,437**	**53,514**

Total losses of EUR 300thsd were recognised directly in equity, including EUR 131thsd in the reporting period.

As in the previous period, none of the investments accounted for using the equity method was listed as of the end of the reporting period.

The table below gives an analysis of the total loans and advances, deposits, and operating income and expense of joint ventures (see Note 3.2 Investments for a listing of joint ventures and holdings in them).

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Loans and advances	243,427	199,245
Deposits	223,464	178,670
Operating income	1,593	949
Operating expense	-1,001	-1,323

8.12 INVESTMENT PROPERTY

Land and buildings held to earn rentals, for capital appreciation or for a currently undetermined future use are reported under this item (see Note 3.9 Investment property).

Rental income during the reporting period was EUR 2,605 thsd (2012: EUR 3,177thsd).

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Investment property	65,545	52,256

The increase in investment property in 2013 largely reflects the addition of Unternehmens-Verwaltungs- und Verwertungsgesellschaft (Note 3.1 Basis of consolidation).

The fair value of investment property as at 31 December 2013 was 71,501thsd (31 Dec. 2013: EUR 53,149thsd). Additional information on this item is given under 10.3 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

Changes in investment property are shown in the table below (Note 8.13 Movements in financial assets).

8.13 MOVEMENTS IN FINANCIAL ASSETS

The "Available-for-sale financial assets" item in the statement of movements in financial assets comprises holdings in non-consolidated subsidiaries (holdings of over 50%), holdings in associates (20-50%) and other investments.

EUR '000	Note	As at 1 Jan. 2013	Changes in scope of consol-idation	Addi-tions	Subsequent acquisition costs	Dis-posals	Transfers
Available-for-sale financial assets	8.8	7,748	-	2	-	-259	-
Financial assets held to maturity	8.10	10,009	-	-	-	-10,000	-
Investments accounted for using the equity method	8.11	16,590	-	9	-	-36	-
Investment property	8.12	57,740	19,318	1,050	91	-6,059	92
Total financial investments		**92,087**	**19,318**	**1,061**	**91**	**-16,354**	**92**

The impairments of investments accounted for using the equity method relate to associates of HYPO NOE First Facility GmbH.

The significant measurement loss is largely a reflection of the remeasurement of the EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft sub-group.

EUR '000	Note	As at 1 Jan. 2012	Changes in scope of consol-idation	Addi-tions	Subsequent acquisition costs	Dis-posals	Transfers
Available-for-sale financial assets	8.8	7,748	-	-	-	-40	-
Financial assets held to maturity	8.10	15,031	-	-	-	-5,010	-
Investments accounted for using the equity method	8.11	12,743	-	3,847	-	-	-
Investment property	8.12	47,313	-	10,422	5	-	-
Total financial investments		**82,835**	**-**	**14,269**	**5**	**-5,049**	**-**

	Cost		Depreciation and adjustments (+/-) to investments accounted for using the equity method					Carrying amount	
Other changes	Fair value measurement recognised directly in equity	As at 31 Dec. 2013	As at 1 Jan. 2013	Depreciation and adjustments (+/-) to investments accounted for using the equity method	Impairments	Disposals	As at 31 Dec. 2013	As at 1 Jan. 2013	As at 31 Dec. 2013
-	-36	7,455	-3,505	-	-229	-	-3,734	4,243	3,721
-9	-	-	-	-	-	-	-	10,009	-
-	-	16,563	36,924	-7,987	-1,083	18	27,873	53,514	44,436
-	-	72,233	-5,484	-1,428	-525	750	-6,688	52,256	65,545
-9	**-36**	**96,251**	**27,934**	**-9,415**	**-1,837**	**768**	**17,451**	**120,021**	**113,702**

	Cost		Depreciation and adjustments (+/-) to investments accounted for using the equity method					Carrying amount	
Other changes	Fair value measurement recognised directly in equity	As at 31 Dec. 2012	As at 1 Jan. 2012	Depreciation and adjustments (+/-) to investments accounted for using the equity method	Impairments	Disposals	As at 31 Dec. 2012	As at 1 Jan. 2012	As at 31 Dec. 2012
-	39	7,748	-2,175	-	-614	-717	-3,505	5,573	4,243
-12	-	10,009	-	-	-	-	-	15,031	10,009
-	-	16,590	35,199	1,725	-	-	36,924	47,942	53,514
-	-	57,740	-3,901	-1,445	-137	-	-5,484	43,412	52,256
-12	**39**	**92,087**	**29,123**	**279**	**-751**	**-717**	**27,934**	**111,958**	**120,021**

8.14 INTANGIBLE ASSETS, AND PROPERTY, PLANT AND EQUIPMENT

The intangible assets comprise purchased software and goodwill measured in accordance with IFRS 3 (see Note 3.1 Basis of consolidation).

Land and buildings, and equipment, fixtures and furnishings used by the HYPO NOE Group in the course of its own business activities are reported as property, plant and equipment.

For narrative comments, see Note 4.9 Intangible assets, and property, plant and equipment.

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Intangible assets		
Software	1,327	1,349
Goodwill	845	845
Total intangible assets	**2,172**	**2,194**
Property, plant and equipment		
Land and buildings	73,092	53,565
IT equipment	537	688
Equipment, fixtures and furnishings	12,783	13,217
Other property, plant and equipment	47	37
Total property, plant and equipment	**86,460**	**67,507**

	Cost				
EUR '000	As at 1 Jan. 2013	Changes in scope of consolidation	Additions	Disposals	As at 31 Dec. 2013
Intangible assets					
Software	5,749	-	707	-3	6,460
Goodwill	877	-	-	-	877
Total intangible assets	**6,626**	**-**	**707**	**-3**	**7,337**
Property, plant and equipment					
Land and buildings	62,259	21,157	220	-	83,543
IT equipment	4,214	-	233	-699	3,741
Equipment, fixtures and furnishings	34,608	19	2,679	-2,096	35,210
Other property, plant and equipment	96	-	56	-94	58
Total property, plant and equipment	**101,177**	**21,176**	**3,188**	**-2,889**	**122,552**

	Cost				
EUR '000	As at 1 Jan. 2012	Changes in scope of consolidation	Additions	Disposals	As at 31 Dec. 2012
Intangible assets					
Software	4,415	418	1,046	-130	5,749
Goodwill	32	845	-	-	877
Total intangible assets	**4,447**	**1,263**	**1,046**	**-130**	**6,626**
Property, plant and equipment					
Land and buildings	37,801	-	30,874	-6,417	62,259
IT equipment	4,319	-	367	-472	4,214
Equipment, fixtures and furnishings	26,990	2,202	7,475	-2,059	34,608
Other property, plant and equipment	57	-	39	-	96
Total property, plant and equipment	**69,167**	**2,202**	**38,755**	**-8,948**	**101,177**

The goodwill arising on the acquisition of HYPO NOE First Facility GmbH in 2012 was tested for impairment, applying the general Group rules. The forecasts provided by management were against historic values, the current situation of the company and market developments, and were found to be reasonable. No need to recognise impairment was identified.

The main unobservable inputs applied in the impairment test, which was performed using the DCF method, were the WACC margin, a discount for lack of marketability, a long-term annual growth rate and an average revenue growth rate (compound annual growth rate).

HYPO NOE First Facility's goodwill was subjected to a sensitivity analysis positing a change in the discount rate and a decline in the operating profit. The analysis showed that the goodwill would remain positive even in such a negative scenario.

			Depreciation and amortisation			Carrying amount	
As at 1 Jan. 2013	Changes in scope of consolidation	Depreciation and amortisation	Impairment losses	Disposals	As at 31 Dec. 2013	As at 1 Jan. 2013	As at 31 Dec. 2013
-4,400	-	-735	-	3	-5,133	1,349	1,327
-32	-	-	-	-	-32	845	845
-4,433	**-**	**-735**	**-**	**3**	**-5,165**	**2,193**	**2,172**
-8,694	-	-1,758	-	-	-10,451	53,565	73,092
-3,527	-	-378	-	699	-3,204	687	537
-21,391	-	-2,977	-	1,941	-22,426	13,217	12,783
-59	-	-46	-	94	-11	37	47
-33,670	**-**	**-5,158**	**-**	**2,734**	**-36,092**	**67,507**	**86,460**

The carrying amount of land as at 31 December 2013 was EUR 18,546thsd (2012: 7,308thsd).

			Depreciation and amortisation			Carrying amount	
As at 1 Jan. 2012	Changes in scope of consolidation	Depreciation and amortisation	Impairment losses	Disposals	As at 31 Dec. 2012	As at 1 Jan. 2012	As at 31 Dec. 2012
-3,650	-222	-644	-	116	-4,400	765	1,349
-32	-	-	-	-	-32	-	845
-3,683	**-222**	**-644**	**-**	**116**	**-4,432**	**764**	**2,194**
-12,062	-	-961	-208	4,537	-8,694	25,739	53,565
-3,562	-	-416	-	451	-3,526	757	688
-18,250	-1,719	-2,996	-	1,574	-21,391	8,740	13,217
-57	-	-2	-	-	-59	-	37
-33,931	**-1,719**	**-4,374**	**-208**	**6,562**	**-33,669**	**35,236**	**67,507**

8.15 TAX ASSETS

See Note 4.10 Tax assets and liabilities for a narrative examination of the income tax assets.

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Current tax assets	-	-
Deferred tax assets	3,874	5,342
Total	**3,874**	**5,342**

Deferred tax assets were recognised in respect of the following items:

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Loans and advances to banks	-	1
Risk provisions	182	416
Financial investments	77	122
Property, plant and equipment	21	86
Other assets	97	41
Debts evidenced by certificates	5,422	9,279
Liabilities held for trading	29	50
Provisions	1,641	2,277
Other liabilities	876	677
Subordinated capital	398	417
Tax loss carryforwards	1,882	936
Deferred tax assets before offsetting	**10,626**	**14,302**
less deferred tax liabilities	-6,752	-8,961
Reported net deferred tax assets	**3,874**	**5,342**

No deferred tax assets were recognised in respect of EUR 16,359thsd (2012: EUR 15,241thsd) in tax loss carryforwards.

8.16 OTHER ASSETS

The "Other assets" item chiefly relates to accruals and deferrals, other non-bank receivables (e.g. trade receivables and amounts due from the tax authorities in respect of other taxes), and derivatives used in connection with banking book management.

The positive fair value of derivative financial instruments is reported under "Other assets" if they do not qualify for hedge accounting and instead represent economic hedges used in connection with banking book management.

See Note 4.11 Other assets for a more detailed discussion of this item.

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Deferred items	2,263	1,389
Other receivables and assets:	54,017	25,537
thereof value added tax (VAT) and other tax credits (other than income tax)	*33,818*	*5,951*
property classified as inventory	*7,296*	*4,935*
trade receivables	*8,257*	*10,108*
Positive fair value of derivatives	-	199
Total	**56,280**	**27,125**

The increase in "Value added tax (VAT) and other tax credits" is due to the commencement of operations by a company forming part of the Leasing segment and resultant high input tax credits which were paid by the tax authorities at the beginning of January.

The change in "Property classified as inventory" is largely due to the start-up of two newly formed companies, Josef-Heinzl-Gasse 1 Immobilienentwicklung GmbH and Neustift-am-Walde 32 Immobilienentwicklung GmbH.

8.17 DEPOSITS

Deposits from banks and customers, including debts evidenced by certificates, are carried at amortised cost (Note 8.18 Deposits from banks, Note 8.19 Deposits from customers and Note 8.20 Debts evidenced by certificates).

Note 4.12 Deposits from banks and customers; debts evidenced by certificates contains narrative information on the deposits.

8.18 DEPOSITS FROM BANKS

8.18.1 Geographical analysis

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Domestic banks	796,438	1,123,774
Foreign banks		
Central and Eastern Europe (CEE)	79,366	41,038
Rest of the world (ROW)	1,273,894	1,552,475
Total	**2,149,698**	**2,717,286**

The deposits from banks include repurchase agreements entered into by the Bank as a transferor.

8.18.2 Repurchase agreements entered into as a transferor

The repurchase agreements were of the type described by AG51(a) IAS 39, in that the assets sold under them were loaned. The Bank, as the transferor, retained substantially all the risks and rewards of ownership.

