HYPO NOE

ANNUAL REPORT 2017

130 YEARS LANDESBANK 1888-2018

CONTENTS

Group financial
HIGHLIGHTS

EUR '000	2017	2016
IFRS consolidated statement of comprehensive income		
Net interest income	109,665	124,439
Credit provisions	9,100	-7,789
Profit before tax	**40,777**	**93,430**
Income tax expense	-9,658	-23,432
Profit attributable to owners of the parent	**30,953**	**69,820**
IFRS consolidated statement of financial position		
Total assets	14,368,013	15,392,051
Loans and advances to customers	10,230,232	10,854,932
Debts evidenced by certificates	6,893,636	7,698,831
Equity (incl. non-controlling interests)	676,401	647,368
Consolidated capital resources in accordance with CRR/CRD IV		
Eligible core capital	646,015	604,533
Total eligible core capital	646,015	632,730
Risk-weighted exposure for credit risk	2,831,046	3,265,067
Capital requirement	259,854	295,994
Surplus capital	386,161	336,736
Tier 1 capital ratio (%) in accordance with Art. 92(2)(b) CRR	19.89%	16.34%
Tier 1 capital ratio (%) in accordance with Art. 92(2)(b) CRR - fully loaded	20.17%	16.78%
Total capital ratio in % in accordance with Art. 92(2)(c) CRR	19.89%	17.10%
Total capital ratio in % in accordance with Art. 92(2)(c) CRR - fully loaded	20.17%	17.53%
Operational information		
Number of employees at year-end	812	863
Number of branches	27	27
Selected payments/levies/items in respect of public authorities		
Financial stability contribution (bank tax)	-9,403	-14,900
Dividends paid to the State of Lower Austria	-7,000	-2,000
Guarantee costs paid to the State of Lower Austria	0	-321
Income tax paid	-11,192	-11,228
Current income tax	-8,083	-20,511
Deferred income tax	-1,575	-2,921
Social security contributions and other pay-related contributions	-12,239	-13,260
Current tax assets	20,659	20,333
Deferred tax assets	4,076	1,443
Current tax liabilities	19,349	20,127
Deferred tax liabilities	43,075	36,955
Key indicators		
Return on equity before tax	6.2%	15.2%
Operating return on equity before tax	8.6%	18.5%
Return on equity after tax	4.7%	11.4%
Cost/income ratio	78.5%	56.0%
Operating cost/income ratio	67.1%	46.3%

Foreword by the
SUPERVISORY BOARD

Although 2017 was a very difficult year for the banking sector as a whole, the HYPO NOE Group can look back on a successful twelve months. The reporting period was shaped by increased regulatory requirements, continued all-time-low interest rates, and the Austrian Supreme Court's ruling on negative interest rates on consumer loans. As far as the latter was concerned, HYPO NOE proactively recognised provisions for potential repayments, the majority of which were made in 2017. During the year, the Group also made significant structural changes that leave it well placed heading into the future.

The merger of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG was completed on schedule. An in-house project team was responsible for integrating banking operations, a move which allowed for cost-effective and efficient implementation of the merger. This gave rise to highly effective, lean structures that will enable HYPO NOE Landesbank für Niederösterreich und Wien AG to further boost its profitability and competitiveness. Thanks to synergies and efficient decision-making processes, the HYPO NOE Group can now devote all of its energies to core business operations in Lower Austria and Vienna, and, selectively, in the neighbouring Danube region.

In 2017, the bank put to rest a number of matters connected with the past. The second of two sets of charges, in which one line of investigation involved HYPO NOE, were dropped after a ten-year enquiry - no evidence of any misconduct whatsoever by the bank's governing bodies was found.

The Supervisory Board was again involved in all decisions of fundamental importance during the reporting period. It also supervised the Management Board and advised it on the running of the Group. The Supervisory Board obtained reports from the Management Board and built up a comprehensive picture of the key economic and financial developments at the HYPO NOE Group.

The Supervisory Board can confirm that the Group performed well in 2017, both strategically and operationally, laying solid foundations for the future. Backed by a stable owner in the State of Lower Austria, the Group is clearly positioned with a streamlined structure that leaves it in good stead for coming reporting periods. This is also reflected in the excellent A/A-1 ratings with "stable" outlook from Standard & Poor's.

Solid earnings performance in 2017, and the effort that went into restructuring the Group, would not have been possible without the dedication of HYPO NOE's experienced employees - the contribution of every single staff member counts! The Supervisory Board would like to express its gratitude to all employees and the Management Board for their exemplary commitment.

Günther Ofner
Chairman of the Supervisory Board

Foreword by the
MANAGEMENT BOARD

Dear reader,

2017 was a special year for our bank in several respects. It marked 130 years of "Landes-Hypothekenanstalt für Niederösterreich", as the bank was named following its formal incorporation in 1888. Today we can look back on a successful and eventful company history. What is clear is that our low-risk business model has paid dividends during this time, with the security and stability of our owner - the State of Lower Austria - proving equally valuable. Clearly positioned and with strong ties to the regions we serve, we are a reliable, expert partner for customers in our core markets of Lower Austria and Vienna and, selectively, the neighbouring Danube region. The 2017 merger of the retail and residential construction businesses into the core bank created an important foundation for the future and a lean structure - which translates into efficient, straightforward and contemporary services for our customers. We are well placed for the future and optimistic as we head into the coming reporting periods.

Review of 2017

The prevailing climate in 2017 was challenging. Strict regulatory requirements, persistently low interest rates and the effects of the Austrian Supreme Court ruling on negative interest rates for consumer loans all had a significant influence on results. That said, the HYPO NOE Group still reported pre-tax profits of EUR 40.8m in the period under review, thanks to its clear focus and sustainable business model. Solid core earnings and increased reversals of risk provisions were among the key contributors to these respectable results. A proactive approach to cost management, as reflected in a significant reduction in administrative expenses, was another key factor. In this environment, we also fulfilled our traditional role as a state-owned bank, with new lending of EUR 1.2bn during the year providing strong economic impetus in our core markets.

As a result of the expiry of the state guarantee, 2017 was characterised by comparatively high redemptions of outstanding state-guaranteed bonds, amounting to about EUR 1.2bn, for which adequate preparation had been made well in advance by building up a suitably strong liquidity position. Following appreciable diversification in recent years, the refinancing structure was further expanded in 2017. The bank for Lower Austria once again lived up to its strong reputation on international capital markets. The highly successful placement of Austria's first benchmark public-sector covered bond issue with a soft bullet repayment structure was a particular success, and the issue was heavily oversubscribed. At the same time, deposits from customers - already at a high level - continued to rise, reaching EUR 4bn at the end of the reporting period. This development not only reflects the confidence in the bank shown by investors and the capital market, but also that of our customers, which comes as a reward for clear positioning as well as the security offered by the State of Lower Austria as its owner.

Coupled with measures to reduce the overliquidity consciously built up as a consequence of steps taken to increase the granularity of the portfolio, the HYPO NOE Group's total assets decreased to EUR 14.4bn at 31 December 2017. This is reflected in another fall in the already very low non-performing loan ratio to 1.7%, as well as in the low-risk business model. Risk-weighted assets (RWAs) likewise declined during the year, to EUR 2.8bn. The HYPO NOE Group's exceptional capital position improved still further, manifesting itself in a high hard Tier 1 capital ratio (CET1, fully loaded) of 20.17% (31 December 2016: 16.78%). This means that the HYPO NOE Group significantly exceeds the regulatory requirements, and also provides a sustainable capital basis, meaning that the bank is already in a position to meet future requirements.

The Bank's stable ownership structure, strong capitalisation and low-risk business model were the key factors that prompted rating agency Standard & Poor's to reaffirm its A/A-1 rating with a stable outlook for HYPO NOE Landesbank in 2017. In terms of sustainability, the bank is among the leaders in the sector. An excellent oekom research rating with Prime status is testimony to our outstanding commitment to environmental and social considerations.

Outlook for 2018

It can be assumed that the economic upturn will continue in 2018, and that Austria will record growth above both the euro-zone and EU-28 averages. Business sentiment indicators, and consumer confidence in particular, reinforce this assumption, while also signalling a broad-based economy recovery. A continuation of favourable underlying financial conditions in 2018, fuelled by increased demand for loans, will further bolster the economy. The HYPO NOE Group's core market, where income and purchasing power are both strong, covers the Austrian federal states with the highest forecast population growth. This is currently reflected in increased demand for owner-occupied housing.

The HYPO NOE Group remains committed to driving growth in this dynamic environment, while acting as a secure and reliable partner for financing activities in the region. The bank will focus on expanding its housing development business, as well as increasingly supporting corporate customers in the region and accelerating the pace of digitalisation - up-to-the-minute solutions are the order of the day.

Peter Harold
CEO
Chief Executive Officer

Udo Birkner
CFO/CRO
Chief Financial and Chief Risk Officer

Wolfgang Viehauser
CBO
Chief Business Officer

Profile of the
HYPO NOE GROUP

The Group's parent, HYPO NOE Landesbank für Niederösterreich und Wien AG (HYPO NOE Landesbank), is one of Austria's oldest and largest state-owned regional banks. Founded in 1888, it can look back on a long history in the banking and financial services sector. HYPO NOE Landesbank is wholly owned by the State of Lower Austria, enabling it to build on foundations of stable and dependable ownership. The Bank's emphasis on a regional focus, closeness to customers and sustainability has stood the test of time, and it remains strongly committed to this strategy.

HYPO NOE Group is a trustworthy partner to the public sector, real estate customers and large corporates, and retail and small and medium business customers in its core Lower Austrian and Viennese markets, as well as, selectively, in the Danube region. The product portfolio focuses on finance for social and hard infrastructure, as well as corporate, project, structured and real estate finance, and treasury solutions.

HYPO NOE Landesbank has 27 branches in Lower Austria and Vienna, serving some 80,000 customers.

GROUP STRUCTURE

As the parent company of a group that also includes HYPO NOE Leasing and HYPO NOE Real Consult, HYPO NOE Landesbank mainly serves large state and local government clients. In addition, facility management subsidiary HYPO NOE First Facility enables the Group to deliver real estate services that cover the entire life cycle of a property.

CORE MARKET

HYPO NOE Landesbank's home market is one of the most dynamic regions in Austria. Lower Austria and Vienna are among the country's wealthiest regions in terms of per capita income and purchasing power; together they generate 41% of Austria's gross domestic product. Some 40% of the nation's population lives and works in Lower Austria and Vienna, and the region's forecast population growth is the highest of any in the country. In these dynamic surroundings, HYPO NOE Landesbank is continuing to position itself as a strong partner for the public sector, property developers and large corporates, as well as retail and small and medium business customers.

BUSINESS MODEL

Formed as a mainstream mortgage bank in 1888, HYPO NOE Landesbank has remained true to its low-risk business model for 130 years. Landesbank's approach has been continuously modernised by introducing innovative product solutions - especially in the public sector and real estate segments - and today it is more up to the minute than ever. Retail and business banking completes the picture, making HYPO NOE Landesbank one of the leading universal banks in its core market.

In December 2017 stock exchange magazine Der Börsianer named HYPO NOE Landesbank third-best universal bank in Austria. This was the verdict of an independent jury, based on a thorough analysis of the Bank's key performance indicators, strategy, capacity for innovation, risk management and progress on digitalisation.

HYPO NOE is
100% owned
by the State of Lower Austria

40%
of Austria's population live and work in Lower Austria and Vienna

41%
of Austrian GDP is generated in Lower Austria and Vienna

+19%
Lower Austria has the highest projected population growth to 2075

ISSUER, COVERED BOND AND SUSTAINABILITY RATINGS[1]

'A/stable/A-1' Issuer rating
Standard & Poor's

'Aa1' Public sector covered bonds
Moody's

'Aa1' Mortgage covered bonds
Moody's

oekom research: Overall rating: 'C' "Prime" status

rfu: rfu qualified Overall rating: 'ba'

imug: Unsecured bonds: Positive (B)
Public sector covered bonds: Very positive (A)
Mortgage covered bonds: Positive (BB)

BUSINESS SEGMENTS

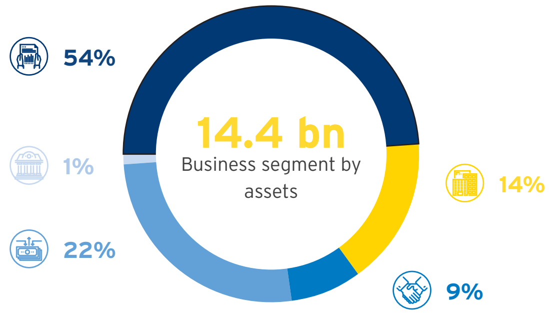
Public Sector: Financing for state governments, local authorities, public corporations and infrastructure companies; Religious Communities, Interest Groups and Agriculture

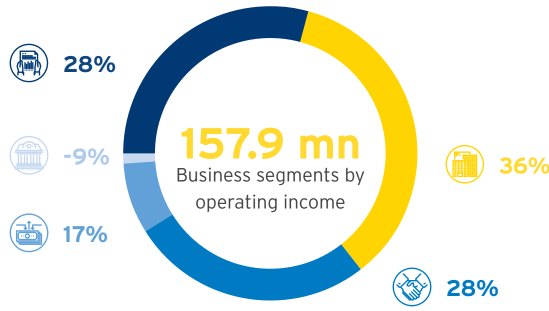
Real Estate & Large Corporates: Housing Development - finance for cooperative and commercial housing schemes; Real Estate Finance - finance for commercial property developments; Corporate, Project and Structured Finance; Real Estate Services

Retail and Corporate Customers: 27 branches in the core market (Lower Austria and Vienna); Lending, investment, payments and insurance solutions for retail, professional and small and medium business customers

Treasury & ALM: Financial market experts and advisers to institutional customers

Corporate Center: This segment is used to report on business activities that are not allocated to other segments. Corporate Center is also used for consolidation effects where these are not recognised under other segments.





GROUP KEY INDICATORS (IFRS) AT A GLANCE

EUR '000 / %	2017	2016
Total assets	14,368,013	15,392,051
Loans and advances to customers	10,230,232	10,854,932
Deposits from customers	4,049,846	3,847,855
CET1 ratio (fully loaded)	20.2%	16.8%
Profit before tax	40,777	93,430

1 As of 31 December 2017.

REFERENCE PROJECTS

Public Finance
Extension to Melk nursing home and care centre

In 2015 the Lower Austrian state government initiated a negotiated procedure for the procurement of lease finance to build an extension to the state care home in Melk, which has now been renamed Pflege- und Betreuungszentrum Melk (Melk nursing home and care centre). HYPO NOE Leasing GmbH won the tender, and also took charge of the commercial management of the project in conjunction with the lease financing.

The extension - a modern, functional building that meets the latest standards in terms of building services and energy standards - was completed and handed over in October 2017.

It houses a separate area for hospice and palliative, long-term coma and intensive care, as well as a transitional care and short stay unit. The capacity of the centre, which is known for its pioneering role in the Lower Austrian hospice movement, was raised to 144 beds.

- Construction costs: EUR 9.3m
- Total floor space: approx. 2,000 square metres on three floors
- Extension: 44 beds; total capacity: 144 beds
- 15 hospice and palliative care beds.

Corporate Customers
List General Contractor GmbH

The success story of Austrian family firm List General Contractor (List GC) goes back to a small carpentry shop and a big vision, in the 1950s. Today, with the third generation at the helm, List GC creates interiors boasting the ultimate in design and craftsmanship for exclusive motor and sailing yachts, and exquisite apartments and residences. Many customers around the globe entrust highly complex projects to the company's specialists.

HYPO NOE Landesbank helped restructure the business, coming up with a comprehensive finance package featuring Lower Austrian state government subsidies and soft loans from the ERP Fund. The money went towards the reconstruction and expansion of the firm's factory in Bad Erlach. The project marked another chapter in the Bank's successful efforts to broaden its relationships with leading Lower Austrian companies.

- List Contractor GmbH - Interior design and outfitting of yachts and residences
- 90% of output exported, 197 employees
- Reconstruction and reintegration of the furniture production operation - all production stages concentrated in Bad Erlach
- HYPO NOE Landesbank the finance partner for the rebuilding of the production site

Housing Development
Terraced housing in Waidhofen an der Thaya

The operations of our Housing Development unit continued to expand in 2017. For example, HYPO NOE Landesbank financed about 50% of the total construction cost of the terraced housing development at Franz Gföller-Strasse 93-95, Waidhofen an der Thaya. The rest of the funding came from the State of Lower Austria's home building loan subsidy scheme, as well as affordable contributions from the tenants.

The project was implemented by housing cooperative Schönere Zukunft. The development, in the west of the town, comprises ten low energy terraced houses with parking spaces. Care was taken to provide sustainable energy supplies for the homes - each of which has 100 square metres of floor space on two storeys - and they are connected to district heating from a nearby local CHP station.

- Ten terraced houses with a total of approx. 1,000 square metres of living area
- Nomination for a 2017 Lower Austrian Homebuilding Award
- Use of funds from the Lower Austrian home building loan subsidy scheme
- Green building methods including controlled ventilation

Corporate Customers
SUNPOR Kunststoff GmbH

Expanded polystyrene (EPS), commonly known as polystyrene foam, is used as building insulation, impact protection and packaging material. One of the world's largest producers of this versatile material is St. Pölten based SUNPOR, one of Lower Austria's flagship companies. SUNPOR acts as a material supplier to business customers. It is mainly known to the public for the fact that SUNPOR materials go into every second safety helmet manufactured around the world. HYPO NOE Landesbank has built up an ever closer relationship with the company over the past few years, and is proud to count this "hidden champion" among its customers.

The Bank's support for this highly export oriented business takes the form of a syndicated loan and a revolving credit facility, as well as handling most of its payments.

- Annual revenue of approx. EUR 300m
- Plants in St. Pölten's Stattersdorf and St. Radlberg districts, with a total of 190 employees
- Founded in 1986 as an operation of Norwegian conglomerate O.N. Sunde
- HYPO NOE Landesbank the principal bank of this "hidden champion"

Corporate Customers
Christian Blazek Group

Christian Blazek has been in business since 1987. Together with his wife Michaela he runs a number of companies, mostly in southern Lower Austria. Their strategy involves buying high-potential businesses and properties in Lower Austria, and applying the group's know-how and resources to developing them and generating value added as a result.

The group purchased and renovated the Raxwerke in 2000, transforming the factory into a coveted property for tenants in the industrial, distribution and craft sectors. The building stands out for its historic importance, and the excellent transport links of its Wiener Neustadt location. HYPONOE Landesbank financed this business property in accordance with the customer's requirements in 2017.

- Christian Blazek Group - a leading Lower Austrian enterprise
- Core business lines: landscape gardening, quarries and retail
- Other properties owned by the group: Schloss Wartholz - a former imperial residence and place of birth of Otto von Habsburg, and home to the Wartholz market garden
- HYPONOE Landesbank the group's finance partner

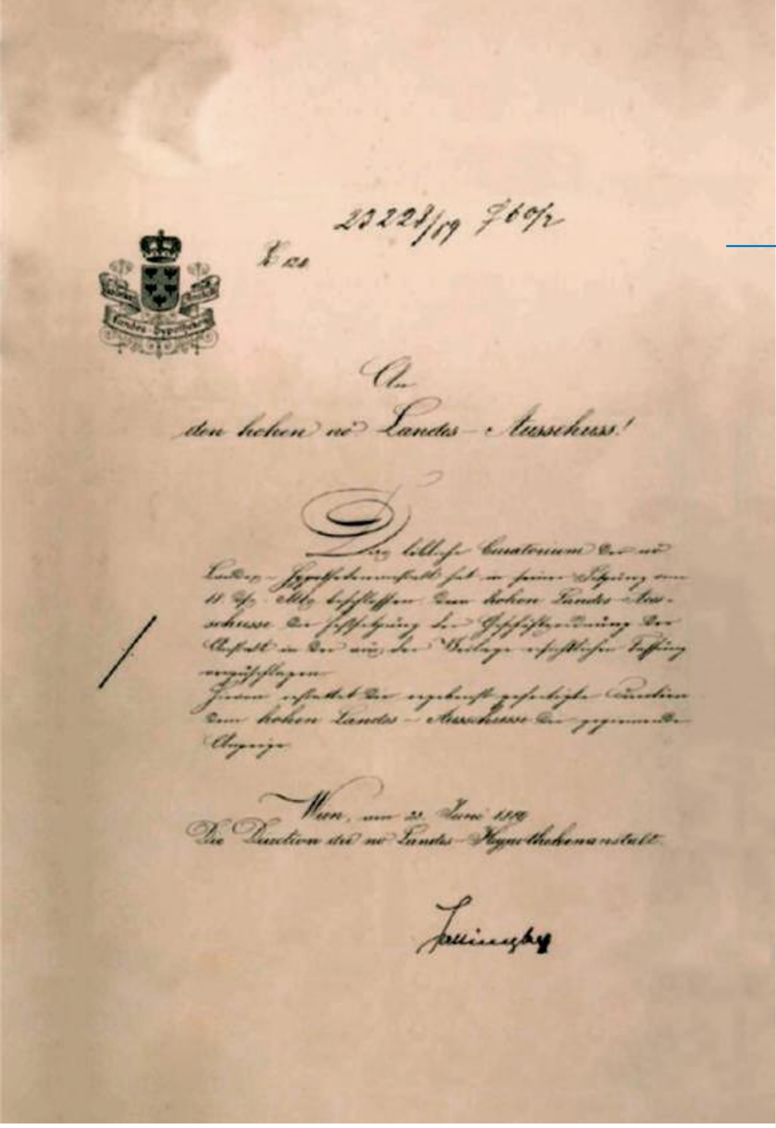
Real Estate ServicesInstitute of Science and Technology Austria (IST Austria)

The IST campus, near Klosterneuburg, nestled in the Vienna Woods, has tremendous potential thanks to its expansive grounds. By 2026 some 1,000 scientists from all over the world will be researching there. The official opening of IST Austria took place in June 2009. More than 40 research groups are currently at work on the campus.

The total construction time is due to extend over a total of 16 years, from groundbreaking in 2006 to scheduled completion in 2022, and is divided into two phases. HYPO NOE Real Consult GmbH was charged with management of the project for its entire duration.

- 179,000-square-metre campus
- Additional 75,000-square-metre technology park
- Completion of the entire project due in 2022
- HYPO NOE Real Consult GmbH responsible for project management

LANDESBANK: 130 YEARS OF HISTORY



An
den hohen nö Landes-Ausschuss!

Die Direction der nö Landes-Hypothekenanstalt

FOUNDING CHARTER

The early 19th century saw the emergence of mortgage banks known as Bodenkreditinstitute. They were set up by provincial and national governments, which assumed liability for loans extended to agricultural enterprises, mortgages granted on municipal land and funding provided to local authorities. The Lower Austrian state parliament resolution of 1888 laid the foundations for the Bank's enduring success. Landeshypothekenanstalt für Niederösterreich, the first institution of its kind in modern-day Austria, opened for business in Palais Niederösterreich at Herrengasse 13 in Vienna in summer 1889.

DUAL MONARCHY AND FIRST WORLD WAR

Landeshypothekenanstalt's base in Vienna – the financial capital of the Habsburg empire and seat of the monarchy – was a catalyst for the bank's growth, and it quickly became a leading mortgage lender, as well as the model for similar institutions. Although agricultural lending was the main priority, the bank's first managing director, Josef Ritter von Hattingberg, had the population of Vienna firmly in his sights and laid the foundations for extensive mortgage lending.

INTER-WAR YEARS AND THE GREAT DEPRESSION

Following the establishment of the First Austrian Republic, the former crown land of Lower Austria was divided into the autonomous provinces of Lower Austria and Vienna. Following the abolition of its main guarantor, Landeshypothekenanstalt für Niederösterreich was wound up on 1 January 1922. Convinced that its own mortgage bank was an essential part of the newly founded federal state, the Lower Austrian parliament voted on 22 March 1922 to establish a successor institution, Landes-Hypothekenanstalt für Niederösterreich. The bank funded the construction of orphanages, hospitals, schools, residential facilities, water pipes and electricity generating plants.

SECOND WORLD WAR AND POST-WAR RECONSTRUCTION

Shortly after Austria was annexed by Germany in 1938, its legal system was harmonised with that of the German Reich. As a key partner for agricultural businesses, Landes-Hypothekenanstalt für Niederösterreich was affected by the Hereditary Estate Act (Erbhofgesetz). The Act made heritable farms unmortgageable and unsaleable, robbing the bank of an important customer group. The Wipplingerstrasse headquarters was damaged towards the end of the war. In 1955, Landes-Hypothekenanstalt für Niederösterreich had 145 employees. One focus for the bank's operations was residential construction funded by the European Recovery Program. After opening new branches in the late 1960s, Landes-Hypothekenanstalt für Niederösterreich was well on the way to becoming a universal bank.

RELOCATION TO ST. PÖLTEN, PARTIAL PRIVATISATION AND REBRANDING

St. Pölten became the capital of Lower Austria in 1986. In view of its close ties with the state, the Bank moved its headquarters to the town in 1998. The Group's integration into Österreichische Volksbanken-Aktiengesellschaft (ÖVAG) in 1996 generated synergies in payment transactions and created new growth opportunities. A major turning point in the bank's history came in 2007, as the Bank split into two parts, Hypo Investmentbank AG and Niederösterreichische Landesbank-Hypothekenbank Aktiengesellschaft. ÖVAG then transferred its entire stake in the bank to the Lower Austrian government. The new HYPO NOE Group brand was unveiled in 2010.

TODAY HYPO NOE IS ONE OF AUSTRIA'S LARGEST AND OLDEST STATE-OWNED REGIONAL BANKS

HYPO NOE's move into its new headquarters in St Pölten was perfectly timed, coinciding with the company's 125th anniversary. The unmistakeable building stands out for its aesthetic appeal and functionality. Power is supplied by a photovoltaic array, and employees have access to a vehicle charging station. Long ago, the bank was based in a small corner of the Lower Austrian government offices, and the new headquarters underlines how far the Group has come over the past 130 years. In 2017, the banking operations of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG were merged into HYPO NOE Landesbank für Niederösterreich und Wien AG, which is now ideally placed heading into the next 130 years.

HYPO NOE – COMMITTED TO SUSTAIN-ABILITY SINCE 1888

Taking responsibility for the region

Sustainability strategy and **ETHICAL BUSINESS PRINCIPLES**

The basis for the HYPO NOE Group's sustainability strategy is a value framework – consisting of the mission statement, code of conduct, and ethical and business principles – as well as the Group's current and future sustainability initiatives. These provide the foundation for sustainable actions in the Group's day-to-day operations.

The mission statement encapsulates the Group's philosophy as a regional bank for Lower Austria and Vienna, with a strong focus on HYPO NOE's reliability and stability as a banking partner and an employer, which form part of a tradition stretching back more than 130 years.

The code of conduct serves as a guide for meeting all of the challenges the Group faces. Its aim is to ensure the Group can systematically live up to its commitment to reconciling outstanding business performance with the highest ethical standards.

The ethics guidelines and business principles comprise inclusion and exclusion criteria, which provide the basis for initiating new business throughout the HYPO NOE Group. Ethical business principles are a paramount concern, and as such they have been integrated into our strategy and are increasingly reflected in the Bank's processes. Detailed knowledge of the objectives of financing is vital to identifying the Group's risk exposures and those of its customers, and to developing effective services. Inclusion criteria are used to promote business activities in those areas which the Group believes generate the greatest benefits for society, while exclusion criteria help to identify sectors where the Group chooses not to operate, with a view to promoting social development.

HYPO NOE LANDESBANK'S SUSTAINABILITY RATINGS[1]

As a financial institution, an excellent rating is a key factor in HYPO NOE Landesbank's success. In addition to its issuer and covered bond ratings, the bank of Lower Austria engages in a comprehensive sustainability rating process that takes environmental, social and economic factors into consideration. HYPO NOE Landesbank is currently evaluated by sustainability rating agencies oekom research, imug and rfu.

A long-term sustainability programme forms the basis of the Group's efforts to further intensify its activities in this area. In 2017 HYPO NOE Landesbank published the third Group-wide sustainability report. The comprehensive report is prepared in accordance with the Global Reporting Initiative (GRI) G4 Guidelines (core option and the Financial Services Sector Disclosures) and therefore fulfils the internationally recognised principles for sustainability reporting.

Further information on the Group's sustainability programme, as well as the current sustainability report including the GRI index, can be found at www.hyponoe.at/nachhaltigkeit.

Oekom has granted the Bank a 'C' Rating with Prime status, attesting to the Group's above-average commitment to environmental and social considerations.

In 2016, HYPO NOE Landesbank received a rating from Austrian sustainability agency rfu for the first time, and was awarded rfu qualified status (rating: 'ba'). Only the best businesses are granted rfu qualified status and included by rfu in its sustainable investment guidance.

The ratings awarded by imug further underline HYPO NOE Landesbank's sustainability strategy. The Bank is in the top quartile of all public sector covered bond issuers rated by imug, and is the highest rated of all such issuers in the savings bank sector – imug categorises HYPO NOE Landesbank as an issuer in this sector, which includes provincial banks and mortgage institutions.

For mortgage covered bonds, HYPO NOE Landesbank is also in the highest quartile of all rated issuers, and is top among issuers in the savings bank sector.

HYPO NOE Landesbank is in the upper quartile of all rated financial institutions, including development banks, and is top among all rated issuers in the savings bank sector.

1 As of 31 December 2017.

Compliance and **CORPORATE GOVERNANCE**

For the entire Group, conducting business ethically and preventing corruption are essential preconditions for properly functioning business operations. The HYPO NOE Group recognises the negative impacts of corruption and bribery on business activities as a central risk, and has put in place corresponding measures to guard against these in its operations. Measures to ensure that all staff act with integrity are reinforced by internal rules, which provide a clear overview of the legal requirements. All employees of subsidiaries and investments in which the Group holds a stake of over 50% are considered officials and are subject to the corresponding strict statutory regulations.

ORGANISATIONAL STRUCTURE

The permanently established function of Compliance and Anti-Money Laundering Officer reports directly to the Group Management Board.

INTERNAL COMPLIANCE CODES

Internal compliance codes are regularly reviewed and updated by their authors. In particular, new regulations and changes in the law are immediately incorporated into the existing guidance and communicated to staff. The following compliance rules and guidelines are in place at present:

- Compliance Manual: standard regulations covering all central compliance topics for the HYPO NOE Group and its employees
- Manual for Combating Money Laundering and Terrorism Financing
- The HYPO NOE Group's sanctions policy sets out the latest international sanctions and clearly describes the Group's policy
- New product introduction processes: conflicts of interest policy, which covers the subject of securities donations and granting and accepting benefits in accordance with the provisions of the new Wertpapieraufsichtsgesetz (Securities Supervision Act) 2018
- HYPO NOE Group Anti-corruption Guideline
- Investment Advice and Rules of Conduct Manual: provides guidance regarding, among other matters, the obligation to act in the best interests of the customer in connection with securities services
- Standard Compliance Code (principles of proper compliance; insider laws and market manipulation; guidelines for dealings by bank employees; conflicts of interest and benefits; order execution; principles of proper financial analysis; special regulations for investment companies): voluntary code of practice of the Austrian banking industry, defined in greater detail in the Compliance Manual.

RAISING AWARENESS WITHIN THE GROUP

There are clear internal anti-corruption guidelines and this area forms an integral part of the Group's compliance rules. Every new employee is obliged to complete an online compliance and anti-money laundering training course within four weeks of joining the Group. All new employees also receive face-to-face training as part of their induction. Existing employees must also complete this training at regular intervals. Anti-corruption policy is a core topic in the compliance training, and anti-corruption principles and recommendations are collated and published internally in the HYPO NOE Group Anti-corruption Guideline.