These transactions were largely tri-party repos and collateralised loans from the ECB and the Oesterreichische Nationalbank (Austrian National Bank).

A tri-party repo is a repurchase agreement between two commercial banks, the seller (transferor) and buyer (transferee), under which the collateral (securities) is delivered to a tri-party agent which also receives the cash and transfers it to the seller. During the term of a tri-party repo, legal title to the securities concerned is transferred from the transferor to the transferee. The economic ownership (cash flows, risks and opportunities) remains with the transferor.

In the case of collateralised loans from the ECB and OeNB, the collateral (securities or credit claims) is transferred from the commercial banks to the central bank. The commercial banks receive liquid funds in return, in the form of central bank money. The collateral remains their property.

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Liabilities to banks under repo agreements	685,000	800,000

8.19 DEPOSITS FROM CUSTOMERS

8.19.1 Customer group analysis

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Savings deposits	**823,641**	**794,032**
Demand and time deposits	**1,345,302**	**1,460,423**
Public sector customers	183,354	194,421
Business customers	860,006	978,570
Housing developers	18,545	42,540
Retail customers	250,284	214,214
Professionals	33,113	30,678
Total	**2.168.943**	**2,254,455**

8.19.2 Geographical analysis

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Domestic customers	1,457,057	1,457,469
Foreign customers		
Central and Eastern Europe (CEE)	5,283	6,647
Rest of the world (ROW)	706,603	790,339
Total	**2.168.943**	**2,254,455**

The deposits from customers include Mündelgeld savings deposits (Austrian-style trustee savings accounts); an analysis is shown below.

EUR '000	Trustee savings accounts	Guaranteed by the state government	Requiring coverage	Cover assets	Surplus coverage
As at 31 Dec. 2013	**3,954**	**1,095**	**2,858**	**5,000**	**2,142**
As at 31 Dec. 2012	3,909	1,267	2,642	5,000	2,358

8.20 DEBTS EVIDENCED BY CERTIFICATES

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Covered and municipal bonds	3,561,946	3,603,113
Other bonds	4,601,091	4,307,872
Profit-sharing certificates	327	364
Total	**8,163,364**	**7,911,349**

"Debts evidenced by certificates" include new issues, floated during the reporting period, worth EUR 1,441,922thsd.

8.21 LIABILITIES HELD FOR TRADING

The negative fair value of derivatives that do not qualify for hedge accounting is reported under this item. These items are recognised at fair value, while realised gains and losses, and measurement gains and losses are reported under the "Net trading income" item in the statement of comprehensive income (see Note 7.6 Net trading income for a detailed analysis).

See narrative Note 4.13 Liabilities held for trading for a discussion of these liabilities.

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Negative fair value of derivative financial instruments (banking book)		
Interest rate derivatives	379,274	511,208
Foreign exchange derivatives	9,585	8,484
Other liabilities held for trading	916	5,351
Total	**389,775**	**525,043**

8.22 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, provided that they qualify for hedge accounting under IAS 39.

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

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Assets	**380,308**	**590,079**
Loans and advances to customers	312,840	487,478
Available-for-sale financial assets	67,468	102,601
Liabilities	**42,795**	**3,550**
Deposits from banks	77	233
Deposits from customers	452	617
Debts evidenced by certificates	42,266	2,700
Total	**423,103**	**593,630**

8.23 PROVISIONS

The following items are reported under "Provisions":

- Long-term provisions for pensions and similar obligations; and
- Other provisions.

Narrative Note 4.14 comments on the provisions.

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Employee benefit provisions	**38,039**	**40,051**
Provisions for pensions	24,807	25,527
Provisions for termination benefits	11,678	12,721
Provisions for jubilee benefits	1,554	1,803
Credit provisions	**4,690**	**6,535**
Other provisions	**7,632**	**1,162**
Total	**50,362**	**47,748**

8.23.1 Movements in provisions

Provisions are liabilities of uncertain timing or amount. Provisions are recognised when there is a present obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation.

The "Other provisions" are measured on the basis of estimates by independent experts, of the Bank's experience and of discounted cash flow methods. The carrying amounts reflect best estimates of the expenditure required to settle the obligations.

EUR '000	As at 1 Jan. 2013	Changes in scope of consolidation	Exchange differ-ences	Allo-cations	Utilis-ation	Rever-sals	Discount unwinding effect	As at 31 Dec. 2013
Employee benefit provisions	**40,051**	**-**	**-**	**911**	**-2,696**	**-**	**-227**	**38,039**
Provisions for pensions	25,527	-	-	54	-1,647	-	873	24,807
Provisions for termi-nation benefits	12,721	-	-	686	-983	-	-746	11,678
Provisions for jubilee benefits	1,803	-	-	171	-67	-	-354	1,554
Credit provisions	**6,535**	**-**	**-11**	**409**	**-450**	**-1,792**	**-**	**4,690**
Other provisions	**1,163**	**-**	**-**	**6,891**	**-74**	**-348**	**-**	**7,632**
Total	**47,748**	**-**	**-11**	**8,211**	**-3,220**	**-2,140**	**-227**	**50,362**

Among the "Other provisions" are litigation costs including EUR 6,837thsd (2012: EUR 577thsd) in dispute. 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. In 2013 provisions were recognised against legal risks from pending proceedings connected with derivatives and credit restructuring. A decision is expected in the next one to two years.

EUR '000	As at 1 Jan. 2012	Changes in scope of consolidation	Exchange differ-ences	Allo-cations	Utilis-ation	Rever-sals	Discount unwinding effect	As at 31 Dec. 2012
Employee benefit provisions	**35,938**	**566**	**-**	**628**	**-2,115**	**-**	**5,033**	**40,051**
Provisions for pensions	25,801	-	-	31	-1,652	-	1,346	25,527
Provisions for termi-nation benefits	8,889	566	-	494	-428	-	3,201	12,721
Provisions for jubilee benefits	1,248	-	-	103	-35	-	486	1,803
Credit provisions	**10,165**	**-**	**11**	**146**	**-3,000**	**-788**	**-**	**6,535**
Other provisions	**756**	**337**	**-**	**274**	**-23**	**-182**	**-**	**1,163**
Total	**46,859**	**903**	**11**	**1,048**	**-5,137**	**-970**	**5,034**	**47,748**

8.23.2 Disclosures on employee benefit obligation

Defined benefit obligation (DBO) is the present value of the benefit entitlements earned by employees up to the end of the reporting period.

Current service cost (CSC) shows the increase in the benefit obligation resulting from employees' service during the reporting period.

Interest cost (INT) is the effect on the DBO of the interest contribution, determined by the discount rate.

EUR '000	Provisions for pensions	Provisions for termination benefits	Provisions for jubilee benefits	Total
Present value of DBO at 31 Dec. 2011	**25,801**	**8,889**	**1,249**	**35,938**
Changes in scope of consolidation	-	566	-	566
Service cost	31	494	103	628
Interest cost	1,317	484	69	1,870
Payments	-1,652	-428	-35	-2,115
Actuarial gains and losses recognised in profit or loss	-	-	417	417
Actuarial gains and losses not recognised in profit or loss	29	2,717	-	2,746
Present value of DBO at 31 Dec. 2012	**25,527**	**12,721**	**1,803**	**40,051**
Service cost	54	686	171	911
Interest cost	822	436	64	1,322
Payments	-1,647	-983	-67	-2,697
Actuarial gains and losses recognised in profit or loss	-	-	-418	-418
Actuarial gains and losses not recognised in profit or loss	52	-1,181	-	-1,129
Present value of DBO at 31 Dec. 2013	**24,807**	**11,678**	**1,554**	**38,039**

The average duration of the pension obligation is 14.9 years, and that of the termination benefit obligation is 11.6 years.

Assumptions underlying employee benefit calculations

The first table states the present value of the DBO in respect of pensions, termination benefits and jubilee benefits recognised as at 31 December 2013, as well as the service cost and interest cost, and the parameters (discount rate, salary increases and pension increases) on which the calculations for 2014 are based. The figures for the Supervisory and Management boards, and key management staff are also given.

The other tables present sensitivity analyses which show how changes in some parameters (the discount rate, salary increases, and increases in pensions and life expectancy) would affect the DBO, CSC and interest cost (INT) recognised.

The first two calculations show the sensitivity to a change of 1% upwards or downwards in the discount rate with the remaining parameters unchanged. The others show the effects of the following assumptions: salary increases or reductions of 0.5%, pension increases or reductions of 0.5%, and a rise or fall of one year in life expectancy, while the remaining parameters are unchanged.

The last line of the table estimates DBO if the parameters remain unchanged from last year's.

EUR '000	Provisions for pensions	Provisions for termination benefits	Provisions for jubilee benefits	Total
Carrying amounts as at 31 Dec. 31 2013				
Discount rate 3%, salary increases 3.5%, pension increase 2.5%				
DBO	24,807	11,678	1,554	38,039
Service cost (CSC) (2014 forecast)	45	609	141	796
Interest cost (INT) (2014 forecast)	746	369	51	1,165
thereof Supervisory and Management boards				
DBO	*597*	*1,001*	*35*	*1,633*
Service cost (2014 forecast)	*16*	*13*	*1*	*30*
Interest cost (2014 forecast)	*18*	*30*	*1*	*50*
key management staff				
DBO	*922*	*1,071*	*112*	*2,105*
Service cost (2014 forecast)	*25*	*73*	*13*	*110*
Interest cost (2014 forecast)	*28*	*34*	*4*	*66*

Provisions for pensions, EUR '000	DBO	CSC	INT
Carrying amounts as at 31 Dec. 2013: +1% discount rate			
Discount rate 4%, salary increase 3.5%, pension increase 2.5%	22,396	39	897
Carrying amounts as at 31 Dec. 2013: -1% discount rate			
Discount rate 2%, salary increase 3.5%, pension increase 2.5%	26,357	54	528
Carrying amounts as at 31 Dec. 2013: +0.5% salary increase			
Discount rate 3%, salary increase 4%, pension increase 2.5%	24,877	47	748
Carrying amounts as at 31 Dec. 2013: -0.5% salary reduction			
Discount rate 3%, salary increase 3%, pension increase 2.5%	24,740	44	744
Carrying amounts as at 31 Dec. 2013: +0.25% pension increase			
Discount rate 3%, salary increase 3.5%, pension increase 2.75%	25,406	45	764
Carrying amounts as at 31 Dec. 2013: -0.25% pension reduction			
Discount rate 3%, salary increase 3.5%, pension increase 2.25%	24,234	45	728
Carrying amounts as at 31 Dec. 2013: +1 year life expectancy			
Discount rate 3%, salary increase 3.5%, pension increase 2.5%	25,894	45	778
Carrying amounts as at 31 Dec. 2013: -1 year life expectancy			
Discount rate 3%, salary increase 3.5%, pension increase 2.5%	23,748	45	714
Carrying amounts as at 31 Dec. 31 2013: previous year's discount rate			
Discount rate 3.25%, salary increase 4.5%, pension increase 2.5%	24,164		

Provisions for termination benefits, EUR '000	DBO	CSC	INT
Carrying amounts as at 31 Dec. 2013: +1% discount rate			
Discount rate 4%, salary increase 3.5%, pension increase 2.5%	10,550	545	444
Carrying amounts as at 31 Dec. 2013: -1% discount rate			
Discount rate 2%, salary increase 3.5%, pension increase 2.5%	13,014	687	274
Carrying amounts as at 31 Dec. 2013: +0.5% salary increase			
Discount rate 3%, salary increase 4%, pension increase 2.5%	12,394	651	391
Carrying amounts as at 31 Dec. 2013: -0.5% salary reduction			
Discount rate 3%, salary increase 3%, pension increase 2.5%	11,017	572	348
Carrying amounts as at 31 Dec. 31 2013: previous year's discount rate			
Discount rate 3.25%, salary increase 4.5%, pension increase 2.5%	12,813		

The HYPO NOE Group does not have any plan assets.

8.24 TAX LIABILITIES

See narrative Note 4.10 Tax assets and liabilities for a discussion of income tax.

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Current tax liabilities	12,454	17,006
Deferred tax liabilities	21,175	16,962
Total	**33,629**	**33,967**

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 liabilities were recognised in respect of the following statement of financial position items:

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Loans and advances to customers	91,313	136,915
Risk provisions	1,014	715
Assets held for trading	101,019	135,228
Positive fair value of hedges (hedge accounting)	90,908	149,237
Financial investments	14,998	14,657
Property, plant and equipment	-	2
Other assets	3,289	2,563
Provisions	2,350	6,195
Deferred tax liabilities before offsetting	**304,890**	**445,512**
Less deferred tax assets	-283,715	-428,550
Reported net deferred tax liabilities	**21,175**	**16,962**

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

8.25 OTHER LIABILITIES

The negative fair value of derivative financial instruments is reported under "Other liabilities" if they do not qualify for hedge accounting and instead represent economic hedges used in connection with banking book management.

See narrative Note 4.15 Other liabilities for comments on this item.

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Deferred items	8,332	8,781
Sundry other liabilities	57,629	69,089
thereof: trade payables	*19,141*	*20,775*
outstanding invoices	*10,924*	*21,103*
VAT and other tax liabilities (other than income tax)	*6,389*	*6,235*
legal and consultancy costs	*1,997*	*1,161*
phantom-share-based cash incentives	*942*	*350*
Negative fair value of derivatives	–	371
Total	**65,960**	**78,241**

8.26 SUBORDINATED CAPITAL

Subordinated debt as defined by Austrian banking legislation is reported as subordinated capital.

See narrative Note 4.16 Subordinated capital for a more detailed discussion of this item.

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Subordinated capital	210,512	202,435

8.27 EQUITY

Narrative Note 4.17 Equity (including non-controlling interests) examines equity,

and goes on to provide a brief overview of equity. Additional details are presented in the consolidated statement of changes in equity on page 61.

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Share capital	51,981	51,981
Capital reserves	191,824	191,824
thereof: appropriated reserve	*94,624*	*94,624*
unappropriated reserve	*97,200*	*97,200*
Revaluation surplus	-19,975	-33,587
Retained earnings	329,424	286,760
Parent shareholders' equity	**553,254**	**496,977**
Non-controlling interests	1,146	565
Total	**554,400**	**497,542**

8.28 CONSOLIDATED CAPITAL RESOURCES AND REGULATORY CAPITAL ADEQUACY REQUIREMENTS (AUSTRIAN BANKING ACT)

The HYPO NOE Group is a banking group as defined by section 30 Austrian Banking Act. Under section 22(1) Banking Act, banking groups must at all times, as a minimum, have capital resources equal to the amounts set out in sections 22(1)(1–5) of the Act. The HYPO NOE Group is currently subject to regulatory capital requirements in respect of its credit and operational risk. Credit risk is measured in accordance with the standardised approach set out in section 22a Banking Act, as well as the current exposure method under section 22(5)(2) of the Act in the case of derivatives in the meaning of Annex 2 to section 22 of the Act.

The basic indicator approach is applied to the measurement of operational risk in accordance with section 22j Banking Act.

The Group Accounting Department calculates regulatory capital in the meaning of sections 23 and 24 Banking Act.

The scope of consolidation in accordance with IAS/IFRS differs from that of the banking group under section 30 Banking Act. The Act requires the inclusion in consolidation of credit institutions, financial institutions and companies providing banking-related services where control exists. Companies under common management are accounted for by proportionate consolidation, and those not under common management using the equity method.

In contrast to Banking Act requirements, other, non-banking companies are also consolidated in accordance with IAS 27. The joint ventures referred to above are accounted for using the equity method in the IFRS consolidated financial reporting (see Note 3.2 Investments).

The capital resources of the HYPO NOE Group, calculated in accordance with the requirements of the Austrian Banking Act, are made up as follows:

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Share capital	51,981	51,981
Reserves, differences and non-controlling interests	520,602	456,649
Intangible assets	-1,104	-1,179
Core capital (tier 1 capital)	**571,478**	**507,451**
Deductions pursuant to sections 23(13) and 29(1-2) Banking Act	-2,068	-1,994
Eligible core capital	**569,410**	**505,457**
Undisclosed reserves in the meaning of section 57(1) Banking Act	5,000	5,000
Eligible subordinated debt in the meaning of section 23(8) Banking Act	120,000	160,000
Supplementary capital (tier 2 capital)	**125,000**	**165,000**
Deductions pursuant to sections 23(13) and 29(1-2) Banking Act	-2,068	-1,994
Eligible supplementary capital (after deductions)	**122,932**	**163,006**
Total eligible core capital	**692,342**	**668,463**
Capital requirement	**332,665**	**351,082**
Surplus capital	**359,677**	**317,381**
Coverage ratio	208.12%	190.40%
Core capital ratio	14.71%	12.33%
Equity ratio	17.89%	16.31%

Movements in the risk-weighted assessment base as defined by the Banking Act and the resultant capital requirements were as follows:

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Risk-weighted assessment base according to section 22(2) Banking Act	3,870,824	4,099,035
thereof 8% minimum capital requirement	309,666	327,923
Capital requirement for operational risk	22,999	23,159
Total capital requirement	**332,665**	**351,082**

Regulation (EU) No 575/2013 (Capital Requirements Regulation (CRR)) will have a considerable influence on the figures for consolidated equity and the consolidated regulatory capital adequacy requirements in subsequent years. For example, in the interests of harmonisation of the indicators concerned at European level, the regulation makes major changes to the regulatory scope of consolidation (diverging from IFRS standards and the Austrian Banking Act in its previous form) and the accounting principles (IFRS instead of the Austrian Business Code and Banking Act).

9. SEGMENT INFORMATION

The four segments, which are based on the structure of the Group's business activities, and the reconciliation of consolidated profit are as follows:

Gruppe Bank

This segment aggregates the income and expense items related to relationships with large customers – chiefly state and local government clients (public finance, real estate and treasury business).

Landesbank

As in the previous reporting period, these sub-group statements are for two subsidiaries, and contain the retail and business customer operations of HYPO NOE Landesbank AG, which focuses on housing finance and funding for large non-profit housing association building projects, and the earnings contributions of HYPO NOE Versicherungsservice GmbH from its insurance brokerage business.

Leasing

This segment groups together the subsidiaries that operate in the leasing business (see Note 3.8 Lease accounting). These are IFRS subgroup financial statements for 38 (2012: 37) consolidated subsidiaries.

Other

This segment is used to provide information on a sub-group with 24 subsidiaries (2012: 18) which are neither leasing companies nor banks.

Consolidation

This segment is used to provide information on consolidation adjustments.

The detailed assignment of companies to segments is shown in Note 3.2 Investments, and the Bank's segment reporting is also discussed in Note 5. Segment information

9.1 BUSINESS SEGMENT INFORMATION

9.1.1 Segment profit or loss

The internal segmental reporting ends with "Profit before tax". "Income tax" and "Non-controlling interests", in the Total column, reconcile the segmental analysis with the items in the consolidated financial statements. The presentation in the notes is in line with the internal reporting.

2013, EUR '000	Gruppe Bank	Landesbank	Leasing	Other	Consoli-dation	Total
Interest and similar income	517,874	63,404	14,972	1,133	-27,408	569,974
thereof: Income from investments accounted for using the equity method	*-6,491*	*111*	*-112*	*-127*	*-*	*-6,619*
Interest and similar expense	-440,725	-25,097	-11,807	-1,741	24,828	-454,542
Credit provisions	-9,284	4,523	-	-20	-	-4,781
Net interest income after risk provisions	**67,865**	**42,830**	**3,165**	**-628**	**-2,580**	**110,652**
Net fee and commission income	4,445	8,878	-31	-4	5	13,294
Net trading income	-1,014	81	-	-	-	-934
General administrative expenses	-60,779	-46,862	-4,143	-18,064	13,360	-116,487
Net other operating income	64,206	1,610	3,976	16,616	-13,161	73,247
Net gains on disposal of consolidated subsidiaries	-	-	-	150	-	150
Net gains or losses on financial assets	-757	319	-20	29	-	-429
Net gains or losses on hedges	-10,832	1,848	-	-	-	-8,983
Net gains or losses on other financial investments	4,308	-12	-34	455	-205	4,512
Profit before tax	**67,443**	**8,692**	**2,913**	**-1,446**	**-2,581**	**75,021**
Income tax expense						-21,326
Profit for the year						**53,695**
Non-controlling interests						-18
Profit attributable to owners of the parent						**53,677**

Gruppe Bank

The Gruppe Bank segment again reported strong net interest income, although this was affected by the measurement losses from the non-profit EWU subgroup, which are included in this item. A fall in expenses associated with credit provisions and the increased expenses related to hedge accounting also had an impact, as did the one-off effect of the repayment of penalty interest following the annulment of the notice issued in relation to the Augustus Funding Limited case.

Landesbank

In contrast to the previous year's figures, the Landesbank segment's results for 2013 showed stable income from its core business (net interest income, and net fee and commission income). Profit before tax rose as a result of income from the reversal of credit provisions, which reflected effective workout management, and gains on hedge accounting.

Leasing

In addition to finance leases, commercial services provided to companies not included in consolidation account for a large proportion of the Leasing segment's income. This offsets the drop in earnings from the core leasing business brought about by persistently low interest rates. The final settlement of construction costs, which is typical for leasing transactions, affected a larger volume of business and therefore also had an influence on income.

Other

The year-on-year changes in profit were attributable to:

- the acquisition of Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H. and the related transaction costs; and
- the addition of project companies and the related transaction costs and start-up losses.

(Further details are provided in Note 3.1 Basis of consolidation.)

A number of the existing real-estate companies did not meet their income forecasts on account of real-estate project delays and consequently made a reduced contribution to income year on year.

The Other segment includes the subsidiaries of HYPO NOE First Facility GmbH, which are accounted for using the equity method. The application of this method resulted in impairments during the reporting period (Note 7.3 Impairment losses (summary table) and Note 3.2 Investments).

Consolidation

The amounts in the column that reconciles the segment results with the consolidated profit arise from the elimination of intra-Group expenses and revenue. The remaining portions, recognised in consolidated profit or loss, correspond to the consolidation of intra-Group dividends.

2012, EUR '000	Gruppe Bank	Landesbank	Leasing	Other	Consolidation	Total
Interest and similar income	496,814	73,262	23,057	2,051	-42,869	552,314
thereof: Income from investments accounted for using the equity method	*2,671*	*130*	*352*	*533*	-	*3,686*
Interest and similar expense	-399,963	-34,416	-17,236	-1,388	36,059	-416,944
Credit provisions	-18,064	-3,066	-	-27	-	-21,157
Net interest income after risk provisions	**78,787**	**35,780**	**5,821**	**636**	**-6,810**	**114,214**
Net fee and commission income	3,414	8,602	-32	-	1	11,985
Net trading income	-1,257	453	-	-	-	-804
General administrative expenses	-56,511	-43,487	-3,905	-12,719	9,657	-106,965
Net other operating income	9,386	1,919	3,447	11,948	-9,501	17,199
Net gains or losses on financial assets	-7,189	64	5	-	-	-7,120
Net gains or losses on hedges	2,441	-468	-	-	-	1,973
Net gains or losses on other financial investments	-9	-	1	-91	-157	-256
Profit before tax	**29,062**	**2,863**	**5,337**	**-226**	**-6,810**	**30,226**
Income tax expense						-7,418
Profit for the year						**22,808**
Non-controlling interests						-37
Profit attributable to owners of the parent						**22,771**

9.1.2 Segment assets and liabilities

Although HYPO NOE Landesbank has a profit and loss transfer agreement with HYPO NOE Gruppe Bank AG, the deferred tax arising from temporary differences is attributed to the Landesbank segment.