Current developments in **SUSTAINABILTY ACTIVITIES**

100% renewable electricity **AT ALL LOCATIONS**

HYPO NOE Landesbank does not only consume electricity that is exclusively from renewable sources – it also generates zero-emission electricity itself using photovoltaic panels. Sustainability principles have also been applied at the HYPO NOE Group's St. Pölten headquarters, which features state-of-the-art energy-efficiency measures and generates renewable electricity thanks to a photovoltaic array, which produced over 33,000 kWh of zero-emission power in 2017. The innovative, low-energy building has received the klimaaktiv silver award, as well as Green Building certification from the EU. Like all of HYPO NOE Landesbank's offices and branches, the headquarters only uses renewable electricity.

Electric vehicles for a fleet of the future

Combating climate change starts with transportation. HYPO NOE Landesbank's St. Pölten headquarters has five rapid charging stations, as well as a free-to-use charging station for event guests and customers. The aim of the Group's climate and energy policy is to keep its environmental footprint as small as possible. Under the banner of "the vehicle fleet of the future", the Bank's vehicle fleet is systematically being restructured to reduce emissions. One of the objectives is to reduce the environmental impact of business-related travel significantly, in particular on frequently used routes between Lower Austria and Vienna. HYPO NOE Landesbank's vehicle fleet includes four electric cars at present. The Bank's commitment was recognised with the award of project partner status in the klimaaktiv mobil action programme, in June 2017.

Sustainability adds value

The UN Sustainable Development Goals (SDGs) set benchmarks for sustainable development up to 2030. As a regionally-focused financial services provider, HYPO NOE Landesbank wants to make a significant contribution to achieving these targets, for example by providing finance for public projects with added value in the areas of climate protection, health, education, culture and infrastructure. The HYPO NOE Group follows a target-led energy policy, and has put in place an energy management system that is certified in accordance with the ISO 50001 standard. Aside from its financing activities, the HYPO NOE Group has also established workplace health management.

The HYPO NOE Group is strongly rooted in its region and makes an important contribution to securing jobs and economic growth in that region. As an expert local partner, HYPO NOE Landesbank finances many public projects that contribute added value to society. An extension to a nursing home and care centre, expansion of a school complex and major renovation of a state hospital represented important building blocks in the sustainable development of municipalities, regions and towns.

Affordable sustainable housing

In excess of EUR 433m was disbursed by HYPO NOE Landesbank for sustainable building projects in Lower Austria and Vienna in 2017. As a regional bank, HYPO NOE Landesbank was thereby able to make an important contribution to the sustainable development of the region. Financing of EUR 840m is currently provided by the Group in the housing development sector alone. EUR 750m of this sum is invested in non-profit housing development, and the remainder in commercial development. Finance for non-profit housing development has a particularly strong emphasis on sustainability, because investment is primarily in affordable housing designed with a long-term perspective, almost all of which is subsidised. The HYPO Niederösterreich Regional Savings Account also reflects the Bank's responsibilities to the region, and offers an attractive interest rate. It is designed to clearly demonstrate that money deposited by customers in the region stays in the region, as 75% of all loans extended by HYPO NOE Landesbank support residential construction projects in Lower Austria and Vienna. The product had attracted EUR 89.5m in savings deposits by the end of 2017.

Leitbetriebe Austria

HYPO NOE Landesbank was certified as one of Austria's leading companies following an extensive evaluation, in recognition of its resilience, its sustainability and its investments in the future and its employees. This means the Bank has become a partner in an exclusive, country-wide network of a total of 240 highly-regarded businesses.

Only companies that focus on long-term success rather than short-term profits are awarded leading company status. A leading company supports the development of its region and its sector, as a result of its values and its approach to the market. It accepts social and environmental responsibility. Therefore, it is a role model for other businesses, and gains competitive advantage. Companies' eligibility is documented using a catalogue of criteria. These do not only include a company's size and achievements – the company should also play a leading role in its sector.

HYPO NOE
Sponsorship Activities & Events

A Strong Sense Of Commitment
THE DRIVING FORCE BEHIND SPORTS, THE ARTS AND SOCIAL INITIATIVES

As a bank rooted in Lower Austria, HYPO NOE Landesbank has a strong sense of regional responsibility and in 2017 once again supported a range of social, local-infrastructure, educational, healthcare and sports projects. The Bank will continue to demonstrate this commitment and to make valuable contributions to the lives of people in local communities going forward.

Social initiatives

In its role as the bank for Lower Austria, HYPO NOE Landesbank takes its social responsibility to the region seriously, and makes donations to and supports projects in Lower Austria, Vienna and the Danube region. We take steps to ensure that these projects have a long-term impact and are aligned with the Bank's values and objectives. Donations are primarily made to non-profit organisations and clubs, or to support specific projects..

Alexanderhof stables

In 2017 HYPO NOE Landesbank supported the Alexanderhof horse riding stables in Blindenmarkt, where people with special needs receive equine-assisted therapy. Inclusive horse-riding activities can be adapted to meet specific individual requirements and have proven positive effects on the body's organ, musculoskeletal and circulatory systems.

Hilfe im eigenen Land

The charity Hilfe im eigenen Land provides unbureaucratic assistance to people who require help quickly. Last year these included a single mother and her seriously ill 12-year-old daughter from St. Pölten, who received urgent treatment and medicine with the help of a donation made by HYPO NOE Landesbank.

Arts and Culture

Arts and culture is another core element of the HYPO NOE Landesbank's sponsorship strategy. The Bank fulfils its social responsibilities in this area by cooperating with various local initiatives. It is the main sponsor of various highlights in the Lower Austrian cultural calendar, including:

Niederösterreichische Kulturwirtschaft (NÖKU)

NÖKU positions itself as the flagship organisation for culture in Lower Austria. It brings together a host of cultural institutions, exhibitions and event organisers such as Carnuntum, Kunstmeile Krems, the Festspielhaus St. Pölten and Schallaburg castle. In addition to the coordinating role it plays for the region's cultural attractions, NÖKU also fulfils a quality assurance function and secures necessary funding.

Die Garten Tulln

The Lower Austrian Garden Show in Tulln has developed into a showcase project and is Europe's first and only eco-friendly garden show. It is a supporter of the Natur im Garten initiative, which is aimed at promoting and providing information on gardening without pesticides, chemical and synthetic fertilisers and peat.

2017 Lower Austrian State Exhibition – Alles was Recht ist

Pöggstall castle in the Waldviertel region took centre stage for the 2017 Lower Austrian State Exhibition, which takes place every two years. The show explored societal rules and the history of law in Lower Austria, encompassing personal and social as well as historical aspects.

Supporting up-and-coming artists – HYPO NOE Kunst & Kultur artconnection

The HYPO NOE Young Art Collection was relaunched as artconnection under the new HYPO NOE Kunst & Kultur umbrella brand. artconnection establishes HYPO NOE Landesbank as a supporter of contemporary art and young artists, bolstering its image as an innovative financial institution that lives up to its social responsibilities. A specially formed committee of experts provides support in the artist selection process.

Sport

HYPO NOE Landesbank is one of Lower Austria's biggest sports sponsors. The Bank's corporate values – stability, trust and sustainability – are key considerations when making decisions on current and future sponsorship commitments. Brand values such as enthusiasm, team spirit and continuity are especially important when it comes to sports sponsorship; values which are underpinned through the sponsorship of clubs, athletes and brand ambassadors from a range of sports.

The sponsorship strategy encompasses team, ball and individual sports as well as youth programmes. On social media the HYPO NOE sporting family sends out a strong message and has over 10,000 followers.

The HYPO NOE sporting family – success, energy and emotion

HYPO NOE Landesbank sponsored top ball-sport teams in 2017: the Hypo NÖ women's handball team, SKN St. Pölten (men's football club in Austria's top division), Moser Medical UHK Krems (men's handball) and VCA Amstetten (men's volleyball). In individual sports HYPO NOE Landesbank was represented by up-and-coming tennis star Lucas Miedler from Tulln and golf pro Benjamin Weilguni from Krems.

Sponsored by the Bank for the first time, beach volleyballers Clemens Doppler and Alexander Horst took runners-up medals at the 2017 World Championships held in Austria. The Bank will continue its relationship with the pair in 2018. The Silver Boys, as they are known, are now firmly established members of the HYPO NOE sporting family.

Events

HYPO Invest Club

The HYPO Invest Club is now a firmly-established event and took place for the eleventh time at Vienna's Palais Niederösterreich on 23 October 2017. Representing the hosts, Chairman of the Management Board Peter Harold took part in a discussion on whether Brexit marked the beginning of a restructuring in Europe.

He was joined on the expert panel by Lower Austrian state councillor for finance Ludwig Schleritzko; Reuters correspondent Kirsti Knolle; president of the Austro-British-Society Kurt Tiroch; director general for Europe at the Austrian Ministry for Europe, Integration and Foreign Affairs Alexander Schallenberg; and moderator Christiane Teschl.

A full house enjoyed the fascinating debate, which encompassed the ramifications of Brexit, adopting a more regional approach within the EU, and how direct dialogue between citizens and politicians can help to reduce uncertainty.

Partnerschaftstag 2017

On 18 July 2017, HYPO NOE Landesbank hosted Partnerschaftstag 2017 (partnership day 2017) at the Federal Ministry of Defence and Sport (now the Federal Ministry of Defence). The event reaffirmed the mutual identification underpinning the partnerships between the Bank and the selected Austrian Armed Forces units it supports in Lower Austria and Vienna.

The highlight was the promotion of Chairman of the Management Board Peter Harold to the rank of brigadier, which took place in the ministry's ceremonial hall accompanied by music from Gardemusik Wien and in the presence of distinguished guests of honour, including Lower Austrian state councillor for finance Ludwig Schleritzko, chairman of HYPO NOE Landesbank's supervisory board Günther Ofner and Austrian Armed Forces chief of the general staff General Othmar Commenda.

Culture at Grafenegg

HYPO NOE Landesbank invited more than 1,000 guests from politics, business and society – and above all from among its customers – to a wonderful evening of culture at Grafenegg castle's Wolkenturm open air concert venue on 17 August 2017.

On a glorious summer evening, the Management Board of HYPO NOE Landesbank greeted guests in the castle grounds at a reception to mark the merger of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG, featuring regional specialities and Lower Austrian wines. Afterwards the guests were exclusively invited to the dress rehearsal for the opening night of the Graffenegg Festival, featuring Lower Austria's Tonkünstler Orchestra and Otto Schenk in the role of narrator in Der Freischütz.

Start-ups – opportunities and risks

In collaboration with the Alois Mock Institute, in September 2017 HYPO NOE Landesbank hosted an expert panel discussion on the topic of start-ups at the HYPO NOE headquarters.

Robert Ziegler moderated the discussion with the CEO of start-up agency riz up, Petra Patzelt, joined by angel investors and business owners. HYPO NOE's Chairman of the Management Board Peter Harold, himself a start-up mentor, was keen to emphasise the innovative qualities of young entrepreneurs. Wolfgang Sobotka, president of the Alois Mock Institute, was impressed by the importance HYPO NOE Landesbank attaches to the topic.

Two of the entrepreneurs being mentored by HYPO NOE Landesbank used the opportunity to present their businesses: Lena Weichselbaum served up some of the alcoholic tea she produces and Oliver Pesendorfer introduced his McCube take-away house concept with the help of a video.

At the end of the day, IT'S PERSONAL CONTACT WITH CUSTOMERS THAT COUNTS

Birgit Kuras is a former Wiener Börse AG management board member and a highly experienced capital market analyst. A respected financial market expert, she joined the HYPO NOE Landesbank Supervisory Board in 2017.

The central theme of our interview with Ms Kuras is confidence. Ten years on from the outbreak of the global economic and financial crisis, it is worth asking whether people have regained their trust in financial markets. In this wide-ranging interview, she also talks about the significance of regional banks when it comes to strengthening the economy, tells us who the biggest fallers were in the confidence rankings in the aftermath of the crisis, and why the role of today's supervisory boards is about more than just oversight.

It looks as if the economy is back on track for sustained growth, and over the past few months forecasts have been revised upwards several times. Is the economy starting to overheat?

It's true that analysts and economic researchers have been falling over themselves to issue improved forecasts over recent months. Not just for 2017, but also for the next few years. Experts predict strong growth for 2018. So it's safe to say that the economy is booming: companies' order books are bulging, they are operating at full capacity, and there are shortages of suitably skilled workers in some sectors. Increasingly, you will even hear some experts talking about an overheating economy and a subsequent collapse.

"CONFIDENCE AND TRUST ARE THE MOST SIGNIFICANT DRIVERS OF THE ECONOMY

The opposing camp do not recognise any economic tensions at present and expect the upturn to continue. This view is supported by the absence of a typical symptom of an overheating economy: a wage-price spiral. If this was happening, the shortage of workers would be reflected in higher wage settlements, in tandem with increased consumption at higher prices, which would then repeat itself and spiral upwards. But there is no evidence of this at the moment.

What are the reasons for the ongoing economic upturn, and to what extent is confidence playing a role?

I'm convinced that at the end of the day, confidence and trust are the most significant economic drivers. This is then reflected in measurable factors such as higher investment, increased private consumption and rising exports. Interest rate policy is a classic example of an instrument which in theory is ideally suited to boosting the economy, but which will fail without sufficient confidence.

Despite huge interest rate cuts, attempts to stimulate investment and private consumption have been unsuccessful for some time now. Put simply, the reason has been a lack of confidence in the future. Even with attractive financing options on offer, corporate investment has been low and consumers have stopped buying. On the other hand, tax cuts, direct investment incentives and, of course, improved export opportunities have proven more effective.

Many stock markets have reached record highs. Can they sustain the current pace of growth?

Stock markets reflect expectations of future developments, so they are always a step ahead of real economic data. In this sense, it's not surprising that leading indicators used to measure the confidence of managers, investors and other stakeholders have a significant impact on financial markets. And in answer to your question: yes, share prices are riding high. But valuations are fundamentally based on profit trends, which are overwhelmingly positive. In addition, alternative investments are currently unattractive due to the low interest rates in Europe. In other words, there are no signs of a bubble at the moment. Needless to say, the sensible and advisable thing to do is to keep a careful eye on developments and diversify risk with the help of professional investment advisers. Corrections are always possible with markets performing at these levels.

What is your assessment of the steps taken by regulators – are they a good way of building confidence in markets and their institutions?

You have to make a distinction here. Following the collapse of Lehman Brothers – the culmination of an unfortunate set of circumstances involving the central bank, politics and totally opaque capital market products – it was essential that central banks intervened quickly and efficiently in a concerted and focused firefighting effort. And this averted a catastrophe of massive proportions. It was also certainly right and proper that sustainable structures were put in place to boost transparency, tighten regulation – especially when it comes to volatile capital market products – and implement additional controls. In many cases, though, regulation has gone too far and overshot the target. The flood of data involved is often used ineffectively and ends up in data graveyards – but still manages to keep whole departments busy. Supervision is important, but it shouldn't be an end in itself. Regulations aimed at ensuring transparency and avoiding distortions are an important and sensible step, but they have to be effective and workable.

"IN MANY CASES, REGULATION HAS OVERSHOT THE TARGET

The issue of confidence is especially important for banks. What role have banks – especially regional banks – played in rebuilding trust in a properly functioning financial sector?

During the crisis, banks had to contend with the greatest loss of confidence. The whole sector was virtually portrayed as a criminal operation. So it was especially important for the banks to regain trust. Decades of experience have told us that personal contact counts at the end of the day. And this is where regional banks, by their very nature, play a special role. They are very good at working closely with their customers and providing effective service in the long run. And I'm convinced that this type of customer relationship is becoming more and more important.