As at 31 Dec. 2013, EUR '000	Gruppe Bank	Landesbank	Leasing	Other	Consolidation	Total
Assets						
Cash and balances at central banks	30,015	26,588	-	5	-	56,609
Loans and advances to banks	1,192,731	56,027	65,817	9,816	-551,010	773,381
Loans and advances to customers	8,709,437	1,960,373	1,549,795	482	-1,629,514	10,590,574
Risk provisions	-41,924	-68,362	-790	-79	-	-111,156
Assets held for trading	457,965	123	-	-	-123	457,965
Positive fair value of hedges (hedge accounting)	368,430	26,496	-	-	-16,988	377,938
Available-for-sale financial assets	1,891,491	321,781	7,336	217	-419,358	1,801,467
Financial assets designated as at fair value through profit or loss	4,200	-	-	-	-	4,200
Financial assets held to maturity	-	-	-	-	-	-
Investments accounted for using the equity method	28,655	1,386	11,340	3,056	-	44,437
Investment property	-	-	8,115	57,430	-	65,545
Intangible assets	949	62	93	1,068	-	2,172
Property, plant and equipment	7,598	7,613	637	70,612	-	86,460
Tax assets	-	2,807	556	511	-	3,874
Other assets	9,585	3,638	74,908	11,297	-43,148	56,280
Total assets	**12,659,132**	**2,338,533**	**1,717,807**	**154,416**	**-2,660,142**	**14,209,746**
Liabilities						
Deposits from banks	2,096,002	478,297	1,558,211	125,185	-2,107,998	2,149,698
Deposits from customers	994,496	1,249,464	504	-	-75,522	2,168,943
Debts evidenced by certificates	7,985,784	433,957	327	-	-256,705	8,163,364
Liabilities held for trading	389,781	118	-	-	123	389,775
Negative fair value of hedges (hedge accounting)	435,291	4,800	-	-	-16,988	423,103
Provisions	37,799	11,002	520	1,041	-	50,362
Tax liabilities	17,025	-	14,336	2,274	-6	33,629
Other liabilities	22,275	11,862	26,017	6,022	-215	65,960
Subordinated capital	198,703	51,809	-	-	-40,000	210,512
Equity (inc. non-controlling interests)	481,975	97,224	117,892	19,893	-162,585	554,400
Equity attributable to owners of the parent	481,975	97,224	117,275	19,364	-162,585	553,254
Non-controlling interests	-	-	617	529	-	1,146
Total equity and liabilities	**12,659,132**	**2,338,533**	**1,717,807**	**154,416**	**-2,660,142**	**14,209,746**

As at 31 Dec. 2012, EUR '000	Gruppe Bank	Landesbank	Leasing	Other	Consolidation	Total
Assets						
Cash and balances at central banks	35,118	36,521	-	4	-	71,644
Loans and advances to banks	1,365,168	129,446	53,034	9,602	-662,933	894,317
Loans and advances to customers	8,843,526	1,918,019	1,403,974	1,125	-1,431,567	10,735,077
Risk provisions	-37,230	-74,819	-791	-59	-	-112,899
Assets held for trading	607,414	205	-	-	-205	607,414
Positive fair value of hedges (hedge accounting)	602,800	39,135	-	-	-24,000	617,935
Available-for-sale financial assets	1,926,467	321,980	6,226	4,260	-433,333	1,825,600
Financial assets designated as at fair value through profit or loss	4,662	-	-	-	-	4,662
Financial assets held to maturity	10,009	-	-	-	-	10,009
Investments accounted for using the equity method	35,926	1,385	12,000	4,203	-	53,514
Investment property	-	-	10,149	42,106	-	52,256
Intangible assets	1,009	85	85	1,014	-	2,194
Property, plant and equipment	8,071	7,750	659	51,027	-	67,507
Tax assets	-	4,384	580	378	-	5,342
Other assets	15,285	3,328	44,895	10,980	-47,364	27,125
Total assets	**13,418,226**	**2,387,420**	**1,530,811**	**124,640**	**-2,599,401**	**14,861,697**
Liabilities						
Deposits from banks	2,707,239	570,533	1,372,798	100,747	-2,034,030	2,717,286
Deposits from customers	1,102,732	1,213,511	273	22	-62,082	2,254,455
Debts evidenced by certificates	7,770,234	424,066	364	-	-283,314	7,911,349
Liabilities held for trading	525,048	200	-	-	-205	525,043
Negative fair value of hedges (hedge accounting)	611,780	5,850	-	-	-24,000	593,630
Provisions	32,656	13,143	548	1,401	-	47,748
Tax liabilities	20,041	-	13,166	760	-	33,968
Other liabilities	27,597	16,400	27,173	12,839	-5,769	78,241
Subordinated capital	190,583	51,852	-	-	-40,000	202,435
Equity (inc. non-controlling interests)	430,316	91,866	116,489	8,871	-150,001	497,542
Equity attributable to owners of the parent	430,316	91,866	115,924	8,871	-150,001	496,977
Non-controlling interests	-	-	565	-	-	565
Total equity and liabilities	**13,418,226**	**2,387,420**	**1,530,811**	**124,640**	**-2,599,401**	**14,861,697**

9.2 GEOGRAPHICAL INFORMATION

The table below breaks the main balance sheet items down into domestic and foreign business.

	As at 31 Dec. 2013		As at 31 Dec. 2012	
EUR '000	Domestic	Foreign	Domestic	Foreign
Loans and advances to banks	194,909	578,472	219,558	674,759
Loans and advances to customers	9,124,498	1,466,076	9,134,166	1,600,911
Available-for-sale financial assets	652,651	1,148,816	809,808	1,015,793
Financial assets designated as at fair value through profit or loss	4,200	-	4,140	521
Financial assets held to maturity	-	-	-	10,009
Deposits from banks	796,438	1,353,260	1,123,774	1,593,513
Deposits from customers	1,457,057	711,886	1,457,469	796,986
Debts evidenced by certificates	2,984,868	5,178,495	2,873,359	5,037,990

The geographical presentation analyses the debts evidenced by certificates that relate to listed securities by the countries of issue.

10. SUPPLEMENTARY INFORMATION

10.1 ANALYSIS OF ASSETS BY MATURITIES

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Loans and advances to banks		
Repayable on demand	78,081	74,882
Up to 3 months	531,884	641,273
From 3 months to 1 year	30,519	15,219
From 1 to 5 years	82,428	80,745
Over 5 years	50,468	82,198
Total	**773,381**	**894,317**
Loans and advances to customers		
Repayable on demand	163,362	228,502
Up to 3 months	260,304	278,124
From 3 months to 1 year	797,795	698,303
From 1 to 5 years	3,025,959	3,100,621
Over 5 years	6,343,154	6,429,528
Total	**10,590,574**	**10,735,077**
Assets held for trading		
Repayable on demand	-	-
Up to 3 months	159	-
From 3 months to 1 year	-	-
From 1 to 5 years	27,482	31,259
Over 5 years	430,324	576,155
Total	**457,965**	**607,414**
Financial assets (held to maturity, available for sale or designated as at fair value through profit or loss)		
Repayable on demand or no fixed term	53,086	4,444
Up to 3 months	167,649	53,718
From 3 months to 1 year	168,850	148,909
From 1 to 5 years	805,929	1,043,032
Over 5 years	610,153	590,168
Total	**1,805,667**	**1,840,271**
Positive fair value of derivatives (hedge accounting and economic hedges)		
Repayable on demand	-	-
Up to 3 months	15	248
From 3 months to 1 year	11,883	6,333
From 1 to 5 years	260,962	392,616
Over 5 years	105,078	218,937
Total	**377,938**	**618,134**

Other assets (inc. economic hedges)		
Repayable on demand or no fixed term	6,025	9,184
Up to 3 months	9,638	14,455
From 3 months to 1 year	32,674	1,939
From 1 to 5 years	6,262	668
Over 5 years	1,681	879
Total	**56,280**	**27,125**

10.2 ANALYSIS OF LIABILITIES BY MATURITIES

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Deposits from banks		
Repayable on demand or no fixed term	59,612	55,641
Up to 3 months	889,911	937,005
From 3 months to 1 year	139,446	159,985
From 1 to 5 years	695,969	1,228,313
Over 5 years	364,760	336,341
Total	**2,149,698**	**2,717,286**
Deposits from customers		
Repayable on demand or no fixed term	665,334	669,272
Up to 3 months	149,375	229,624
From 3 months to 1 year	491,882	450,415
From 1 to 5 years	804,944	794,145
Over 5 years	57,408	111,000
Total	**2.168.943**	**2,254,455**
Debts evidenced by certificates		
Repayable on demand or no fixed term	587	603
Up to 3 months	251,735	398,414
From 3 months to 1 year	661,441	531,919
From 1 to 5 years	4,048,827	4,226,356
Over 5 years	3,200,774	2,754,056
Total	**8,163,364**	**7,911,349**
Liabilities held for trading		
Repayable on demand or no fixed term	-	-
Up to 3 months	902	9
From 3 months to 1 year	16	-
From 1 to 5 years	27,605	24,292
Over 5 years	361,253	500,741
Total	**389,775**	**525,043**

Negative fair value of derivatives (hedge accounting and economic hedges)		
Repayable on demand	-	-
Up to 3 months	268	480
From 3 months to 1 year	1,026	2,709
From 1 to 5 years	51,159	65,852
Over 5 years	370,650	524,959
Total	**423,103**	**594,001**
Other liabilities (inc. economic hedges)		
Repayable on demand or no fixed term	13,767	14,011
Up to 3 months	12,778	15,803
From 3 months to 1 year	17,150	16,173
From 1 to 5 years	19,334	26,886
Over 5 years	2,932	5,367
Total	**65,960**	**78,241**
Subordinated capital		
Repayable on demand or no fixed term	-	-
Up to 3 months	-	-
From 3 months to 1 year	-	-
From 1 to 5 years	210,512	202,435
Over 5 years	-	-
Total	**210,512**	**202,435**

10.3 FAIR VALUE DISCLOSURES IN ACCORDANCE WITH IFRS 7 AND IFRS 13

The disclosures regarding the nature and extent of the risks associated with financial instruments, additional sensitivity analyses and the other disclosures form part of the risk report contained in the operational and financial review.

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

10.3.1 Fair value

Fair value is the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction.

	As at 31 Dec. 2013		As at 31 Dec. 2012	
EUR '000	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**
Assets				
Loans and advances to banks	766,768	773,381	1,010,325	894,317
Loans and advances to customers1	10,517,539	10,484,213	10,519,730	10,627,155
Assets held for trading	457,965	457,965	607,414	607,414
Positive fair value of hedges	377,938	377,938	617,935	617,935
Available-for-sale financial assets	1,801,467	1,801,467	1,825,600	1,825,600
Financial assets designated as at fair value through profit or loss	4,200	4,200	4,662	4,662
Financial assets held to maturity	-	-	10,022	10,009
Investments accounted for using the equity method	44,437	44,437	53,514	53,514
Investment property	71,501	65,545	53,149	52,256
Sundry other assets	56,280	56,280	27,125	27,125
Total assets	**14,098,095**	**14,065,426**	**14,729,476**	**14,719,987**
Liabilities				
Deposits from banks	2,119,682	2,149,698	2,684,195	2,717,286
Deposits from customers	2,153,336	2,168,943	2,348,659	2,254,455
Debts evidenced by certificates	8,231,523	8,163,364	7,926,862	7,911,349
Liabilities held for trading	389,775	389,775	525,043	525,043
Negative fair value of hedges	423,103	423,103	593,630	593,630
Other liabilities	65,975	65,960	78,241	78,241
Subordinated capital	207,078	210,512	204,150	202,435
Total equity and liabilities	**13,590,472**	**13,571,355**	**14,360,780**	**14,282,439**

1 Carrying value of loans and advances to customers (individually impaired)

Property, plant and equipment is measured at cost. The fair value is only stated when it differs materially from the carrying amount.

10.3.2 Fair value hierarchy disclosures

IFRS 13 applies to the categories of financial instruments established by IAS 39, as well as those recognised in accordance with other standards, and 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.

Measurement is based on directly or indirectly observable inputs for similar assets, whereby an income approach was applied to determine the discounted value of all future payments at a specified measurement date (present value method). The interest rate curves directly observable on money and capital markets, and upward valuation adjustments for similar assets directly observable on the capital market were employed as pricing parameters.

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.

Measurement is based on directly observable and on unobservable input factors. Assets and liabilities are allocated to Level 3 owing to the material significance of unobservable input factors for measurement. With the exception of certain short-term transactions and amounts repayable on demand, an income approach was applied to determine the discounted value of all future payments at a specified measurement date (present value method). The interest rate curves directly observable on money and capital markets, and upward valuation adjustments based on internal, unobservable pricing models were employed as pricing parameters. In the case of certain short-term transactions and amounts repayable on demand, such as overdraft facilities, deposits with banks, current and savings account deposits, and other current liabilities, the carrying amount represents a reasonable estimate of fair value.

The Level 3 methodology for equity holdings (a list of AFS investments of over 20% can be found in Note 3.2 Investments) is described in the section on "Available-for-sale (AFS) financial assets" under Note 3.4 Financial assets.

Customer swaps are measured using an internal model based on the DCF method, taking account of the current interest rate and basis spread curves. Suitable models are used in the measurement of embedded options. Counterparty risk and the Bank's exposure to credit risk (credit value adjustment and debt value adjustment) are taken into consideration when calculating the fair value of all unsecured customer derivatives. However, since issuance by customers is at best minimal and it is thus not possible to determine credit spreads on the basis of quoted prices, the credit spreads for instruments with matching maturities are calculated using CDS index curves in line with the customer's credit rating and the sector in which the respective counterparty operates.

Measurement of investment property at cost is performed by professional assessors (income approach). Level 3 classifications are based on unobservable market data such as the multiplier (reciprocal value of the risk-weighted interest rate) for similar assets.

Property classified as inventory, which is reported at acquisition or construction cost under "Other assets", was classified as Level 3 since the fair values determined by a comparative value approach, which used unobservable market data from comparable market transactions such as gains on disposal. The carrying amount is assumed to be a reasonable estimate of fair value for the remaining other reported assets.

In the case of short-term loans and advances, as well as deposits from customers, the short time to maturity involved means that the carrying amount is likewise a reasonable estimate of fair value.

		Fair value measurement		
As at 31 Dec. 2013, EUR '000	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Assets				
Loans and advances to banks	766,768	-	766,768	-
Loans and advances to customers1	10,517,539	-	42,935	10,474,604
Assets held for trading	457,965	-	14,969	442,996
Positive fair value of hedges	377,938	-	377,938	-
Available-for-sale financial assets	1,801,467	1,328,271	389,143	84,053
Financial assets designated as at fair value through profit or loss	4,200	4,200	-	-
Investments accounted for using the equity method	44,437	-	-	44,437
Investment property	71,501	-	-	71,501
Sundry other assets	56,280	-	-	56,280
Total assets	**14,098,095**	**1,332,471**	**1,591,753**	**11,173,871**
Liabilities				
Deposits from banks	2,119,682	-	2,119,682	-
Deposits from customers	2,153,336	-	-	2,153,336
Debts evidenced by certificates	8,231,523	4,055,767	4,175,429	327
Liabilities held for trading	389,775	-	388,860	916
Negative fair value of hedges	423,103	-	423,103	-
Other liabilities	65,975	-	-	65,975
Subordinated capital	207,078	84,368	122,710	-
Total liabilities	**13,590,473**	**4,140,135**	**7,229,784**	**2,220,554**

Detailed information on Level 3 financial assets measured at fair value is provided in Note 10.3.3 Fair value hierarchy: Level 3 disclosures.

As at 31 Dec. 2013, EUR '000	From Level 2 to level 1	From Level 2 to level 3
Assets		
Available-for-sale financial assets	31,130	79,652
Financial assets designated as at fair value through profit or loss	4,200	-
Total assets	**35,330**	**79,652**

The reallocation of AFS financial assets and financial assets designated at fair value through profit or loss from Level 2 to Level 1 is due to the existence of liquid prices, while AFS financial assets are transferred from Level 2 to Level 3 on the basis of a credit substitution assessment in the case of a deterioration in creditworthiness, or owing to a lack of comparable liquid assets.

As at 31 Dec. 2012, EUR '000	Total fair value	Fair value measurement Level 1	Fair value measurement Level 2	Fair value measurement Level 3
Assets				
Loans and advances to banks	1,010,325	-	1,010,325	-
Loans and advances to customers1	10,519,730	-	-	10,519,730
Assets held for trading	607,414	-	17,926	589,488
Positive fair value of hedges	617,935	-	617,935	-
Available-for-sale financial assets	1,825,600	1,186,624	631,647	7,328
Financial assets designated as at fair value through profit or loss	4,662	-	4,662	-
Financial assets held to maturity	10,022	10,022	-	-
Investments accounted for using the equity method	53,514	-	-	53,514
Investment property	53,149	-	-	53,149
Sundry other assets	27,125	-	199	26,926
Total assets	**14,729,475**	**1,196,646**	**2,282,694**	**11,250,135**
Liabilities				
Deposits from banks	2,684,195	-	2,684,195	-
Deposits from customers	2,348,659	-	-	2,348,659
Debts evidenced by certificates	7,926,862	-	7,926,862	-
Liabilities held for trading	525,043	-	519,610	5,433
Negative fair value of hedges	593,630	-	593,630	-
Other liabilities	78,241	-	371	77,870
Subordinated capital	204,150	-	204,150	-
Total liabilities	**14,360,780**	**-**	**11,928,818**	**2,431,962**

10.3.3 Fair value hierarchy: Level 3 disclosures

EUR '000	As at 1 Jan. 2013	Gains or losses: In profit or loss	Gains or losses: in other comprehensive income	Purchases	Settlements	Transfers to/out of Level 3	As at 31 Dec. 2013	Gains/losses recognised in profit and loss for assets held as at 31 Dec. 2013
Assets								
Assets held for trading	589,488	-146,492	-	-	-	-	442,996	-108,945
Available-for-sale financial assets	7,328	-383	87	2	-2,634	79,652	84,053	-232
Total assets	**596,816**	**-146,875**	**87**	**2**	**-2,634**	**79,652**	**527,049**	**-109,177**
Liabilities								
Liabilities held for trading	5,433	-4,517	-	-	-	-	916	-272
Total liabilities	**5,433**	**-4,517**	**-**	**-**	**-**	**-**	**916**	**-272**

The EUR 232thsd loss on existing Level 3 assets (2012: loss of EUR 482thsd) is shown in Note 7.10 Net gains and losses on available-for-sale financial assets. The loss of EUR 108,945thsd (2012: gain of EUR 139,075thsd) on assets held for trading and loss of EUR 272thsd (2012: gain of EUR 4,550thsd) on liabilities held for trading are disclosed in Note 7.6 Net trading income.

EUR '000	As at 1 Jan. 2012	Gains or losses: In profit or loss	Gains or losses: in other comprehensive income	Purchases	Settlements	Transfers to/out of Level 3	As at 31 Dec. 2012	Gains/losses recognised in profit and loss for assets held as at 31 Dec. 2012
Assets								
Assets held for trading	454,883	134,605	-	-	-	-	589,488	139,075
Available-for-sale financial assets	11,859	-633	34	-	-3,932	-	7,328	-482
Total assets	**466,742**	**133,972**	**34**	**-**	**-3,932**	**-**	**596,816**	**138,593**
Liabilities								
Liabilities held for trading	13,324	-7,891	-	-	-	-	5,433	4,550
Total liabilities	**13,324**	**-7,891**	**-**	**-**	**-**	**-**	**5,433**	**4,550**

10.3.4 Level 3 sensitivity analysis

The following disclosures are intended to show the potential consequences of the relative uncertainty inherent in determining the fair value of financial instruments for which measurement is based on unobservable parameters. The sensitivity analysis includes credit spreads in the determination of the credit value adjustment (CVA) or debit valuation adjustment (DVA) for customer derivatives, and upward valuation adjustments for Level 3 securities. Appropriate values which reflect the prevailing market conditions and the uncertainty involved in calculating measurement inputs as at the end of the reporting period were selected when determining the unobservable parameters. On the basis of this framework a bandwidth of 10 basis points (bp) was used in the analysis presented in the table below,

which shows the impact of changes in material unobservable input parameters on the fair value of Level 3 financial instruments. In practice, it is highly unlikely that all of the unobservable measurement parameters will lie at either extreme of the chosen bandwidth simultaneously, meaning that the estimates in the table exceed the actual element of uncertainty when calculating fair value as at the end of the reporting period. It should also be noted that the figures presented below do not represent a forecast or indication of future changes in fair value.

As at 31 Dec. 2013, EUR '000	Positive changes in fair value	Negative changes in fair value
Derivatives	95	-1,338
Financial instruments	-	-957
Total	**95**	**-2,295**

10.3.5 Offsetting of financial assets and liabilities

As at 31 Dec. 2013, EUR '000	Financial assets/ liabilities (gross) (a)	Reported amounts offset (gross) (b)	Financial assets reported (net) (c)=(a)-(b)	Effect of framework agreements on offsetting (-) (d)(i), d(ii)	Collateral in the form of financial instruments (-) Not offset d(ii)	Net amount (e)=(c)-(d)
Assets						
Loans and advances to customers1	10,590,618	-44	10,590,574	-	-	10,590,574
Assets held for trading	457,965	-	457,965	-3,110	-	454,855
Positive fair value of hedges	377,938	-	377,938	-229,784	-63,672	84,482
Total assets	**11,426,521**	**-44**	**11,426,477**	**-232,894**	**-63,672**	**11,129,911**
Liabilities						
Deposits from customers	2,168,987	-44	2,168,943	-	-	2,168,943
Liabilities held for trading	389,775	-	389,775	-3,110	-	386,665
Negative fair value of hedges	423,103	-	423,103	-229,784	-	193,319
Total equity and liabilities	**2,981,865**	**-44**	**2,981,821**	**-232,894**	**-**	**2,748,927**

10.4 DERIVATIVES

All of the derivative financial instruments are hedges of the Bank's own assets and liabilities, or customer derivatives.

Most hedging activities were related to interest rate and exchange risk in respect of the Bank's own issues and securities, and promissory notes including certificates of deposit. Interest rate and cross currency swaps were used to hedge these instruments from the time of designation through to the maturity of underlying transaction in question. Customer derivatives and related hedges are classified as held for trading.

Currency swaps and forwards are used as economic hedges for currency positions.

There are also bought and sold put options on own securities and issues in circulation, and a bought put option on an investment.

Accepted, industry-standard valuation models are employed. The present value of linear derivatives (e.g. interest rate swaps, cross currency swaps, FX forwards and forward rate agreements) is calculated by discounting the replicating cash flows. OTC currency and interest rate options are measured using option pricing models such as the Black Scholes or Hull White models.