Staying on the topic of regional banks – to what extent are they contributing to the current economic upturn? Or to put it another way: in your view, how important are regional banks to the real economy?

Regional banks are a very important driver of the recovery. In international terms, Austria is a country of small and medium-sized companies. They are the backbone of the economy and are fuelling the upturn to a large extent. I'm always very impressed by the outstanding regional companies based in provinces such as Lower Austria. They are sometimes hidden gems and often world leaders in their respective niches. Of course, these firms have different needs to large international companies. And regional banks are their ideal financing partners.

You joined HYPO NOE Landesbank's Supervisory Board in 2017. How important is this body in your view, and doesn't oversight also always have a positive effect on confidence?

The role of supervisory board members has changed a lot over the past 15 or 20 years. The days when they held too many seats and had too little time for the different companies are over. In addition to their oversight function, supervisory board members also play a supporting role, which requires in-depth knowledge of the company and its industry.

To my mind, this is a clear obligation and an ideal way of strengthening mutual trust.

Staying on the theme of supervisory boards for a moment: what are your views on the recent legislation passed with a view to enhancing diversity on supervisory boards?

I'm a big fan of diversity in general, and my experience of diversity has always been positive. Indeed, the beneficial effect of having women on executive bodies has been empirically proven. New approaches, new perspectives – great!

REGIONAL BANKS ARE PLAYING A VERY IMPORTANT PART IN THE RECOVERY"

Last but not least, let's look ahead to the future. How robust do you think the current recovery is, and what will be the major issues and trends that shape the world of finance in 2018?

I'm generally optimistic; the recovery seems to be robust. Strong global economic growth in combination with low inflationary pressure makes for good underlying conditions. The financial world is still keeping a close eye on what central banks are doing, and political matters such as the coalition talks in Germany are bound to affect sentiment. Key topics such as digitalisation and sustainability will remain a major factor across all sectors.

Thank you very much for talking to us..

GROUP OPERATIONAL AND FINANCIAL REVIEW 2017

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Economic climate

Global economic and financial market developments

2017 was very positive from an economic perspective, with eurozone growth in particular significantly outperforming analysts' forecasts. Unlike in previous years, the global economy was bolstered by a simultaneous upturn in all of the world's main economies in 2017. By the end of the reporting period, many key leading economic indicators had either returned to or come within touching distance of their all-time highs. The international central banks' continued expansive monetary policy and the highly favourable conditions on international capital markets were another factor behind this solid performance.

The sustained economic upswing in the USA continued unabated, despite initial uncertainty surrounding the implementation of President Trump's political goals. In addition to buoying private consumption, healthy economic growth also fuelled business investment. Employment rose for the eighth year in succession to leave joblessness at its lowest rate for 17 years, at just 4.1% at year-end. Inflation was more strongly affected by one-off and statistical base effects than by fundamental macroeconomic developments. However, average inflation for the year climbed to 2.1%, while at 1.8% the core rate (i.e. not including food and energy) was close to the Federal Reserve's inflation target. The Fed stayed true to its monetary course, increasing rates three times in the course of 2017 in line with the intentions it signalled at the start of the year, albeit without any notable effect on the real economy or capital markets. Towards the end of the year, agreement was reached in the United States regarding the proposed tax cuts. Contrary to prevailing expectations on the market, the US dollar did not benefit from higher interest rates. In fact, the US currency depreciated, losing value against the euro in particular.

The strong economic upturn in the eurozone was one of the salient developments in 2017. At 2.3%, average growth for the year was up by around three quarters of a percentage point on the consensus outlook at the start of the year. What started out as a fragile recovery back in 2013 has now gone on to become a self-sustaining upturn. All eurozone member states are now in a growth phase, with virtually all sectors of the economy contributing to economic expansion. The clear improvement in the overall environment is also reflected in another significant drop in the unemployment rate. The average for 2017 of 9.1% represents a marked improvement on the previous year's average of 10.0%. The year-end rate was at its lowest since January 2009, at 8.7%.

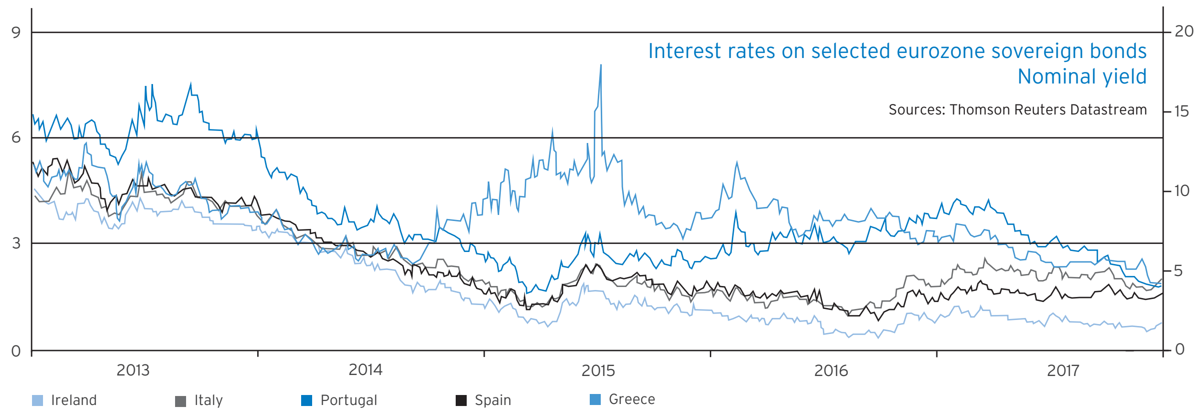
Since the parliamentary and presidential elections in France in spring 2017, won by Emmanuel Macron who promoted a socially and economically liberal agenda, international fears regarding political risks in the eurozone have cooled. Germany's fraught attempts to form a government – which were still ongoing at the end of 2017 – and domestic tensions in Spain did not dampen the mood, as political stability continued to make a positive contribution to economic growth.

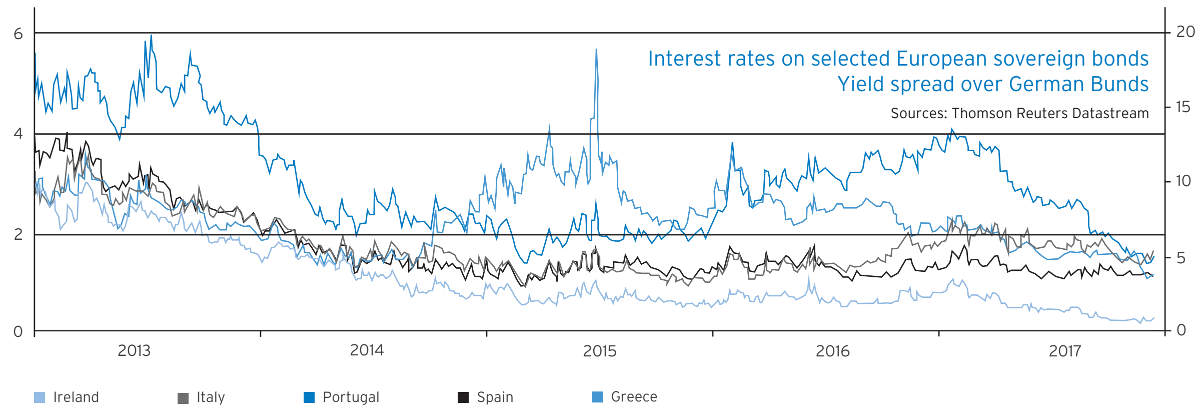
The European Central Bank (ECB) was compelled to revise its growth forecasts upwards a number of times. While inflation was significantly above the previous year's rate at 1.5%, this was almost exclusively attributable to a statistic base effect resulting from changes in commodity prices. Adjusted for more volatile components such as commodity and food prices, the increase in consumer prices – expressed in the core inflation rate – remained extremely muted at 0.9%. In response, the ECB left its monetary policy unchanged and has already indicated that no changes to rates are expected in 2018. However, at the start of the year the bank announced that it would be scaling back its asset purchase, or quantitative easing (QE), programme in the course of 2018 from EUR 60 billion to EUR 30 billion per month and continuing it for at least another nine months.

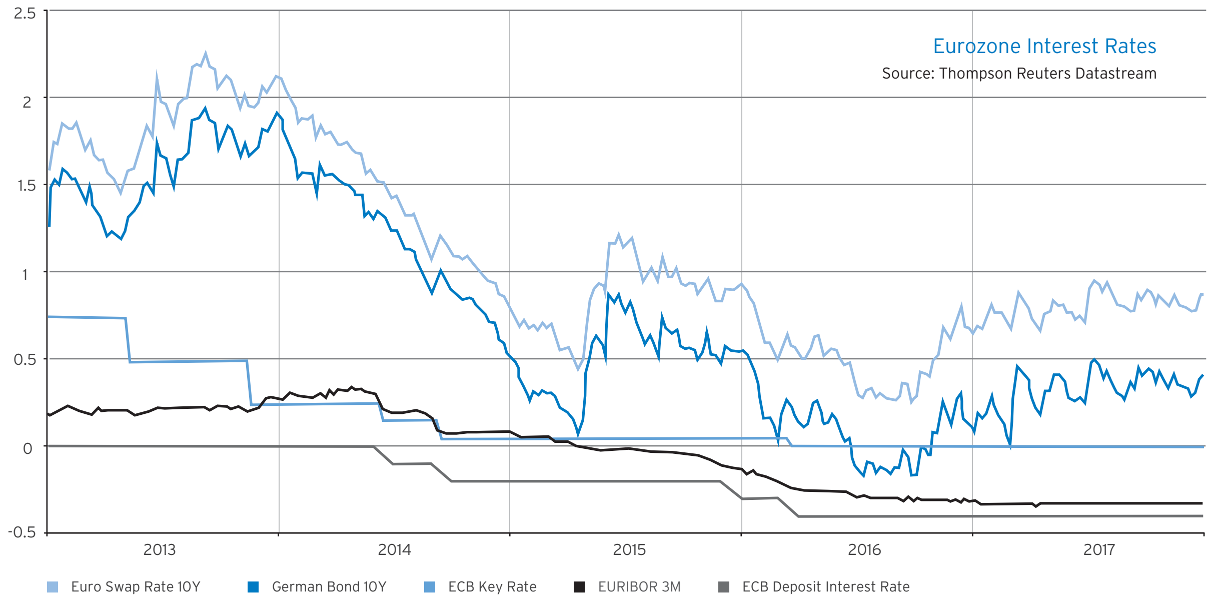
European bond market

Although economic growth was better than expected, it hardly impacted on interest rates in 2017, which were instead more heavily influenced by muted inflation. In the wake of signals from the European Central Bank that it would not be raising interest rates before 2019, rates on money markets moved sideways. The ECB's bond repurchase scheme has resulted in a scarcity of top-rated bonds, with the desired effect taking hold once again in 2017 and reining in yields. Yields on the sovereign bonds of core eurozone economies and on the euro swap market only showed signs of volatility for medium-term and longer maturities, albeit within narrow parameters. There were hardly any fluctuations in bond yields internationally, either, which shows that monetary policy tide is turning only very slowly.

A flourishing economy, declining default rates and positive rating trend provided a successful recipe for highly encouraging developments on bond markets. European corporate bonds also profited from the ECB repurchase scheme. Risk premiums only increased shortly before the elections in France in spring 2017, as a result of political uncertainty. However, the outcome of the election brought about a sustained narrowing of credit spreads. Sovereign bonds issued by peripheral eurozone economies profited from this positive development in particular. In addition to Portuguese bonds with an annual yield of 20%, the main winner in the ten-year segment was Greek sovereign bonds, with a return of more than 30%.







European equity markets

Strong economic data, healthy company profits and the aforementioned expansive monetary policy adopted by central banks led to significant gains on European stock markets. High liquidity on the market and unattractive yields have led investors to increasingly invest in stocks and shares in search of higher returns. With investors piling into stock markets, increasingly in the form of passive investments such as exchange traded funds (ETFs), share prices jumped. An absence of political turbulence also contributed to strong stock market performance. The strength of the euro mid-year was the only source of uncertainty, which triggered a moderate but short-lived dip in profits.

Economic trends in the HYPO NOE Group's core markets

AUSTRIA

In mid-December 2017 the Oesterreichische Nationalbank (OeNB) reported growth of 3.1% in 2017 (EU-28: 2.3%) for the Austrian economy – the highest rate for the past decade and double that of the previous year. Growth was not exclusively driven by a rise in private consumption, which was itself triggered by the most recent tax reform, as well as strong employment and wage growth. The other main contributors were stabilisation of the global economy, which pushed up exports by 5.6%, and significant impetus from the change in gross fixed capital formation (up 5.1%). The economic upturn has now fed into the labour market, as reflected in an appreciable rise in the number of full-time jobs. Unemployment declined slightly to 5.5% as at end-November 2017 compared with 6.0% in 2016. Triggered by significantly higher oil prices, inflation increased from 1.0% in 2016 to 2.2% in 2017.

Austrian companies significantly scaled up investment in equipment during the reporting period. Initially buoyed by spending on replacements, the rise was increasingly attributable to investment in expansion, with growth in this area reaching more than 8.0% in both 2016 and 2017. The construction sector reported additional gains, particularly as a result of favourable financing conditions and continued strong demand. Housing construction loans have increased by 4.0-5.0% annually since the start of 2016. The house price index has put on 50% since 2010, and 10% since the start of 2016.

Austria's budget has benefited visibly from the economic upturn thanks to higher tax revenue. The national budget deficit for 2017 is seen as narrowing to 0.8%, following a temporary decline to 1.6% of GDP in 2016. This is chiefly attributable to the strong economic environment and the comparatively low interest payments. The debt ratio has been improving since 2016 as a result of strong growth and the disposal of assets by nationalised banks. This effect was a key factor behind the five-percentage-point decline in public debt to 78.3% of GDP in 2017.

FEDERAL STATES

According to the latest data, growth in Lower Austria reached 2.9% in 2017, compared with 1.1% a year earlier. Regional economic growth likewise picked up pace in Vienna, with a significant acceleration to 2.7% in 2017. Growth in the federal states with large industrial sectors – Upper Austria, Styria and Vorarlberg – is being driven by strong demand for exports. By contrast, the positive effects of the most recent tax reform on the services sector are gradually petering out.

At 3.6% Styria reported the strongest growth, while Salzburg was the back marker with growth of 2.6%. Lower Austria's industrial output is up 10.0% year on year, on the back of the global economic upturn. Employment and order books have also improved recently in the state's construction sector.

The highest aggregated Maastricht deficit of any state was reported by Carinthia in 2016. In 2016, only Burgenland and Salzburg reported surpluses in accordance with the Maastricht definition. In contrast to the other federal states, Lower Austria and Upper Austria both recorded only minor deficits as at year-end 2016. Lower Austria significantly outperformed its Maastricht targets in 2016, and generated the second-highest operating surplus of any state after Upper Austria.

The most recent available accounts show a significant fall in total state government guarantees – primarily as bank guarantees mature – in 2016, to EUR 35.8bn, a drop of 31.5%. The decrease in liabilities continued in 2017. Consequently, a considerable proportion of the bonds for which the federal states provided bank guarantees totalling EUR 17.5bn will have been redeemed by the end of the reporting period.

DANUBE REGION

According to the most recent economic forecasts from the Vienna Institute for International Economic Studies (WIIW), with the exception of Germany the countries in the Danube region, the HYPO NOE Group's extended core market, again recorded growth well above the EU average in 2017, at 4.1%.

The WIIW's spring forecasts for most of the countries in the region have been revised upwards, significantly so in the case of Bulgaria and Slovenia (each by 0.6 percentage points), Hungary (0.7 percentage points) and Romania (0.8 percentage points). The recent upturn in the Czech economy is also likely to result in an upward revision in its forecast growth. Romania posted the strongest growth in the region in 2017, at 5.7%, followed by Hungary at 4.0%.

The new EU funding period has already begun. There are signs of an accelerated uptake of the grants on offer, with the outcome that the infrastructure segment in particular saw an upturn in 2017.

Banking sector trends in the eurozone and CEE

The European banking sector has been fundamentally transformed in the decade since the financial crisis broke out. Regulatory requirements on banks were tightened significantly, to ensure their resilience. The resultant raft of regulations, which began at international level with Basel II, has been bolstered considerably in the wake of the financial crisis with Basel III. While some Basel III regulations are yet to be implemented, the next set of regulatory measures is already on the horizon.

Implementation of a single supervisory mechanism in Europe – the start of the banking union – weakened the interconnection between sovereign debt and banking crises. Measures are also being taken to counter the fragmentation of financial markets in the eurozone and deepen economic and institutional integration. The banking union is based on uniform EU-wide regulations for banking (the single rulebook) and the European Supervisory Handbook. The structure of the banking union is based on three pillars. Pillars one (Single Supervisory Mechanism) and two (Single Resolution Mechanism) are already in place, and will be complemented by a third pillar in the shape of the European Deposit Insurance Scheme in the euro area. Some countries have already come out against "communitisation" of deposit protection under the draft European Deposit Insurance Scheme (EDIS) In October 2017 the EU Commission tabled a compromise centred on a three-phase model, which is currently under discussion in the European Council and the European Parliament.

Dealing with persistently low interest rates posed a challenge in 2017 that will continue into 2018. The situation will continue to weigh heavy on profitability, particularly for those institutions that are reliant on net interest margins and whose earnings are only minimally diversified. Asset quality will continue to be an issue for banks, although this will not affect all banking markets to the same extent. If moderate economic growth continues, this is expected to have a positive effect on the quality of assets. The subject of bank capitalisation has now largely been brought to a conclusion. It can be assumed that only those banks which are yet to meet their own targets or are still undercapitalised compared with their peers still need to take action. IFRS 9 – the new reporting standard applicable from 2018 – presents another challenge for banks that prepare their financial reports in accordance with IFRS. In addition to introducing new valuation methods for financial instruments, the standard calls for earlier reporting of credit risk. The European Banking Authority (EBA) also wants to take the effects of implementing IFRS 9 into account in its 2018 banking stress test. In Austria, the required process of adjustment to the changed operating environment is picking up momentum despite the challenging climate. This positive development was discussed by the OeNB in its latest Financial Stability Report, which was published in December. Ultimately, the Austrian banking sector has also benefited from the restructuring measures introduced over the past few years. As a result of this consolidation process, the number of banks (main institutions) has dropped by around a fifth in the last five years. Consolidated profits continued to rise in the first half of 2017, also as a result of ongoing lower depreciation and amortisation expense and allocations to credit risk provisions. Improved earnings has contributed to higher capitalisation of Austrian banks, which, in turn, has helped to further stabilise Austria's financial market. Based on the outcome of the stress tests, the OeNB confirmed increased risk-bearing capacity and stable liquidity, a situation also supported by the reduction in overseas activity and the volume of foreign currency loans.

Stricter capital regulations, a high degree of regulatory influence and persistently low interest rates remain a significant burden on profitability in the CEE banking sector. In 2017, a number of indicators pointed to a recovery of the banking sector in comparison with the muted performance of recent years. The positive trends in new lending in some countries, in particular the Czech Republic, Romania and Slovakia, have also carried on into 2017. There has also been a considerable improvement in asset quality, and the aggregate NPL ratio in the CEE region is now well under 10%. The steady increase in deposits has resulted in a satisfactory loan-to-deposit ratio of well under 100%. In view of these positive developments and the stabilisation of NPL ratios, the return on equity in the CEE banking sector is significantly higher than that in the eurozone.

Financial review

Financial performance in 2017

EARNINGS (IFRS)

Profit attributable to owners of the parent of the HYPO NOE Group of EUR 31.0m was a solid result, although lower than in the previous year due to high non-recurring income recognised in 2016. In addition, expenses of EUR 6.1m were recognised in 2017 for interest repayment claims relating to the current reporting period as well as the 2015 and 2016 financial years, as a consequence of the Austrian Supreme Court's rulings regarding negative interest rates for consumer loans. The majority of the related payments were made in 2017.

In spite of continued low interest rates and the impact of the aforementioned Supreme Court ruling in 2017 (which resulted in a EUR 3.1m reduction in earnings), net interest income was a satisfactory EUR 109.7m, although this was EUR 14.8m lower than in the previous year (2016: EUR 124.4m).

New allocations to credit provisions were minimal, while reversals of provisions were high, resulting in net gains on credit provisions of EUR 9.1m (2016: net losses of EUR 7.8m). This represents an improvement of EUR 16.9m on the previous year.

Net interest income after risk provisions was EUR 118.8m, a year-on-year increase of EUR 2.1m or 1.8% on the EUR 116.7m reported for 2016.

Expansion of the Group's service portfolio was reflected in a 14.3% or EUR 1.9m year-on-year increase in net fee and commission income, to EUR 15.4m, principally attributable to the securities business.

The Group reported net trading losses of EUR 0.5m (2016: net gains of EUR 0.7m). This was firstly a result of foreign exchange losses on CHF-denominated forward exchange transactions (which were offset by transactions recognised in net other operating income), as well as of earnings contributions from interest rate transactions, largely resulting from differences between the measurement of customer derivatives and the related hedges.

Administrative expenses fell by 10.2% or EUR 13.1m year on year, to EUR 115.8m (2016: EUR 128.9m). As a result of effective cost management, staff costs fell by EUR 4.0m and other administrative expenses by EUR 8.1m. This was despite the one-off financial stability contribution ("bank tax") of EUR 6.8m, payable for the first time in 2017. The total financial stability contribution, including the current levy, was EUR 9.4m (2016: EUR 14.9m). Administrative expenses also include the statutory contributions to the deposit insurance and resolution funds, amounting to EUR 8.4m in 2017 (2016: EUR 8.1m). Operating administrative expenses (which exclude the financial stability and resolution fund contributions and regulatory costs) were EUR 98.9m, a significant year-on-year reduction of EUR 7.5m (2016: EUR 106.4m).

Net other operating income was EUR 29.1m (2016: EUR 31.8m). This includes measurement gains and losses on cash transactions over the year. Offsetting foreign currency gains and losses on forward exchange operations (EUR 5.6m) that were not hedging transactions are included in net trading income. Net other operating income also includes increased gains on disposal relating to the sale of a property owned by the Group, lower income from the reversal of provisions, and expenses of EUR 3.0m related to provisions for interest repayment claims for prior financial years, as a consequence of the Supreme Court rulings on negative interest.

Net losses on investments accounted for using the equity method stood at EUR 1.3m (2016: net losses of EUR 4.8m), primarily as a result of a decline in value in use at the non-profit EWU subgroup, and impairment of the Group's share of goodwill at NOE Immobilien Development AG.

There was a small net loss on available-for-sale financial assets of EUR 0.2m (2016: net gains of EUR 57.0m). High gains in the previous year were mainly the result of the sale of the Carinthian Compensation Payment Fund zero-coupon bonds the Group received in exchange for the Heta securities it had held.

The net losses on hedges of EUR 5.4m (2016: EUR 1.2m) were principally attributable to the different discount rates applied to hedges and the related underlying transactions, as well as early repayments.

These changes resulted in profit before tax of EUR 40.8m, compared with EUR 93.4m in 2016.

The changes in earnings were reflected by the following financial performance indicators:

		2017	2016	2015	2014
Return on equity (ROE) before tax	Profit or loss for the period before tax/ave. equity	6.2%	15.2%	2.0%	-7.1%
Operating return on equity before tax**	ROE before tax excl. financial stability and resolution fund contributions, and regulatory costs/ave. equity adjusted for financial stability and resolution fund contributions, and regulatory costs	8.6%	18.5%	5.6%	-4.7%
Return on equity after tax	Profit or loss for the period/ave. equity	4.7%	11.4%	1.1%	-5.5%
Cost/income ratio (CIR)	Operating expenses/operating income*	78.5%	56.0%	92.5%	135.2%
Operating cost/ income ratio**	CIR excl. financial stability and resolution fund contributions, and regulatory costs	67.1%	46.3%	77.3%	121.1%
Risk/earnings ratio	Credit provisions/net interest incomeA negative indicator signifies income and a positive indicator signifies expenses in credit provisions	-8.3%	6.3%	-0.9%	5.3%

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

**Change in calculation in 2016: operating CIR and operating ROE include the costs of contributions to the deposit insurance fund; the figures for the previous year have been adjusted.

ASSETS AND LIABILITIES (IFRS)

The HYPO NOE Group's total assets fell by EUR 1.0bn or 6.7% year on year to EUR 14.4bn as at 31 December 2017.

There was a EUR 0.3bn increase in cash and balances at central banks and a EUR 0.1bn decline in loans and advances to banks, while loans and advances to customers fell by EUR 0.6bn (mainly due to conscious efforts to reduce and diversify the public sector portfolio), and available-for-sale financial assets (bonds) decreased by EUR 0.4m. The positive fair value of hedges and assets held for trading each declined by EUR 0.1bn.

On the equity and liabilities side, deposits from customers rose by EUR 0.2bn. Substantial maturing own debt issues guaranteed by the State of Lower Austria were repaid on schedule in the third quarter of 2017. Largely as a result of this, debts evidenced by certificates decreased by EUR 0.8bn and subordinated capital by EUR 0.2bn. In addition, the negative fair value of hedges fell by EUR 0.1bn and deposits from banks by EUR 0.1bn.

CHANGES IN EQUITY (IFRS)

IFRS consolidated equity including non-controlling interests as at 31 December 2017 was EUR 676.4m, an increase of EUR 29.0m on year-end 2016. This was mainly due to the profit attributable to owners of the parent and the improvement in the available-for-sale reserve for remeasurement of financial assets to fair value; dividend payments in 2017 of EUR 7.2m including minority interests also affected equity.

CHANGES IN CONSOLIDATED ELIGIBLE CAPITAL (CRR/CRD IV)

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

Consolidated eligible capital in accordance with the CRR was EUR 646.0m as at 31 December 2017 (31 Dec. 2016: EUR 632.7m). Surplus capital as at 31 December 2017 was EUR 386.1m (31 Dec. 2016: EUR 336.7m), compared with a capital requirement of EUR 259.9m (31 Dec. 2016: EUR 296.0m). The core capital ratio in accordance with Article 92(2)(b) CRR was 19.9% (31 Dec. 2016: 16.3%), and 20.2% assuming a fully phased-in definition of capital (31 Dec. 2016: 16.8%). The total capital ratio in accordance with Article 92(2)(c) CRR was 19.9% (31 Dec. 2016: 17.1%), and 20.2% assuming a fully phased-in definition of capital (31 Dec. 2016: 17.5%).

Operational review

This report on the HYPO NOE Group was prepared by the Group's parent, HYPO NOE Landesbank für Niederösterreich und Wien AG (HYPO NOE Landesbank), one of Austria's oldest and largest state-owned regional banks. Founded in 1888, it has a long tradition and a wealth of experience in banking and finance. HYPO NOE Landesbank is fully owned by the State of Lower Austria, meaning it can build on the basis of stable and dependable ownership. The Bank remains fully committed to a strategy based on a regional focus, proximity to customers and sustainability – a strategy that has proved its worth.

The HYPO NOE Group is principally active in its core market of Lower Austria and Vienna, one of Austria's most dynamic regions, as well as in selected countries in the Danube region. The Group's main task, and also its aspiration, is to serve as a secure and reliable partner to its public sector and real estate clients, large corporates, and retail and corporate customers. Infrastructure, real estate, corporate project and structured finance are major focuses, as is providing finance to individuals, regionally based small and medium-sized enterprises, and commercial and non-profit housing developers. The Group has 27 branches in Lower Austria and Vienna, serving 80,000 customers.

In October 2017, rating agency Standard & Poor's reaffirmed its A/A-1 rating with a stable outlook for HYPO NOE Landesbank. The agency made particular reference to the Bank's strong capitalisation, as well as its low-risk business model and stable, reliable owner. Moody's high Aa1 ratings on HYPO NOE Landesbank's public sector and mortgage cover pools have also remained unchanged. With regard to sustainability, the bank for Lower Austria is among the leaders in the sector. An oekom research C rating with Prime status is testimony to HYPO NOE Landesbank's outstanding commitment to environmental and social affairs.

The former HYPO NOE Gruppe Bank AG, into which the retail and housing finance business of former wholly-owned subsidiary HYPO NOE Landesbank AG was integrated, was renamed HYPO NOE Landesbank für Niederösterreich und Wien AG with effect from 23 September 2017. The merger, which is now complete, has resulted in changes to segment reporting for 2017. Reporting is now broken down into four segments: Public Sector, Real Estate & Large Corporates, Retail and Corporate Customers, Treasury & ALM, with the reconciliation of Group earnings through the Corporate Center.

Figures for the individual segments, as well as supplementary information, can be found under Note 7 Business segment information.

Public Sector

Public Finance

The Public Finance unit is a strong partner to local and regional authorities, public agencies and infrastructure businesses. In 2017 activities in Lower Austria and the other eastern states focused on deepening relationships with enterprises linked to the federal and state governments. Public finance solutions were marketed to customers in the core market of Lower Austria and Vienna, as well as on a highly selective basis to national and regional governments and municipal authorities across the Danube region, in line with the Group's Danube region strategy, and to authorities in other Austrian federal states.

Public Finance has gone from strength to strength as a provider of expertise and services, and works with other parts of the Group to create integrated, sustainable financing solutions for customers.

Funding extended to public authorities in the course of the year mainly related to investments in water supply and wastewater infrastructure, as well as the renovation of educational and administrative facilities. Initiatives financed included a flood defence project, a wastewater treatment plant and alterations to kindergartens and secondary schools.

Close customer relationships and the provision of high-quality advice are essential in today's market environment, so the Group attaches great importance to in-service training for its customer relationship managers, carried out in cooperation with partners such as the Lower Austria Community Management Academy and Danube University Krems. In this regard, an information event on current local government finance issues was staged in collaboration with the Community Management Academy in November 2017.

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

HYPO NOE Leasing GmbH is a leading provider of lease finance and innovative leasing solutions for public agencies. Its vision is to be the most efficient leasing company in Austria, offering unrivalled expertise in lease finance for the public sector.

Against the backdrop of changing financing requirements among state governments and local authorities, demand is increasing for special financing models for public sector construction projects, such as operating leases and public-private partnership solutions. In response to increased market demand, HYPO NOE Leasing GmbH has driven forward the development of such products. The company will continue to follow this strategy systematically, and such forms of financing will become a key line of business in the medium term.

A number of projects in the education and health sectors were successfully implemented under the leadership of HYPO NOE Leasing GmbH in 2017. These included completion of the extension and adaptation of the Melk care and support centre, as well as the newly built Building C at St. Pölten university hospital. The major refurbishment of the Eisenstadt multi-school campus was also completed.

Performance in 2017 was encouraging in terms of both earnings and the value of contracts concluded. This was supported by development of the department's product portfolio. The fall in the Public Sector segment's assets is largely a result of efforts to reduce and diversify the financing portfolio. On the liabilities side, the volume of business grew significantly, mainly as the result of successful placement of a tenant-linked bond for a subsidiary within the segment.

Religious Communities, Interest Groups and Agriculture

Finance for social facilities and services for small and medium-sized agricultural businesses dominated activity in Religious Communities, Interest Groups and Agriculture (KIA) in 2017. KIA acquired and financed construction projects undertaken by religious communities in the greater Vienna area, Lower Austria and, selectively, in other federal states. These projects are scheduled for completion and opening in 2018 and 2019. In the agriculture customer segment, targeting of customers in the region was enhanced on the basis of the department's extended credit assessment service for farmers subject to lump-sum taxation, and the business was successfully expanded.

In 2017 the department once more supported numerous church and social initiatives and projects. Noteworthy projects included the major renovation of Sonntagberg basilica – an iconic landmark in Lower Austria's Mostviertel region – and contributions to campaigns and events organised by other religious agencies.