10.4.1 Derivatives: nominal and fair value

EUR '000	As at 31 Dec. 2013			As at 31 Dec. 2012		
	Nominal value	Fair value		Nominal value	Fair value	
		Positive	Negative		Positive	Negative
Interest rate risk						
Interest rate swaps	16,229,067	791,905	789,948	15,339,806	1,138,030	1,090,640
Basis swaps	1,018,345	19,978	7,709	852,045	27,728	10,305
Options on interest rate instruments	267,880	1,228	1,523	550,089	6,072	6,067
Other similar contracts	20,000	11,692	-	20,000	12,976	-
Total	**17,535,292**	**824,803**	**799,180**	**16,761,940**	**1,184,805**	**1,107,011**
Currency risk						
Cross-currency (interest rate) swaps	213,523	10,710	12,848	235,194	40,321	11,662
Forward exchange operations	100,765	147	851	137,238	199	371
Total	**314,288**	**10,857**	**13,698**	**372,432**	**40,521**	**12,033**
Share price and index-linked transactions						
Equity and other index-linked options	2,001	243	-	2,001	223	-
Total	**2,001**	**243**	**-**	**2,001**	**223**	**-**

10.4.2 Derivatives: nominal value by maturities

As at 31 Dec. 2013, EUR '000	Total	Remaining terms to maturity			
		Up to 3 months	Between 3 months and 1 year	From 1 to 5 years	Over 5 years
Interest rate risk					
Interest rate swaps	16,229,067	117,398	612,900	4,875,310	10,623,459
Basis swaps	1,018,345	174,500	2,090	767,800	73,955
Options on interest rate instruments	267,880	3,167	-	143,267	121,446
Other similar contracts	20,000	-	-	20,000	-
Total	**17,535,292**	**295,065**	**614,990**	**5,806,377**	**10,818,860**
Currency risk					
Cross-currency (interest rate) swaps	213,523	-	6,910	206,613	-
Forward exchange operations	100,765	100,765	-	-	-
Total	**314,288**	**100,765**	**6,910**	**206,613**	**-**
Share price and index-linked transactions					
Equity and other index-linked options	2,001	-	2,001	-	-
Total	**2,001**	**-**	**2,001**	**-**	**-**

As at 31 Dec. 2012, EUR '000	Total	Remaining terms to maturity			
		Up to 3 months	Between 3 months and 1 year	From 1 to 5 years	Over 5 years
Interest rate risk					
Interest rate swaps	15,339,806	51,567	657,041	4,864,174	9,767,024
Basis swaps	852,045	40,000	-	621,090	190,955
Options on interest rate instruments	550,089	-	-	395,768	154,321
Other similar contracts	20,000	-	-	20,000	-
Total	**16,761,940**	**91,567**	**657,041**	**5,901,032**	**10,112,300**
Currency risk					
Cross-currency (interest rate) swaps	235,194	-	7,579	180,876	46,739
Forward exchange operations	137,238	137,238	-	-	-
Total	**372,432**	**137,238**	**7,579**	**180,876**	**46,739**
Share price and index-linked transactions					
Equity and other index-linked options	2,001	-	-	2,001	-
Total	**2,001**	**-**	**-**	**2,001**	**-**

10.5 LEASING

Finance lease disclosures (with the Group as lessor)

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Gross investment	**1,245,497**	**1,397,225**
Minimum lease payments	1,153,026	1,302,989
Up to 1 year	84,208	80,010
From 1 to 5 years	291,358	302,259
Over 5 years	777,460	920,720
Unguaranteed residual value	92,471	94,236
Unearned finance income	**-156,025**	**-180,119**
Up to 1 year	-14,818	-12,620
From 1 to 5 years	-50,711	-56,662
Over 5 years	-90,496	-110,837
Net investment	**1,089,472**	**1,217,106**

Net investment in finance leases is stated under Note 8.4 Loans and advances to customers. Note 3.8 above provides a description of the accounting policies applied to this item.

The Lower Austrian state government and Lower Austrian local authorities account for approx. 97% of the finance leases written.

The rest of the lessees concerned are business customers, other public agencies and associations.

About 95% (2012: 95%) of the lease assets in question are property, but a small amount of equipment is also involved – often directly related to the real estate financed by the leases.

Most of the leased properties are hospitals, care homes, office buildings and schools, while the equipment largely relates to furnishings treated as separate assets, and to medical equipment.

No impairments were recognised for outstanding minimum lease payments.

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Minimum lease payments	1,153,026	1,302,989
Unearned finance income	-156,025	-180,119
Net present value of minimum lease payments	**997,001**	**1,122,870**
Unguaranteed residual value	92,471	94,236
Net investment	**1,089,472**	**1,217,106**

Operating lease disclosures (with the Group as lessor)

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Future minimum lease payments on non-cancellable leases	**3,458**	**3,790**
Up to 1 year	332	333
From 1 to 5 years	1,328	1,328
Over 5 years	1,798	2,130

10.6 ANALYSIS OF ASSETS AND LIABILITIES BY IAS 39 MEASUREMENT CATEGORIES

As at 31 Dec. 2013, EUR '000	Loans and receivables (LAR)	Liabilities measured at amortised cost (LAC)	Held for trading (HFT)
Cash and balances at central banks	-	-	-
Loans and advances to banks	773,381	-	-
Loans and advances to customers	10,590,574	-	-
Risk provisions	-111,156	-	-
Assets held for trading	-	-	457,965
Positive fair value of hedges	-	-	-
Available-for-sale financial assets	-	-	-
Financial assets designated as at fair value through profit or loss	-	-	-
Investments accounted for using the equity method	-	-	-
Investment property	-	-	-
Other financial assets1	54,017	-	-
Total financial assets	**11,306,816**	**-**	**457,965**
Deposits from banks	-	2,149,698	-
Deposits from customers	-	2,168,943	-
Debts evidenced by certificates	-	8,163,364	-
Liabilities held for trading	-	-	389,775
Negative fair value of hedges	-	-	-
Subordinated capital	-	210,512	-
Other financial liabilities1	-	57,629	-
Total financial liabilities	**-**	**12,750,146**	**389,775**

Designated as at fair value through profit or loss (FVTPL)	Available for sale (AFS)	Held to maturity (HTM)	Fair value hedge	Cash flow hedge	Financial assets/ liabilities at cost (at amortised cost)	Total
-	-	-	-	-	56,609	56,609
-	-	-	-	-	-	773,381
-	-	-	-	-	-	10,590,574
-	-	-	-	-	-	-111,156
-	-	-	-	-	-	457,965
-	-	-	377,938	-	-	377,938
-	1,801,467	-	-	-	-	1,801,467
4,200	-	-	-	-	-	4,200
-	-	-	-	-	44,437	44,437
-	-	-	-	-	65,545	65,545
-	-	-	-	-	-	54,017
4,200	**1,801,467**	**-**	**377,938**	**-**	**166,591**	**14,114,977**
-	-	-	-	-	-	2,149,698
-	-	-	-	-	-	2,168,943
-	-	-	-	-	-	8,163,364
-	-	-	-	-	-	389,775
-	-	-	423,103	-	-	423,103
-	-	-	-	-	-	210,512
-	-	-	-	-	-	57,629
-	**-**	**-**	**423,103**	**-**	**-**	**13,563,024**

As at 31 Dec. 2012, EUR '000	Loans and receivables (LAR)	Liabilities measured at amortised cost (LAC)	Held for trading (HFT)
Cash and balances at central banks	-	-	-
Loans and advances to banks	894,317	-	-
Loans and advances to customers	10,735,077	-	-
Risk provisions	-112,899	-	-
Assets held for trading	-	-	607,414
Positive fair value of hedges	-	-	-
Available-for-sale financial assets	-	-	-
Financial assets designated as at fair value through profit or loss	-	-	-
Financial assets held to maturity	-	-	-
Investments accounted for using the equity method	-	-	-
Investment property	-	-	-
Positive fair value of banking book derivatives1	-	-	199
Other financial assets1	25,537	-	-
Total financial assets	**11,542,032**	**-**	**607,613**
Deposits from banks	-	2,717,286	-
Deposits from customers	-	2,254,455	-
Debts evidenced by certificates	-	7,911,349	-
Liabilities held for trading	-	-	525,043
Negative fair value of hedges	-	-	-
Subordinated capital	-	202,435	-
Negative fair value of banking book derivatives1	-	-	371
Other financial liabilities1	-	69,089	-
Total financial liabilities	**-**	**13,154,613**	**525,414**

1 Shown under "Other assets" or "Other liabilities" in the statement of financial position.

Designated as at fair value through profit or loss (FVTPL)	Available for sale (AFS)	Held to maturity (HTM)	Fair value hedge	Cash flow hedge	Financial assets/ liabilities at cost (at amortised cost)	Total
-	-	-	-	-	71,644	71,644
-	-	-	-	-	-	894,317
-	-	-	-	-	-	10,735,077
-	-	-	-	-	-	-112,899
-	-	-	-	-	-	607,414
-	-	-	615,436	2,499	-	617,935
-	1,825,600	-	-	-	-	1,825,600
4,662	-	-	-	-	-	4,662
-	-	10,009	-	-	-	10,009
-	-	-	-	-	53,514	53,514
-	-	-	-	-	52,256	52,256
-	-	-	-	-	-	199
-	-	-	-	-	-	25,537
4,662	**1,825,600**	**10,009**	**615,436**	**2,499**	**177,414**	**14,785,264**
-	-	-	-	-	-	2,717,286
-	-	-	-	-	-	2,254,455
-	-	-	-	-	-	7,911,349
-	-	-	-	-	-	525,043
-	-	-	593,630	-	-	593,630
-	-	-	-	-	-	202,435
-	-	-	-	-	-	371
-	-	-	-	-	-	69,089
-	**-**	**-**	**593,630**	**-**	**-**	**14,273,657**

10.7 DISCLOSURES ON RELATED-PARTY RELATIONSHIPS

As at 31 Dec. 2013, EUR '000	Non-consolidated subsidiaries (more than 50%)	Associates	Investments accounted for using the equity method	Key management personnel	Investors with significant influence over the Group's parent
Loans and advances to banks	-	-	759	-	-
Loans and advances to customers	97,200	478,924	376,190	3,099	2,405,913
thereof lease receivables	-	-	-	-	*1,326,891*
Equity instruments (shareholdings, etc.)	127	490	44,437	-	-
Positive fair value of derivatives	-	-	-	-	58,442
Deposits from banks	-	-	391	-	-
Deposits from customers	1,793	1,895	14,428	4,937	26,539
Guarantees provided by the Group	-	-	162	14	-
Other obligations inc. unused credit lines	3,401	-	292,158	-	655,627
Guarantees received by the Group	-	-	-	-	2,778,878
Provisions for doubtful debts	-	-	-	-	-

As at 31 Dec. 2012, EUR '000	Non-consolidated subsidiaries (more than 50%)	Associates	Investments accounted for using the equity method	Key management personnel	Investors with significant influence over the Group's parent
Loans and advances to banks	-	-	750	-	-
Loans and advances to customers	102,049	12,754	152,336	2,165	1,893,229
thereof lease receivables	-	-	-	-	*1,079,920*
Equity instruments (shareholdings, etc.)	146	539	53,514	-	-
Positive fair value of derivatives	-	-	-	-	52,560
Deposits from banks	-	-	295	-	-
Deposits from customers	1,225	1,504	5,251	5,356	33,580
Guarantees provided by the Group	-	-	-	14	-
Other obligations inc. unused credit lines	4,182	2,750	376,473	-	446,874
Guarantees received by the Group	-	-	-	-	3,259,407
Provisions for doubtful debts	-	-	-5	-7	-

During the period under review, EUR 17thsd (2012: EUR 12thsd) was recognised as expenses in respect of bad or doubtful debts due from related parties.

The transfer prices charged to each other by HYPO NOE Gruppe AG and related parties are at arm's length levels. The non-consolidated subsidiaries and investments accounted for using the equity method are set out in Note 3.2 Investments.

The Lower Austrian state government holds a direct interest of 70.49% in HYPO NOE Gruppe Bank AG via NÖ Landes-Beteiligungsholding GmbH, and an indirect interest of 29.51% via NÖ BET GmbH. On account of its holding, the Lower Austrian state government exercises significant influence over the Group's parent, as shown in the table above.

The state government guarantees of loans and advances extended to third parties by HYPO NOE Gruppe Bank AG (see table above) were all concluded on arm's length terms. Use is made of the exemption from disclosure requirements under paragraphs 18 and 25 IAS 24.

Relationships with non-consolidated subsidiaries and associates (>20%)

The Chairman of the Management Board, Peter Harold, is a member of the supervisory board of NÖ Kulturwirtschaft GesmbH, St. Pölten.

Members of the Bank's key management personnel are chief executives at the following companies: Castellum Schallaburg Grundstückvermietungs Gesellschaft m.b.H., VIA DOMINORUM Grundstückverwertungs Gesellschaft m.b.H., WPS-Wirtschaftspark Sieghartskirchen Gesellschaft m.b.H, Wilax Wien-Laxenburg NÖ Veranstaltungs Gesellschaft mbH, NÖ Kulturwirtschaft GesmbH, and Wohnpark Schrems Liegenschaftsverwertungs Gesellschaft m.b.H., all domiciled in St. Pölten.

A member of the Supervisory Board chairs the supervisory board of NÖ Kulturwirtschaft GesmbH, St. Pölten.

Relationships with entities accounted for using the equity method

The Chairman of the Management Board, Peter Harold, chairs the supervisory board of EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft, St. Pölten, and the supervisory boards of its subsidiaries "Wohnungseigentümer" Gemeinnützige Wohnbaugesellschaft m.b.H., Mödling, GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H., Maria Enzersdorf am Gebirge, and Gemeinnützige Wohnungsgesellschaft "Austria" Aktiengesellschaft, Mödling. Mr Harold is also a member of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

The other member of the Management Board, Nikolai de Arnoldi, is chairman of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

Members of the Bank's key management personnel hold office on the management boards of Niederösterreichische Vorsorgekasse AG and EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft, both domiciled in St. Pölten.