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

Despite extremely low interest rates, deposits in the money market business remained high. HYPO NOE Landesbank's consistently strong credit rating played a significant part in this.

Public Loan Management

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

In recent years HYPO NOE Landesbank has given the Lower Austrian state government assistance with the technical and organisational implementation of the large-scale home loan subsidy scheme, and now also acts as a point of contact for questions regarding administrative issues from the various banks involved in disbursements. By the end of 2017, 13 tranches of Lower Austria's new high-volume home loan scheme had been transparently processed in eight tendering rounds.

Real Estate & Large Corporates

Real Estate Finance

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

In 2017 the unit continued to focus on its defined target markets, in particular Austria, the Czech Republic, Germany, Poland, Romania and Slovakia. Lending limits and conditions in Germany are monitored closely, and financing projects are only implemented on terms that are in line with the HYPO NOE Group's business policies.

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

The department's business model is based on financing for the office, shopping centre, retail park, housing, logistics and city hotel asset classes. Portfolios of mixed-use properties in various locations, with a wide range of tenants, also serve to significantly diversify risk. As regards risk allocation, Real Estate Finance remains committed to cooperating with established partners on projects in prime locations, under long-term financing arrangements. In 2017, operations again centred on the core Austrian and German markets, and on neighbouring EU member states. Real Estate Finance is keeping a close watch on macroeconomic developments and regional property market trends in its target markets outside Austria.

Housing Development

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

Operations in 2017 focused again on the core markets of Lower Austria and Vienna, although latterly the non-profit housing association segment has pursued selective expansion into Upper Austria and Styria. There is increasing demand for owner-occupied apartments – especially due to population growth – particularly in urban areas. Vienna's population is growing faster than that of any other federal state in Austria, while Lower Austria is around mid-table.

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

The volume of financing relating to commercial housing construction remained roughly unchanged year on year in 2017. The unit maintained a strong focus on optimising earnings potential and achieving a balanced risk-return ratio. The level of finance provided to non-profit housing associations grew significantly in 2017.

Corporate & Structured Finance

This unit provides corporate finance and structured finance solutions to the Group's large corporates. The positioning of Corporate & Structured Finance as an expert partner to Lower Austrian businesses for specialised corporate situations, such as acquisitions or attracting investors, was systematically expanded. Overall, the unit continued to focus on building up direct, bilateral customer relationships, and only participated in large credit consortia in exceptional cases.

The market environment was characterised by marked overliquidity and resulting pressure on margins in the unit's core business. In this context the HYPO NOE Group continued to pursue its niche strategy and focused on deepening existing customer relationships.

Despite increasing competition on conditions, the unit was successful in Germany and other countries in the Danube region – both in acquiring new business and with existing customers. On the German promissory note market, the emphasis was on developing bilateral customer relationships, which laid the key foundations for activities in 2018.

New customer acquisition in the time deposits business was particularly successful. In this connection, customers value the Group's strong credit rating, reliable ownership and long-term perspective.

Real Estate Services

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

HYPO NOE's real estate businesses maintained their focus on quality management and compliance in 2017. All three companies are certified in accordance with the ISO 50001:2011 Energy management, ISO 37001:2016 Anti-bribery management systems, and ISO 19600:2014 Compliance management systems standards. One of the first facility management services companies in Austria, HYPO NOE First Facility GmbH has obtained the German Facility Management Association's highest certification for integrated process responsibility for facility management (GEFMA 730 ipv® FM Excellence). The company also has ISO 9001:2015 Quality management systems and ISO 14001:2015 Environmental management systems certification. The market situation in the CEE countries remained largely unchanged in 2017. Fierce price competition is accelerating the consolidation process in asset, property and facility management.

Retail and Corporate Customers

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

The segment has defined "finance and housing", "saving and investment" and "accounts and cards" as its core competences. Among these strategic pillars of the Group's retail business, notable progress was made in "saving and investment" in particular, where a consolidated and attractive product portfolio provided the basis for strong results.

The "finance and housing" pillar was extended further, with a focus on subsidies. Close cooperation with the State of Lower Austria enables the Group to offer end-to-end support on loans and subsidies, ensuring informed advice and efficient processing.

To meet increased demand for personal advice, a number of branches were upgraded to become service branches. This included remodelling of self-service foyers. The changes were implemented not least in response to changing customer behaviour, with the need for staffed cash desks continually declining. Efficient, tailored and modern services are not only offered to HYPO NOE Group customers at its branches, but also via its online and mobile banking platforms. The new HYPO NOE online banking platform was launched in 2017, with expanded functions, personalisation options and an intuitive user interface. In addition, the new HYPO NOE PLUS app enables real-time, nationwide, person-to-person payment transactions via the Zoin interbank mobile solution without the need to enter an IBAN or account number. Intensive, customer-focused efforts to streamline the credit portfolio during the year led to a significant drop in the number of foreign currency loans, while active loan portfolio management resulted in a reduction in loan loss provisions.

Corporate customers in Lower Austria and Vienna are served by competence centres in St. Pölten and Vienna. Business customer advisors have also been available in the Bank's larger branches since 2017, further expanding face-to-face service. At the customer's request, advice can also be provided to companies in other federal states. The corporate customers unit will pursue a growth strategy in 2018, which will include adding new products to the range.

The segment grew again in 2017 thanks to further corporate customer acquisitions during the year. Market conditions in the Retail and Corporate Customers segment are expected to remain challenging, in particular due to low interest rates. The HYPO NOE Group is responding to the difficult environment with a range of measures, in line with its strategy of regional focus, closeness to customers and sustainability, including further expanding in-branch advice and increasing the frequency of appointments.

Treasury & ALM

Treasury and Funding

As is customary, the first half of 2017 saw a large number of issues on the international capital markets. HYPO NOE Landesbank exploited advantageous market conditions with two Swiss franc-denominated senior unsecured benchmark issues, with five-year and three-year maturities, respectively. The volume of the five-year issue was increased before the issue date owing to extremely strong investor demand. Thanks to its strong credit ratings, the Bank profited once more from attractive conditions on the Swiss franc market.

At the end of March, the Bank again proved its credentials as one of Austria's leading issuers of covered bonds. Backed by the public sector cover pool, a EUR 500m, six-year covered bond was issued following a two-week Europe-wide roadshow. This was Austria's first benchmark public-sector covered bond issue with a soft-bullet repayment structure, and oversubscription – reflecting the Bank's strong international reputation – permitted a low-single-digit premium over the mid-swap rate.

At the end of the first half of 2017, a mortgage-backed covered bond issue with a residual maturity of three years was increased by EUR 200m to a typical benchmark value of EUR 500m, attracting interest from a wide range of investors.

Issuance in the second half of 2017 focused on private placements of covered and unsecured bonds on attractive terms. Comparatively high redemptions of outstanding state-guaranteed bonds were made in the second half of the year, amounting to about EUR 1.2bn, for which adequate preparation had been made well in advance by building up an appropriately strong liquidity position.

In addition to capital market refinancing, deposits from institutional investors continued to grow steadily and stabilised at a high level. HYPO NOE Landesbank has continually expanded its refinancing base in recent years. It makes use of standard repo transactions and ECB tenders, as well as drawing its liquidity from the conventional capital market and deposits business. The Bank also uses development banks such as the European Investment Bank (EIB) and Kreditanstalt für Wiederaufbau (KfW) as refinancing sources.

Nostro

The Group took advantage of new issues of government bonds and covered bonds with attractive spreads in the course of its active management of the liquidity portfolio. The average volume-weighted rating of the purchased securities was equivalent to AA.

ALM

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

Institutional customers

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

Investor Relations

HYPO NOE Landesbank is committed to ensuring prompt, comprehensive and transparent financial market communications. Investors and analysts are regularly informed of the Bank's performance and the latest events. This communication takes place face-to-face as well as by means of extensive online resources (www.hyponoe.at/ir).

In connection with its issuing activities, but also in other regards, the Bank gave investors the opportunity to obtain information directly at a number of roadshows in 2017. International investors and analysts were also invited to take part in an earnings call on publication of the 2016 results. At the now-traditional investor luncheon in Vienna, financial market partners from Austria and abroad took the opportunity to talk directly with the members of HYPO NOE Landesbank's Management Board.

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

Corporate Center

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

Participations

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

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

Details of changes in the scope of consolidation can be found under Note 3.1 Basis of consolidation.

Foreign branches, representative offices and branches

The HYPO NOE Group had no foreign branches in 2017, but operated representative offices in Bucharest, Budapest, Prague and Sofia.

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

As at 31 December 2017 the HYPO NOE Group had 27 branches in Lower Austria and Vienna.

Human resource management

The success of the HYPO NOE Group is heavily dependent on the knowledge and experience of its employees, on the Bank's ability to retain them, as well as on its targeted acquisition of new staff. This is vital for overcoming the challenges that lie ahead and capitalising on opportunities.

With this in mind, Management prioritises targeted training and development programmes designed to enhance the skills and abilities of all our people. Open and respectful dialogue between employees at all levels of the hierarchy is the corner-stone of a positive corporate culture in which problems can be quickly addressed and resolved.

Human resources in 2017: facts and figures

At year-end 2017 the HYPO NOE Group had 812 employees (31 Dec. 2016: 863), 42 of whom were on unpaid leave (31 Dec. 2016: 51). The workforce comprised 451 male and 361 female staff (31 Dec. 2016: 486 male and 377 female). In terms of full-time equivalents (FTEs), there were 722.9 employees at year-end (2016: 774.6). The headcount falls to 667.9 FTE as at 31 December 2017 if non-active employees are excluded. Five people were employed at our representative offices abroad (2016: 7).

	HC			Ave. HC p.a.	FTE		
Human resources in 2017	**Total**	**m**	**f**	**Total**	**Total**	**m**	**f**
HYPO NOE Gruppe Bank AG	-	-	-	-	-	-	-
HYPO NOE Landesbank AG	-	-	-	-	-	-	-
HYPO NOE Landesbank für Niederösterreich und Wien AG (merged)	615	320	295	626.6	539.9	300.7	239.2
HYPO NOE Real Consult GmbH	40	14	26	41.3	34.3	13.3	21.0
HYPO NOE Leasing GmbH	33	11	22	33.8	29.0	11.0	18.0
HYPO NOE Valuation & Advisory GmbH	3	2	1	3.0	3.0	2.0	1.0
HYPO NOE First Facility GmbH	107	95	12	111.8	103.2	91.3	11.9
HYPO NOE Versicherungs-service GmbH	4	3	1	4.0	3.5	3.0	0.5
HYPO NOE Immobilien Beteiligungsholding GmbH	10	6	4	13.1	10.0	6.0	4.0
HYPO NOE Group	**812**	**451**	**361**	**833.6**	**722.9**	**427.3**	**295.6**

	HC			Ave. HC p.a.	FTE		
Human resources in 2017	**Total**	**m**	**f**	**Total**	**Total**	**m**	**f**
HYPO NOE Gruppe Bank AG	332	176	156	341.2	293.5	164.1	129.4
HYPO NOE Landesbank AG	312	167	145	324.5	276.9	162.8	114.1
HYPO NOE Landesbank für Niederösterreich und Wien AG (merged)	-	-	-	-	-	-	-
HYPO NOE Real Consult GmbH	43	17	26	48.2	38.0	16.5	21.5
HYPO NOE Leasing GmbH	34	12	22	33.3	30.0	12.0	18.0
HYPO NOE Valuation & Advisory GmbH	3	2	1	3.0	3.0	2.0	1.0
HYPO NOE First Facility GmbH	122	102	20	127.6	117.1	98.2	19.0
HYPO NOE Versicherungs-service GmbH	4	3	1	3.2	3.5	3.0	0.5
HYPO NOE Immobilien Beteiligungsholding GmbH	13	7	6	12.2	12.5	7.0	5.5
HYPO NOE Group	**863**	**486**	**377**	**893.0**	**774.6**	**465.6**	**309.0**

Key: m = male; f = female; FTE = full time equivalent; HC = head count. Owing to the decimal places, rounding is used when calculating the totals

Organisational matters

The merger of HYPO NOE Gruppe Bank AG and its fully-owned subsidiary HYPO NOE Landesbank AG into HYPO NOE Landesbank für Niederösterreich und Wien AG was a major focus of human resource management activities in 2017. Thanks to the groundwork that had already been done in 2016 to support the related change process, the suggestions, requests and concerns of affected employees were addressed constructively at moderated meetings with nominated department representatives. Every department sent a representative to the monthly meetings, which were held to obtain a clear picture of the prevailing atmosphere and ensure that a platform for ongoing communications with all employees was in place. Current issues were discussed and the process of establishing clear objectives for the merged bank was set in motion. Numerous organisational adjustments were also necessary as a result of the merger.

Additionally, work continued on restructuring the real estate business, a process that began in 2015. The transferral of HYPO NOE Immobilien Beteiligungsholding GmbH employees to respective subsidiaries began in the final quarter of 2017.

HR development

Human resource development at HYPO NOE Landesbank für Niederösterreich und Wien AG is geared towards the Group's strategic goals and providing long-term support for the achievement of strategic and operational targets. Staff appraisals play a central role in HR development and are now well-established.

In addition to the core function of improving and maintaining the professional expertise and personal competencies of our staff, in 2017 the evaluation of management staff for the merged bank was also a major focal point. To ensure objectivity and validity, an external partner carried out a comprehensive assessment. With a view to succession planning, the process consciously involved inviting all employees with ambitions to take on management responsibilities. During the comprehensive feedback sessions, every participant had the opportunity to discuss the results and individual recommendations, which will provide a sound basis for future development measures.

In 2017, 12 participants graduated from the Group's development programme to identify and prepare high potentials and experts, which takes place every two years. In their final presentations to the Management Board and heads of department, the graduates reported on the key insights they had gained from the various modules.

Activities got under way in another important area following the merger, with the implementation of teambuilding measures. There will again be a special emphasis on teambuilding in 2018.

In preparation for the Markets in Financial Instruments Directive II, which came into force on 3 January 2018, the Group mounted a major training offensive in relation to investment activities. During the reporting period, staff received product, compliance and systems training, and nearly every investment consultant gained European Investment Practitioner certification.

Since 2017, HYPO-Bildung GmbH has been implementing the HYPO 1 induction course and HYPO 2 basic training course – which form part of the collective agreement for employees of the Austrian provincial mortgage banks – across all regions of the country. Two employees from the Sales Department successfully completed HYPO 3, a one-year professional course in general banking.

The Group also offered specialist and personal development-focused training tailored to individual requirements.

Sustainability and human resource management

As in previous years, in 2017 employees experiencing difficult situations were offered professional and anonymous support from external experts. This form of assistance is provided in connection with both professional and private circumstances and encompasses crisis situations as well as work and personal issues. In addition, the highly-effective Body Signals and Stress seminar was held once again in March 2017. The course focuses on recognising individual patterns of behaviour that can result in stress and developing personal approaches for dealing with stressful situations.

Risk report

The objectives and methods of risk management and the explanations of material risks form part of the notes (8.6 Risk management).

Internal control and risk management system (ICS)

Internal audit

The importance of internal audit as part of a bank's internal control systems is reflected in the fact that it is enshrined in the Austrian Banking Act (section 42).

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 2017, 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 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.

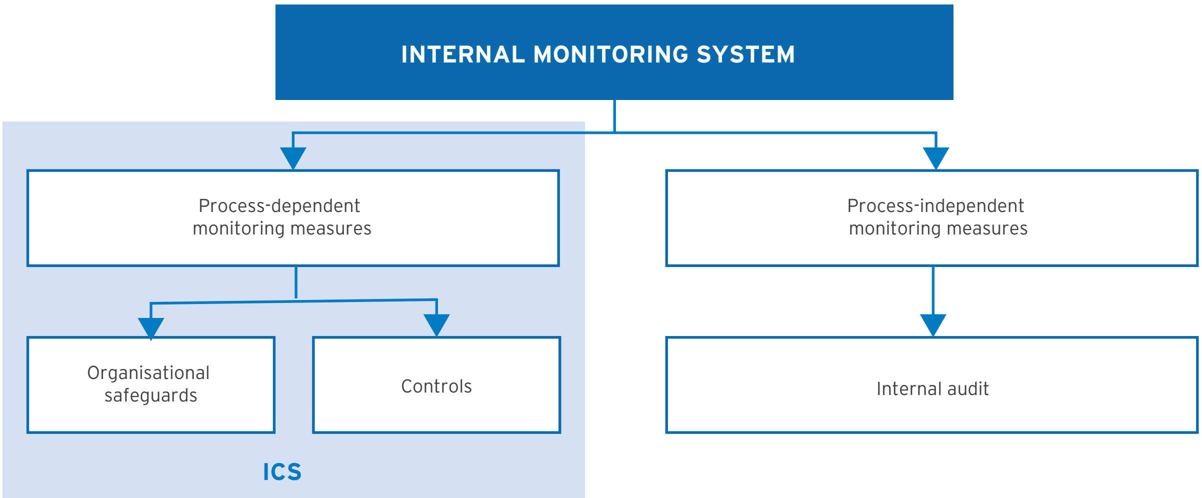
Internal control and risk management system (ICS) relationship between the ics and the accounting process

In 2017 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 HYPO NOE Group's internal control system comprises a comprehensive range of coordinated methods and measures that ensure

- compliance with laws and guidelines (compliance objectives)
- the efficiency and effectiveness of the Group's business activities
- the reliability of operational information, and
- optimal protection of the assets, finances and earnings of the HYPO NOE Group, as well as the accuracy of financial reporting.

The HYPO NOE Group's internal monitoring system comprises process-dependent and process-independent monitoring measures.



As part of the process-independent measures, internal audit is clearly distinct from the ICS. All internal audit activities are subject to Group-wide standards based primarily 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. In 2017, the audits carried out in Accounting/Group Accounting focused on IFRS 9, hedge accounting and reporting.

There are two forms of process-dependent monitoring measures:

Organisational safeguards

Organisational safeguards are all measures implemented at organisational level as well as one-off measures – either within a department or across several departments – that are designed to prevent errors, fraud and damage to the HYPO NOE Group, e.g.

- signature regulations, decision-making authorities
- role and permission systems in IT applications
- daily, weekly and monthly reports

Controls

As far as the ICS is concerned, controls are periodic activities (checks) that are directly or indirectly integrated into the processes being monitored and are designed to safeguard the quality of their outcomes (early identification and prevention of deviations in the process).

While value for money is a concern when implementing controls, fulfilment of legal requirements, including those with no demonstrable benefit, must always be assured.

Examples of ICS controls:
- Four-eye principle within individual departments, or across departments
- Use of checklists
- Automated checking of values and analysis of reports/lists
- Checking information

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

The main features of the Group's internal control and risk management systems, 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 Finance & Regulatory Reporting Department at HYPO NOE Landesbank für Niederösterreich und Wien AG is responsible for all accounting matters and for issuing instructions for the purpose of ensuring 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 events with regard to the following:
- Employment of the Group's assets;
- Recording of all the information required to draw up the annual financial statements, and prevention of unauthorised purchases and sales;
- Establishment of risk-based decision-making authorities and monitoring instruments.
- The chart of accounts is tailored to the special requirements of the Group.
- 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 main functions involved in the accounting process – Group Accounting, Controlling and Risk Management – are clearly demarcated and managed as separate departments.
- Departmental responsibilities are unambiguously assigned.
- The computer systems employed are protected against unauthorised access by appropriate control mechanisms.
- Accounting data are audited for their 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/Capital Requirements Directive IV 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.
- Periodic reports are sent to the Oesterreichische Nationalbank (OeNB) 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.

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 assets and liabilities 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, for the purpose of 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.

In October 2017 a senior management responsibilities database was rolled out, which now forms an integral part of the ICS.

The database is intended to support division and department heads with the fulfilment of their duties by providing them with an overview and system of documentation with respect to:

- Responsibilities pursuant to section 9 Verwaltungsstrafgesetz (Administrative Penal Act)
- Cases where there exists a duty of disclosure to or duty to obtain approval from the regulator
- ICS management staff controls

The contents of the database are reviewed on an annual basis. The half-yearly and yearly ICS management staff controls are evaluated and reported to the Management Board and the Audit Committee.

Research and development

As a financial services provider, research and development in the industrial sense only plays a minor role at the HYPO NOE Group. We constantly invest in innovation and enhancements, in line with our guiding principle of offering customers continuous improvements in all lines of business and in product quality (further information can be found in the operational review, in particular in the section on the Retail and Corporate Customers).

Group non-financial statement

Pursuant to section 267a Austrian Business Code, the HYPO NOE Group is obliged to prepare a consolidated non-financial statement. Under section 243b Austrian Business Code, the parent company HYPO NOE Landesbank für Niederösterreich und Wien AG is also required to prepare such a statement. The disclosures are published in consolidated form below. The non-financial statement was prepared in accordance with statutory provisions, taking into account the standards set out in the Global Reporting Initiative (GRI). Further information will be published at a later date in a separate sustainability report compiled in accordance with the GRI, and is available online at https://www.hyponoe.at/de/ihre-hypo-noe/nachhaltigkeit (German only).

The following non-financial statement provides information necessary for understanding the Group's course of business, earnings, position and the effects of its operations, as well as information connected with the environment, social and employee-related matters, respect for human rights and combating corruption and bribery, to the extent that such information is not provided elsewhere in the annual report. The topics addressed below were selected on the basis of the materiality analysis performed for the 2014 sustainability report. These topics were reassessed internally in terms of the significance of their impacts on operations.

Description of the business model

Since its establishment as a conventional mortgage bank in 1888, the HYPO NOE Group's traditionally low-risk business model has consistently proven its worth. The business model is continuously enhanced by means of innovative product solutions, especially in the public sector and real estate segments.

As a publicly owned banking group, we have special responsibilities and are committed to transparency. The mission statement encapsulates a philosophy that has developed over almost 130 years, and places a strong emphasis on our reliability and stability as a partner to our customers and employees.

PRODUCTS AND SERVICES

The HYPO NOE Group is a dependable partner for the public sector, real estate customers and large corporates, as well as retail and corporate clients in our core markets of Lower Austria and Vienna, and selectively in the Danube region. The product portfolio focuses on financing for social and hard infrastructure, as well as corporate, project, structured and real estate finance, and treasury solutions. HYPO NOE Landesbank has 27 branches in Lower Austria and Vienna, serving 80,000 customers.

RATINGS

With a solid 'A/A-1' issuer rating with a "stable" outlook from Standard & Poor's, HYPO NOE Landesbank is among the best-rated and therefore most secure banks in Austria. Moody's high Aa1 ratings on the Bank's public sector and mortgage cover pools have also remained unchanged. With regard to sustainability, the 'C' rating with Prime status from oekom research is testimony to HYPO NOE Landesbank's position as one of the leaders in the sector.

SUSTAINABILITY IN THE GROUP'S CORE BUSINESS

For financial services providers, the environmental and social effects of their business operations (financing and investment) give rise to both risks and opportunities. The HYPO NOE Group has implemented clear ethics guidelines and business principles for its financing activities. In this way, the Bank makes every effort to ensure that loans are only extended for purposes that are consonant with minimum social and environmental standards.

Inclusion criteria enshrined in the ethical guidelines and business principles are intended to promote business activities in areas that the Group believes generate the largest benefits for society, while exclusion criteria help to identify sectors where the Bank chooses not to operate, in the interest of social responsibility. These guidelines also form part of the Group's credit risk management manual.

A PARTNER FOR SUSTAINABLE INVESTMENT

With regard to sustainable investment, the HYPO NOE Group works with partners that enable it to offer environmentally sound and ethical investments in selected funds. The Group has organised a series of training courses and product information events in collaboration with its partners, in order to make sustainable investment opportunities more accessible to a wider audience. Initial success in this respect was reflected in the level of investment in sustainable funds, which exceeded EUR 32m at the end of the 2017 financial year.

Environment

As the bank for the state of Lower Austria and one of Austria's leading businesses, the HYPO NOE Group has a responsibility to finance investments in climate protection, and also to play a pioneering role in terms of the environmental impact of its operations. To this end, the Group provides transparent information on its environmental footprint, and implements measures aimed specifically at reducing its impact on the environment. The management of building infrastructure as well as employees' use of transport have the most significant environmental effect.

FOCUS ON ENERGY EFFICIENCY

HYPO NOE's St. Pölten headquarters features state-of-the-art energy-efficiency measures and meets its own electricity requirements by means of a photovoltaic array which produced over 33,000 kWh of zero-emission power in 2017.

The Group's innovative, low-energy head office has received the klimaaktiv silver award, as well as Green Building certification from the EU. Like all of the HYPO NOE Group's offices and branches, the headquarters only uses renewable electricity.

The Group's commitment to protecting the environment has also been recognised in the form of Quality Austria certification for successful implementation of the ISO 50001 standard. The decisive factor in this regard was the newly introduced, Group-wide energy policy strategy, which is geared towards achieving systematic improvements in internal energy efficiency. An in-house "energy team" was set up in the course of implementing the energy management system, with a view to driving forward continuous improvement processes and enhancing reporting structures. Further details are available at https://www.hyponoe.at/de/ihre-hypo-noe/nachhaltigkeit/energieeffizienz (German only).

CLIMATE-FRIENDLY MOBILITY

Under the banner of "the vehicle fleet of the future", the HYPO NOE Group aims to significantly reduce the environmental impact of business-related travel, in particular on frequently used routes between Lower Austria and Vienna. A car policy specifically promotes the purchase of low-emission company cars. The fleet currently includes four electric vehicles. In 2017, five rapid charging stations were installed at the Group's St. Pölten headquarters, and a free charging station is also available for event guests and customers. This strong commitment was reflected in the achievement of project partner status for the klimaaktiv mobil action programme in June 2017.

Social and employee-related matters

In its role as the bank for Lower Austria, the HYPO NOE Group sees itself as a partner to people in the state, and in Vienna and the Danube region. In order to serve our external stakeholders reliably, we capitalise on our most important resource: our employees.

PROMOTING SUSTAINABLE, REGIONAL PROCUREMENT

The HYPO NOE Group sources numerous products from nearby suppliers, with the aim of supporting the regional economy. In order to avoid social and environmental risks, guidelines have been in place since 2014 to ensure that the Group's procurement activities meet sustainability criteria. All suppliers have made a commitment to comply with this code of conduct, meaning they are obliged to adopt resource-efficient, socially responsible business practices in their dealings with HYPO NOE Landesbank.

PRINCIPLES AND GUIDELINES FOR EQUITABLE COLLABORATION

HYPO NOE's market conduct and its dealings with customers and employees are governed by the Group's code of conduct. The HYPO NOE Group is also committed to complying with the International Labour Organisation's (ILO) international labour standards. Active cooperation with the works council, and observing the rights of employees and trade unions are a matter of course at the Group.

TRAINING AND DEVELOPMENT

Staff and managers receive regular, reasoned feedback on their development as part of the employee development and performance appraisal. Employees agree further training measures with their line manager in the course of the appraisal. In 2017, HYPO NOE Group employees completed a total of 1,982 days of training (2016: 1,761 days).

HEALTH MANAGEMENT

As a responsible employer, HYPO NOE pays particularly close attention to the health and wellbeing of its employees. The Group is dedicated to building a constructive climate that combines a high degree of personal responsibility with creativity and flexibility.

In this regard, the focus is on training and development, workplace health promotion, maintaining an appropriate work-life balance and securing jobs.

The Group uses a variety of measures to counter the risk of stress and overwork. For instance, an employee assistance service is available to all staff free of charge. This includes anonymous coaching and advice on professional and personal matters. Every two years, employees have access to sports medical examinations or alternatively a heart rate variability test, for which they pay a small portion of the cost.

DISABLED ACCESSIBILITY/ACCESS TO FINANCIAL SERVICES

In terms of disabled accessibility, the HYPO NOE Group strives to provide safe and secure access so that all customers can take care of their financial affairs, and to prevent discrimination against people with disabilities. To this end, an action plan was prepared for measures to be implemented in the Bank's branches. All branches were wheelchair-accessible at the end of 2017.

RESPECTING HUMAN RIGHTS

As a responsible company, the HYPO NOE Group sees upholding human rights as a core element of its philosophy.

Taking the possibility that its business activities might harm human rights as its point of departure, the HYPO NOE Group scrutinises all of its business dealings for compliance with the applicable laws, regulations and external and internal guidelines, as well as its internal ethical guidelines and business principles.

The HYPO NOE Group is committed to observing and complying with the applicable laws and regulations in all of the countries in which it does business, as well as in those countries in which its customers are based.

The HYPO NOE Group is not involved in any business or projects that involve forced labour (including bonded labour) or child labour. Nor is it involved in any activities that contravene

- the European Convention on Human Rights;
- the labour-related and social obligations of the country concerned;
- the applicable regulations put in place by international organisations, or the relevant UN conventions
- or the rights of the local population or minorities.

When it comes to protecting customer data and safeguarding privacy, the HYPO NOE Group takes it commitments in this area extremely seriously.

The Group has established an internal feedback and complaints database, into which staff must enter all customer complaints. These are analysed on a regular basis, included in the ombudsman's report and evaluated for relevance to compliance issues. This approach helps to minimise the risk of compromising customer privacy as far as possible. There were no significant complaints or breaches related to the handling of customer data in 2017.

Anti-corruption and anti-bribery measures

For the entire Group, conducting business ethically and preventing corruption are essential basic preconditions for properly functioning business operations.

The HYPO NOE Group recognises the negative impacts of influencing business activities through corruption and bribery as a central risk, and has put in place the corresponding measures to guard against it in its operations.

Measures to ensure that all staff act with integrity are reinforced by internal rules, which provide a clear overview of the legal requirements. All employees of subsidiaries and investments in which the Group holds a stake of over 50% are considered officials and are subject to the corresponding strict statutory regulations.

ORGANISATIONAL STRUCTURE

The permanent functions of Compliance Officer and Anti-Money Laundering Officer report directly to the Group Management Board.

INTERNAL COMPLIANCE CODES

Internal compliance codes are regularly reviewed and updated by their authors. In particular, new regulations and changes in the law are immediately incorporated into the existing guidance and communicated to staff. The following compliance rules and guidelines are in place at present:

- Compliance Manual: standard regulations covering all central compliance topics for HYPO NOE and its employees
- Manual for Combating Money Laundering and Terrorism Financing: standard regulations for all processes and measures, including those to prevent money laundering and financing of terrorism
- HYPO NOE's sanction policy sets out the latest international sanctions and clearly describes the Group's policy
- New product introduction processes: conflicts of interest policy, which covers the subject of securities donations and granting and accepting benefits in accordance with the provisions of the new Wertpapieraufsichtsgesetz (Securities Supervision Act) 2018.
- HYPO NOE Anti-corruption Guideline

- Investment Advice and Rules of Conduct Manual: provides guidance regarding, among other matters, the obligation to act in the best interests of the customer in connection with securities services
- Standard Compliance Code (principles of proper compliance; insider laws and market manipulation; guidelines for dealings by bank employees; conflicts of interest and benefits; order execution; principles of proper financial analysis; special regulations for investment companies): voluntary code of practice of the Austrian banking industry, defined in greater detail in the Compliance Manual and other guidance.

RAISING AWARENESS WITHIN THE GROUP

There are clear internal anti-corruption guidelines and this area forms an integral part of the Group's compliance rules. Every new HYPO NOE employee is obliged to complete an online compliance and anti-money laundering training course within four weeks of joining the Group. All new employees also receive face-to-face training as part of their induction. Existing employees must also complete this training at regular intervals. Anti-corruption policy is a core topic in the compliance training, and anti-corruption principles and recommendations are collated and published internally in the HYPO NOE Group Anti-corruption Guideline. In 2017 all HYPO NOE Landesbank employees participated in mandatory compliance courses (annual refresher courses).