Members of the Bank's key management personnel are chief executives at the following companies:

CULINA Grundstückvermietungs Gesellschaft m.b.H., FACILITAS Grundstückvermietungs Gesellschaft m.b.H., VALET-Grundstückverwaltungs Gesellschaft m.b.H., NÖ. HYPO LEASING – Sparkasse Region St. Pölten Grundstückvermietungs Gesellschaft m.b.H., LITUS Grundstückvermietungs Gesellschaft m.b.H., CONATUS Grundstückvermietungs Gesellschaft m.b.H., UNDA Grundstückvermietungs Gesellschaft m.b.H., Palatin Grundstückverwaltungs Gesellschaft m.b.H., NÖ. Landeshauptstadt – Planungsgesellschaft m.b.H., Franz-Glaser-Gasse 28 Immobilienentwicklung GmbH – all domiciled in St. Pölten – as well as TRABITUS Grundstückvermietungs Gesellschaft m.b.H., Adoria Grundstückvermietungs Gesellschaft m.b.H., Esquilin Grundstücksverwaltungs Gesellschaft m.b.H., Purge Grundstücksverwaltungs-Gesellschaft m.b.H., Viminal Grundstückverwaltungs Gesellschaft m.b.H., N.Ö. Gemeindegebäudeleasing Gesellschaft m.b.H., N.Ö. Kommunalgebäudeleasing Gesellschaft m.b.H., NÖ-KL Kommunalgebäudeleasing Gesellschaft m.b.H., Quirinal Grundstücksverwaltungs Gesellschaft m.b.H., FORIS Grundstückvermietungs Gesellschaft m.b.H., Hart & Haring Liegenschaftsentwicklungs GmbH und die KASERNEN Projektentwicklungs- und Beteiligungs GmbH – all domiciled in Vienna – and Aventin Grundstückverwaltungs Gesellschaft m.b.H., Horn.

Members of the Bank's key management personnel are authorised signatories at the following companies:

CULINA Grundstückvermietungs Gesellschaft m.b.H., VALET-Grundstückverwaltungs Gesellschaft m.b.H., Hotel- und Sportstätten-Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG, NÖ.HYPO LEASING – Sparkasse Region St.Pölten Grundstückvermietungs Gesellschaft m.b.H., LITUS Grundstückvermietungs Gesellschaft m.b.H., CONATUS Grundstückvermietungs Gesellschaft m.b.H., Palatin Grundstückverwaltungs Gesellschaft m.b.H., – all domiciled in St. Pölten – as well as Adoria Grundstückvermietungs Gesellschaft m.b.H., Esquilin Grundstücksverwaltungs Gesellschaft m.b.H., Viminal Grundstückverwaltungs Gesellschaft m.b.H., FORIS Grundstückvermietungs Gesellschaft m.b.H – all domiciled in Vienna – and Aventin Grundstückverwaltungs Gesellschaft m.b.H., Horn.

Members of key management hold office with NÖ Raiffeisen Kommunalprojekte Service Gesellschaft m.b.H. & NÖ.HYPO Leasinggesellschaft m.b.H. – Strahlentherapie OG and NÖ. HYPO Leasing and Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG, both St. Pölten.

One member of key management is a member or deputy chairman of the supervisory boards of the following companies:

NÖ Beteiligungsfinanzierungen GmbH and HYPO Capital Management AG, both domiciled in Vienna.

One member of the Supervisory Board is deputy chairman of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

Relationships with parent companies

The deputy chairman of the Supervisory Board chairs, and another member of the Supervisory Board is deputy chairman of the supervisory board of NÖ Landes-Beteiligungsholding GmbH, St. Pölten.

A supervisory commissioner of the Bank is the chief executive of NÖ BET GmbH and NÖ Landes-Beteiligungsholding GmbH, both domiciled in St. Pölten.

Relationships with subsidiaries of the parent companies and companies owned by the Lower Austrian state government

Members of the Bank's key management personnel are chief executives of NÖ Landesimmobiliengesellschaft m.b.H., NÖ. Landeshauptstadt – Planungsgesellschaft m.b.H and Land Niederösterreich Immobilienverwaltungsgesellschaft m.b.H., all domiciled in St. Pölten.

The chairman of the Supervisory Board is the chairman of the supervisory board of EVN AG, Maria Enzersdorf, and a member of the supervisory board of Flughafen Wien AG (the operator of Vienna International Airport).

A member of the Supervisory Board is the chairman of the supervisory boards of EBG MedAustron GmbH, Wiener Neustadt, and ecoplus.Niederösterreichs Wirtschaftsagentur GmbH, St. Pölten, as well as deputy chairman of the supervisory board of N.vest Unternehmensfinanzierungen des Landes Niederösterreich GmbH, St. Pölten and RIZ Niederösterreichs Gründeragentur Ges.m.b.H., Wiener Neustadt.

A supervisory commissioner of the Bank is the chief executive of NÖ Holding GmbH and NÖ Immobilien Holding GmbH – both domiciled in St. Pölten – and chairman of the supervisory board of Land Niederösterreich Finanz- und Beteiligungsmanagement GmbH, St. Pölten, as well as deputy chairman of the supervisory boards of EBG MedAustron GmbH, Wiener Neustadt and tecnet equity NÖ Technologiebeteiligungs-Invest GmbH, St. Pölten, and a member of the supervisory board of EVN AG, Maria Enzersdorf.

Key management in the HYPO NOE Group comprises "identified staff" and "identified staff with less material impact".

10.8 SUPPLEMENTARY DISCLOSURES PURSUANT TO THE AUSTRIAN BUSINESS CODE (UGB) AND THE AUSTRIAN BANKING ACT (BWG)

Joint and several liability for Pfandbriefstelle issuance

Under section 2(1) *Pfandbriefstelle-Gesetz* (Pfandbriefstelle Act), as member banks of Pfandbriefstelle der österreichischen Landes-Hypothekenbanken, HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG are jointly and severally liable, together with the other members, for all the liabilities of Pfandbriefstelle. This liability is the same for all the member banks listed in section 1(2) of Pfandbriefstelle's articles of association and their universal successors. Under section 2(2) Pfandbriefstelle Act, the members' guarantors (the respective state governments) are likewise jointly and severally liable for all liabilities incurred up to 2 April 2003, and for all liabilities incurred between 2 April 2003 and 1 April 2007 where the maturities do not extend beyond 30 September 2017. According to the Pfandbriefstelle's statutory audit report, the guarantors' liabilities as at year-end 2013 were EUR 6,169,969thsd (31 Dec. 2012: EUR 7,626,856thsd). This is approximately equal to the entire liabilities of Pfandbriefstelle as at 31 December 2013. Taking into account the funds raised by Pfandbriefstelle and lent on to HYPO NOE Gruppe Bank AG, which totalled EUR 563,826thsd at the end of the reporting period (31 Dec. 2012: EUR 669,097thsd), this yields an amount of EUR 5,606,143thsd (31 Dec. 2012: EUR 6,957,759thsd) which must be disclosed pursuant to section 237(8a) Austrian Business Code.

Contingent liability of the state of Lower Austria

Under section 1356 ABGB (Civil Code), the state of Lower Austria is liable, as the deficiency guarantor, for all the liabilities incurred by HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG up to and including 2 April 2003. Liabilities incurred between 3 April 2003 and 1 April 2007 are covered by the state government guarantee unless their maturities extend beyond 30 September 2017. The guarantee does not cover liabilities incurred after 1 April 2007 or falling due after 30 September 2017. As at 31 December 2013 state government guarantees of issues, deposits and other liabilities such as subordinated and supplementary capital totalled

- EUR 5,026,350thsd (2012: EUR 5,119,434thsd) for HYPO NOE Gruppe Bank AG, and
- EUR 289,184thsd (2012: EUR 328,583thsd) for HYPO NOE Landesbank AG,
- for a combined total of EUR 5,315,534thsd (2012: EUR 5,448,017thsd).

EUR '000	As at 31 Dec. 2013		As at 31 Dec. 2012	
Securities admitted to trading (assets)	**Unlisted**	**Listed**	**Unlisted**	**Listed**
Bonds and other fixed-income securities	1,453,850	1,502,605	1,453,850	1,500,075

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Negotiable securities assigned to fixed assets		
Bonds and other fixed-income securities	1,123,145	1,257,723

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Assets pledged as collateral		
Cover pool for covered bonds and public sector covered bonds (debts evidenced by certificates)	4,576,997	5,044,860
of which covering loans	*4,394,641*	*4,823,824*
of which securities	*172,356*	*211,035*
of which cash	*10,000*	*10,000*
Marketable collateral (securities) delivered to the collateral custody account with the OeNB (for deposits from banks)*	412,152	862,498
Non-marketable collateral (loans) transferred to the OeNB (for deposits from banks)*	477,369	384,218
**of which OeNB tenders*	*575,057*	*584,024*
Securities pledged to the EIB (for deposits from banks)	209,103	225,490
Collateral delivered (cash) (for derivatives)	531,740	631,200

Supplementary disclosures pursuant to the Austrian Business Code

The Group's rental and lease commitments will amount to EUR 1,611thsd in 2014 (2013: EUR 1,712thsd) and EUR 8,135thsd during the 2014–2018 period.

Supplementary disclosures pursuant to the Austrian Banking Act

Foreign-currency assets amounting to EUR 1,747,264thsd (2012: EUR 1,956,430thsd) and foreign-currency liabilities amounting to EUR 1,805,921thsd (2012: EUR 1,906,265thsd) are included in the total assets of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG pursuant to the Austrian Banking Act.

In 2013 expenses arising from subordinated debt totalled EUR 2,948thsd (2012: 4,086thsd).

Receivables from bonds and other variable rate securities, and bonds issued totalled EUR 163,336thsd (2012: EUR 98,518thsd), and liabilities arising from such securities amounted to EUR 667,333thsd (2012: EUR 563,036thsd).

10.9 TRUST TRANSACTIONS

In accordance with IFRS, trust transactions entered into by the HYPO NOE Group in its own name but for the account of third parties are not shown in the statement of financial position. Any commissions are reported under "Net fee and commission income" in the comprehensive income statement (Note 7.5, "Other fee and commission income" and "Other fee and commission expense").

No trust transactions were reported in the statement of financial position as at 31 December 2013 or 31 December 2012.

10.10 CONTINGENT LIABILITIES AND CREDIT RISK

10.10.1 Contingent liabilities

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Acceptances and endorsements	327	327
Liabilities arising from guarantees and furnishing of collateral	182,221	149,564

10.10.2 Credit risk

EUR '000	As at 31 Dec. 2013	As at 31 Dec. 2012
Unutilised facilities	1,515,671	1,364,204

10.11 MORTGAGE BANKING IN ACCORDANCE WITH THE *PFANDBRIEFGESETZ* (COVERED BOND ACT)

As at 31 Dec. 2013, EUR '000	Coverage required for debts evidenced by certificates	Coverage of: Loans	Coverage of: Financial instruments	Surplus coverage
Covered bonds	57,591	1,265,162	10,000	1,217,571
Public sector covered bonds	3,457,295	4,306,117	172,356	1,021,178
Total	**3,514,886**	**5,571,279**	**182,356**	**2,238,749**

As at 31 Dec. 2012, EUR '000	Coverage required for debts evidenced by certificates	Coverage of: Loans	Coverage of: Financial instruments	Surplus coverage
Covered bonds	56,207	1,464,490	10,000	1,418,283
Public sector covered bonds	3,420,296	3,951,353	211,035	742,092
Total	**3,476,503**	**5,415,843**	**221,035**	**2,160,375**

10.12 EVENTS AFTER THE REPORTING PERIOD

There were no events after the end of the reporting period to 31 December 2013 that would have been material to the presentation of the Group's assets, finances and earnings.

10.13 GOVERNING BODIES OF HYPO NOE GRUPPE BANK AG

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

Management Board

- Peter Harold, Chairman
- Nikolai de Arnoldi

Supervisory Board

- Burkhard Hofer, Chairman
- Michael Lentsch, Deputy Chairman
- Klaus Schneeberger
- Karl Schlögl
- Karl Sonnweber
- Engelbert J. Dockner
- Hubert Schultes

Delegated by the Works Council

- Hermann Haitzer
- Peter Böhm
- Franz Gyöngyösi
- Claudia Mikes

State commissioners

- Hans Georg Kramer, CFP, Federal Ministry of Finance
- Franz Ternyak, Federal Accounting Agency

Supervisory commissioners

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

St. Pölten, 17 March 2014

The Management Board

Peter Harold
Chairman of the Management Board

Nikolai de Arnoldi
Member of the Management Board

DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES

We hereby confirm that to the best of our knowledge the consolidated financial statements of HYPO NOE Gruppe Bank AG give a true and fair view of the Company's assets, finances and earnings to the maximum extent possible, in conformity with the relevant accounting standards, that the operational and financial review presents the course of the Company's business, and its results and financial condition in such a manner as to give a true and fair view of the Company's assets, finances and earnings, and that that review describes the principal risks and uncertainties to which the Company is exposed.

St. Pölten, 17 March 2014

The Management Board

Peter Harold
Chairman of the Management Board

Responsible for
Sales & Treasury, Participations & Public Services,
Group Organisation, IT & Facility Management,
Group Real Estate Business, Unit Group ALM &
Strategic Planning, Unit Group Rating & Investor Advisory,
Group Marketing, Group Human Resources,
General Secretariat & Group Compliance,
Group PR, Audit

Nikolai de Arnoldi
Member of the Management Board

Responsible for
Group Credit Risk Coordination,
Group Finance & Strategic Risk Management,
Ombudsman, Unit Group Tax Advisory,
Unit Group Intensive Care Mgmt,
Group Credit Services, Group Treasury Services,
Group Payment Administration &
Custodian Bank Services, Group Legal

AUDITORS' REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of HYPO NOE Gruppe Bank AG, St. Pölten for the year ended 31 December 2013. These consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2013, and the statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, as well as the notes thereto.

Management's responsibility for the consolidated annual financial statements and for the accounting system

The Company's management is responsible for the accounting system and fair presentation of these consolidated annual financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes designing, implementing and maintaining an internal control system, where relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibilities, and description of the nature and scope of the statutory audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the laws and regulations applicable in Austria, as well as the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines, and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the auditor's assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a sound basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. Based on the results of our audit, in our opinion the consolidated financial statements to the maximum possible extent conform to the legal regulations, and give a true and fair view of the Group's financial position as at 31 December 2013, and of its financial performance and cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRSs) applicable in the EU.

Opinion on the Group operational and financial review

Pursuant to statutory provisions, the Group operational and financial review is to be audited as to whether it is consistent with the consolidated financial statements and as to whether any additional disclosures it contains are not misleading with respect to the Group's position. The auditor's report must also contain a statement as to whether the Group operational and financial review is consistent with the consolidated financial statements and whether the disclosures pursuant to section 243a(2) UGB (Austrian Business Code) are appropriate.

In our opinion the Group operational and financial review is consistent with the consolidated financial statements. The disclosures pursuant to section 243a(2) Austrian Business Code are appropriate.

Vienna, 18 March 2014

Deloitte Audit Wirtschaftsprüfungs GmbH

ppa. Wolfgang Wurm m.p.
Certified public accountant

Peter Bitzyk m.p.
Certified public accountant

Bruno Moritz m.p.
Tax consultant

The consolidated financial statements bearing our audit opinion may only be published or transmitted in the version certified by us. This audit opinion relates exclusively to the complete German-language consolidated financial statements, and operational and financial review. The provisions of section 281(2) Austrian Business Code apply to other versions.

REPORT OF THE SUPERVISORY BOARD

In 2013 the Supervisory Board discharged the duties incumbent upon it by virtue of the law and the articles of association, and was kept regularly informed by the Management Board on the course of business and the state of the Bank's affairs.

The accounts and records, and the **the annual financial statements, as well as the operational and financial review** review to the extent that it discusses the financial statements, have been audited by the independent auditors Deloitte Audit Wirtschaftsprüfungs GmbH. As the audit gave rise to no objections and the statutory requirements were fully complied with, the auditors issued an unqualified audit certificate. The Supervisory Board concurred with the audit findings, is in agreement with the annual financial statements for the year ended 31 December 2013 and the operational and financial review, including the dividend recommendation, submitted to it by the Management Board, and hereby approves the 2013 annual financial statements in accordance with section 96(4) Aktiengesetz (Austrian Companies Act).

The auditors Deloitte Audit Wirtschaftsprüfungs GmbH audited the **2013 consolidated financial statements** for compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board, which are applicable in the EU, and the Group operational and financial review for compliance with the Austrian Business Code. The audit gave rise to no objections and the auditors found that the statutory requirements had been fully complied with. In the opinion of the auditors, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2013, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs) applicable in the EU. The auditors confirmed that the Group operational and financial review is consistent with the consolidated financial statements, such that the statutory requirements for exemption from the obligation to prepare consolidated financial statements according to Austrian law are fulfilled, and issued an unqualified audit certificate. The Supervisory Board concurred with the audit findings.

St. Pölten, 2 April 2014

The Supervisory Board

Burkhard Hofer

Chairman

LIST OF ABBREVIATIONS

AFS:...............................Available for sale

ALCO:............................Asset Liability Committee

ALM:..............................Asset Liability Management

BIRG:.............................Intervention and Restructuring Act

BWG:..............................Banking Act

CDS:...............................Credit default swap

CEE:...............................Central and Eastern Europe

CEO:...............................Chief Executive Officer

CFO:...............................Chief Financial Officer

CRD IV:.........................Capital Requirements Directive IV

CRO:...............................Chief Risk Officer

CRR I:............................Capital Requirements Regulation

CSC:...............................current service cost

CVA/DVA:.....................Credit/Debt Valuation Adjustmentl

DBO:...............................defined benefit obligation

EBA:...............................European Banking Authority

ECB:...............................European Central Bank

EBRD:............................European Bank for Reconstruction and Development

EIB:................................European Investment Bank

EIU:................................Economist Intelligence Unit

EMIR:.............................European Market Infrastructure Regulation

ESI:................................Economic Sentiment Index

FATCA:..........................Foreign Account Tax Compliance Act

FMA:..............................Austrian Financial Market Authority

FTE:...............................Full-time equivalent

FX:.................................Foreign Exchange

GDP:..............................Gross domestic product

HC:.................................Head count

IAS:................................International Accounting Standards

ICAAP:..........................Internal Capital Adequacy Assessment Process

ICS:................................Internal control and risk management system

IFRS:..............................International Financial Reporting Standards

IMF:...............................International Monetary Fund

INT:...............................interest cost

IPRE:.............................Income-producing real estate

IT:...................................Information technology

KfW:..............................Kreditanstalt für Wiederaufbau

LCR:..............................Liquidity coverage ratio

LGD:..............................Loss given default

LIP:................................Loss identification period

NPA:..............................Non-performing asset

NPL:..............................Non-performing loan

NSFR:............................Net stable funding ratio

OECD:............................Organisation for Economic Cooperation and Development

OeNB:............................Österreichische Nationalbank

OIS discounting:........Overnight index swap discounting

OMT:..............................Outright monetary transaction

OTC derivative:..........Over-the-counter derivative

OTC-Optionen:............Over-the-Counter Optionen

PD:.................................Probability of default

PIIGS:............................Portugal, Ireland, Italy Greece, Spain

RICO:.............................Risk Management Committee

S&P:..............................Standard & Poor's

SMEs..........................Small and medium-sized enterprises

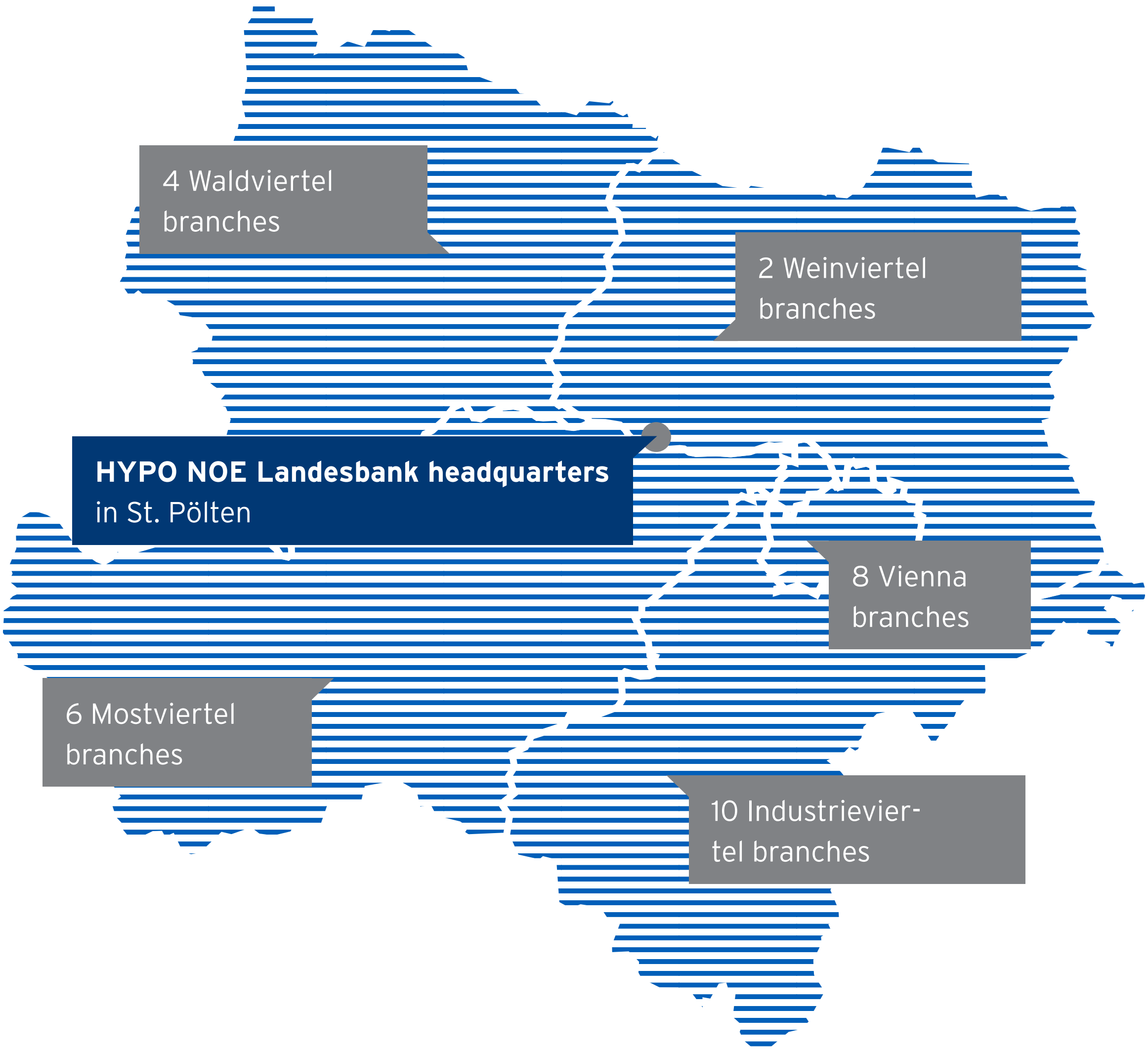
UGB:..............................Austrian Business Code

UK:................................United Kingdom

USA:..............................United States of America

WIFO:............................Austrian Institute of Economic Research

YoY:...............................Year on year



HYPO NOE LANDESBANK – **30 LOCAL branches**

Your satisfaction comes first. Our team of well trained staff stand ready to provide you with top-quality service at 30 branches in Lower Austria and Vienna.

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CREDITS

Proprietor and publisher: HYPO NOE Gruppe Bank AG

Editorial content: HYPO NOE Gruppe Bank AG

Design: Goldegg Verlag GmbH, Vienna, www.goldegg-verlag.com

Printed by: Druckerei Theiss

Printed on 100% chlorine-free paper with PEFC certification

(the raw materials used to manufacture the paper come from sustainably managed forests)

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