The Group also supports international anti-corruption and anti-bribery initiatives, reinforcing its position that such activity will not be tolerated at the Group in any form. Inappropriate gifts or favours must not be given or received as part of any working relationship.

The relevant internal processes must be kept up to date at all times, and are optimised on an ongoing basis. Any amendments are implemented as soon as possible. Under these processes, all invitations to third-party events must be registered and added to the internal event schedule. Compliance is determined using a defined traffic light system. There were no incidents of corruption in 2017. An investigation into suspected impropriety was dropped following analysis of the evidence.

HYPO NOE GROUP

ENVIRONMENTAL INDICATORS Carbon footprint

Indicator/description	Unit	2017	2016	2015	2014
Material consumption (paper)	kg CO_2-e	15,539	26,598	32,582	19,373
Electricity[1]	kg CO_2-e	0	0	780,387	636,629
District heating	kg CO_2-e	252,169	260,330	133,950	120,493
Gas heating	kg CO_2-e	142,364	175,557	87,004	64,741
Company car, petrol (assumed 50% private use)	kg CO_2-e	11,435	10,961	10,250	12,351
Company car, diesel (assumed 50% private use)	kg CO_2-e	322,289	368,466	376,714	322,344
Flights (assumed average distance of 800km)	kg CO_2-e	49,885	59,149	126,019	72,532
Rail	kg CO_2-e	2,878	3,369	1,445	1,368
Total CO2-e	**kg CO_2-e**	**796,559**	**904,430**	**1,548,351**	**1,249,829**
CO2-e/employee	**kg CO_2-e**	**981**	**1,048**	**1,670**	**1,383**

1 Renewable electricity at all locations since 2016, no CO2 emissions recognised as a result.

CO2-e conversion factors – source: Austrian Federal Environment Agency (2014 and 2015) and DEFRA (2016 und 2017)

Indicator/description	Unit	2017	2016	2015	2014
Group CO2 data by scope					
SCOPE 1: Company cars + gas heating	kg CO_2-e	476,088	554,984	473,969	399,435
SCOPE 2: Electricity + district heating	kg CO_2-e	252,169	260,330	914,337	757,121
SCOPE 3: Flights, rail, paper	kg CO_2-e	68,302	89,117	160,046	93,272

HUMAN RESOURCE INDICATORS

Indicator/description	Unit	2017	2016	2015	2014
Total employees	Head count	812	863	927	904
Female	Head count	361	377	403	401
Male	Head count	451	486	524	503
Employees by level					
Board/senior management, total	FTE	3	3	7	9
Management level 1 (division coordinator/senior management)	FTE	3	4	8	7
Management level 2 (department/division head)	FTE	18	29	46	51
Management level 3 (group management)	FTE	44	29	63	65
Non-management position	FTE	655	654	719	695
Proportion of women in managerial positions	%	16	22	18	21
Proportion of men in managerial positions	%	84	78	82	79
Employment breakdown (excl. employees on parental leave)					
Full-time employees	Head count	569	621	698	699
Total part-time employees	Head count	201	191	182	184
Female, part-time	Head count	147	143	138	140
Male, part-time	Head count	54	48	44	44
New employees and staff turnover (31 Dec.-30 Dec.)					
New employees, total	Head count	64	89	132	114
Employees leaving, total (net)	Head count	122	146	133	109
Staff development (amount of training is shown in days due to the differences in standard working hours at the various Group companies)					
Training days, total	Days	1,982	1,761	2,354	3,484
Training days per employee	Days	2	2	3	4
Sick days (according to doctor's certificate, includes weekends and public holidays during the period of sick leave)					
Total sick leave	Days	6,723	6,819	8,354	8,719
Sick leave per employee	Days	8	8	9	10
Employee compliance/anti-corruption training					
Proportion of employees taking part in courses, incl. refresher courses	%	no figures available at Group level			

HYPO NOE LANDESBANK

ENVIRONMENTAL INDICATORS Carbon footprint

Indicator/description	Unit	2017	2016	2015	2014
Material consumption (paper)	kg CO_2-e	11,769	19,849	24,471	14,641
Electricity[1]	kg CO_2-e	0	0	586,121	481,132
District heating	kg CO_2-e	190,990	194,267	100,605	91,062
Gas heating	kg CO_2-e	107,825	131,006	65,345	48,928
Company car, petrol (assumed 50% private use)	kg CO_2-e	8,661	8,179	7,699	9,334
Company car, diesel (assumed 50% private use)	kg CO_2-e	244,099	274,962	282,936	243,611
Flights (assumed average distance of 800km)	kg CO_2-e	37,782	44,139	94,648	54,816
Rail	kg CO_2-e	2,180	2,514	1,085	1,034
Total CO2-e	**kg CO_2-e**	**603,305**	**674,916**	**1,162,911**	**944,559**
CO2-e/employee	**kg CO_2-e**	**743**	**782**	**1,254**	**1,045**

1 Renewable electricity at all locations since 2016, no CO2 emissions recognised as a result.

Environmental data for HYPO NOE Landesbank were calculated pro rata, on the basis of the total figures for the HYPO NOE Group.

Indicator/description	Unit	2017	2016	2015	2014
Group CO_2 data by scope					
SCOPE 1: Company cars + gas heating	kg CO_2-e	360,584	414,148	355,981	301,873
SCOPE 2: Electricity + district heating	kg CO_2-e	190,990	194,267	686,725	572,195
SCOPE 3: Flights, rail, paper	kg CO_2-e	51,731	66,502	120,205	70,491

HUMAN RESOURCE INDICATORS

Indicator/description	Unit	2017	2016	2015	2014
Total employees	Head count	615	644	706	690
Female	Head count	295	301	333	326
Male	Head count	320	343	373	364
Employees by level					
Board/senior management, total	FTE	3	3	4	4
Management level 1 (division coordinator/senior management)	FTE	3	4	6	7
Management level 2 (department/ division head)	FTE	16	26	40	43
Management level 3 (group management)	FTE	38	26	48	50
Non-management position	FTE	480	464	535	518
Proportion of women in managerial positions	%	no figures available at individual Bank level			
Proportion of men in managerial positions	%	no figures available at individual Bank level			
Employment breakdown (excl. employees on parental leave)					
Full-time employees	Head count	409	441	520	524
Total part-time employees	Head count	169	157	147	135
Female, part-time	Head count	125	118	112	106
Male, part-time	Head count	44	39	35	29
New employees and staff turnover (31 Dec.-30 Dec.)					
New employees, total	Head count	35	41	91	73
Employees leaving, total (net)	Head count	68	83	97	68
Staff development (amount of training is shown in days due to the differences in standard working hours at the various Group companies)					
Training days, total	Days	1,841	1,690	2,127	3,250
Training days per employee	Days	3	3	3	5
Sick days (according to doctor's certificate, includes weekends and public holidays during the period of sick leave)					
Total sick leave	Days	4,791	4,729	6,003	6,128
Sick leave per employee	Days	8	7	8	9
Employee compliance/anti-corruption training					
Proportion of employees taking part in courses, incl. refresher courses	`%	100	100	100	100

Group outlook for 2018

Outlook for Group performance

With strong roots in its core market of Lower Austria and Vienna, the HYPO NOE Group aims to remain a secure and reliable partner to the public sector, real estate customers, large corporates, and retail and business customers.

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

The initiatives successfully introduced to further optimise the structure of the balance sheet will be extended to future reporting periods. This chiefly centres on selective reduction of receivables from public-sector bodies, with a view to further enhancing the granularity of the portfolio.

In the Group's core markets of Lower Austria and Vienna, a growing population is leading to increased demand for owner-occupied housing. The Group will address this strong demand by further expanding operations in the Housing Development Department, particularly in the non-profit housing segment.

Another key focus in 2018 will be servicing corporate customers based in Lower Austria and Vienna. To this end, a growth strategy has been drawn up that encompasses various measures including expansion of the product portfolio for this segment. The established, regionally focused strategy based on providing a face-to-face service for corporate customers will support activities in this area.

In terms of private customers, the focus for the year ahead will be on providing personal advice. This will be supported by the optimised structure of the branches, some of which have already been turned into service branches. Online and mobile services will also be steadily expanded to keep step with changing customer requirements as effectively as possible. In addition to developing HYPO NOE online banking and the HYPO NOE PLUS app to include additional services and an optimised user interface, innovative payment products and further mobile services are also scheduled for introduction in 2018.

The HYPO NOE Group is committed to expanding its services business with a view to widening its earnings base. The aim is to strengthen sources of profit other than interest income, particularly by increasing fee and commission income.

The bank's issuing activities will focus on the senior unsecured segment in 2018. In addition to refinancing via the capital market, the Group's goal is to maintain a high level of deposits following their steady increase in recent years, and safeguard a long-term and broadly diversified refinancing structure.

As far as the risk management is concerned, the first-time application of IFRS 9 Financial Instruments in the 2018 consolidated financial statements will be a key development. In preparation for this change, the Group has been investing in the development of new measurement procedures, processes and IT infrastructure for some time, as well as firming up the preliminary assessment of the new standard's potential effects. The key differences between IFRS 9 and IAS 39 include a greater need to recognise impairments and changes in the regulations governing classification and measurement, which particularly affect securities that form part of the Group's business model. As a result of the change in classification, positive valuation reserves relating to AFS securities will no longer be recognised in full.

Developing the necessary infrastructure, processes and methods will form a significant component of the Group's risk management activities in 2018, as it works to ensure that it is as well placed as possible to meet future regulatory requirements.

The market-facing initiatives implemented are designed to further diversify the Group's sources of income. The Group will continue to press ahead with its active cost management measures in future reporting periods. The aim is to create a resilient, long-term basis for the Group's operating activities. The streamlined structures at HYPO NOE Landesbank following the merger create additional potential to leverage synergies. Customers benefit from quick and tailored services – both at branches and via online and mobile solutions.

Two disposals were initiated in 2017. One of these related to the sale of a property close to the centre of Vienna, owned by HYPO NOE Landesbank. The other involves optimising the business operations of HYPO NOE First Facility GmbH's foreign subsidiaries with the help of a strategic partner.

Economic environment

The growth in the global economy that kicked in during 2017 will continue this year, with risks and opportunities apparently balanced as things currently stand. The pace of growth in Europe and Asia in particular caught analysts by surprise, and the majority of leading institutions have revised their forecasts upwards over the past few months. Risks for the global economy include geopolitical tensions and protectionism. The future direction of US trade policy is a source of uncertainty.

Highly favourable financial conditions for lending persisted, and continued to buoy economic growth, in the short term at least. Demand for funds for capital investment, as well as for housing construction loans and consumer credit has also increased. In addition to low interest rates, this development is being fuelled by increased consumer confidence. Business sentiment indicators point towards a sustained and broad-based economic recovery.

Stock markets reflect the positive sentiment. That said, some volatility should be expected during 2018. The Fed started to gradually prune its balance sheet in autumn 2017. By contrast, monetary policy in the eurozone remains expansive. Although the ECB has scaled back its repurchase scheme from EUR 60 billion to EUR 30 billion per month, it also announced that it would be extending the programme until September 2018. In spite of the economic upturn, inflation in the eurozone remains muted. As soon as the ECB is convinced that inflation is on a longer-term path, it is expected to respond by adjusting rates accordingly. Only afterwards will there be a gradual move away from the expansive monetary policy of recent years. With the economic recovery gaining traction, initial rate increases by the ECB are coming ever closer.

The Austrian economy is currently booming. In 2018 it will outperform the eurozone and EU-28 average of just over 2%. The EU Commission sees growth in Austria reaching 2.4%, while the OeNB and WIFO forecasts are 2.8% and 3% respectively. This development is chiefly attributable to stronger domestic demand.

The upturn in the Danube region countries will also continue in 2018. According to the OeNB, the Romanian economy will expand by 4.4% in 2018, and other economies in the region by well over 3%. Growth in Slovakia and Slovenia is expected to be robust, at around 4%. France and Italy, two of the eurozone's largest economies, will fall short of the eurozone average in 2018, while Germany – Austria's main trading partner – will expand by around 2%.

Digitalisation

The rapid pace of developments in the field of digitalisation is having a significant impact on the way that banks and their customers interact. Standardised services for customers can be made even more convenient and accessible. New sales and communications channels open up access to banks irrespective of location or time of day. Personalised, custom solutions can also be offered more efficiently, while digital competition drives the development of innovative solutions.

More and more customers are conducting their banking activities online. With the number of mobile payment transactions growing all the time, this method is set to become the norm in the medium term. The amended Payment Services Directive (PSD2) entered into force on 13 January 2018, introducing new regulations for payment services. It aims to simplify payment services within the European Union while enhancing customer protection and security.

Digitalisation also represents an opportunity to optimise internal processes within the organisation and accelerate the pace of automation. This will likewise benefit customers, as more efficient and increasingly standardised processes translate into optimised cost structures.

Digitalisation primarily means putting an even stronger focus on the customer. Customers need to be in a position to conduct standard banking activities online, from any location, at any time, simply, quickly and securely. However, when it comes to investment decisions, nothing can replace personal service.

St. Pölten, am 20. Februar 2018
The Management Board

Peter Harold
CEO
Chief Executive Officer

Udo Birkner
CFO/CRO
Chief Financial and Chief Risk Officer

Wolfgang Viehauser
CBO
Chief Business Officer

CONSOLIDATED FINANCIAL STATEMENTS OF HYPO NOE LANDESBANK FÜR NIEDERÖSTERREICH UND WIEN AG

in accordance with IFRS for the year ended 31 December 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

Profit or loss (EUR '000)	(Notes)	2017	2016	Change
Interest and similar income	(5.1)	500,699	565,645	-64,946
Interest and similar expense	(5.2)	-391,034	-441,206	50,172
Net interest income		**109,665**	**124,439**	**-14,774**
Credit provisions	(5.3)	9,100	-7,789	16,889
Net interest income after risk provisions		**118,765**	**116,650**	**2,115**
Fee and commission income		18,871	16,534	2,337
Fee and commission expense		-3,490	-3,076	-414
Net fee and commission income	**(5.4)**	**15,381**	**13,458**	**1,923**
Net trading income	(5.5)	-509	665	-1,174
Administrative expenses	(5.6)	-115,806	-128,937	13,131
Net other operating income	(5.7)	29,147	31,787	-2,640
Net gains or losses on disposal of consolidated subsidiaries	(5.8)	-	8,384	-8,384
Net gains on investments accounted for using the equity method	(5.9)	-1,298	-4,813	3,515
Net gains/losses on available-for-sale financial assets	(5.10)	-163	56,989	-57,152
Net gains/losses on financial assets designated as at fair value through profit or loss	(5.11)	57	249	-192
Net losses on hedges	(5.12)	-5,369	-1,224	-4,145
Net gains on other financial investments	(5.14)	572	222	350
Profit before tax		**40,777**	**93,430**	**-52,653**
Income tax expense	(5.15)	-9,658	-23,432	13,774
Profit for the period		**31,119**	**69,998**	**-38,879**
Non-controlling interests	(5.16)	-166	-178	12
Profit attributable to owners of the parent		**30,953**	**69,820**	**-38,867**

Other comprehensive income (EUR '000)	2017	2016
Profit attributable to owners of the parent	**30,953**	**69,820**
Items that will not be reclassified to profit or loss		
Change in actuarial gains or losses (before tax)	*391*	*-1,455*
Other changes (before tax)	*-*	*1*
Change in deferred tax	*-98*	*364*
Items that may be reclassified subsequently to profit or loss		
Change in available-for-sale financial instruments (before tax)	*6,427*	*1,407*
Exchange differences on translating foreign operations accounted for using the equity method (before tax)	*-*	*23*
Change in deferred tax	*-1,607*	*-358*
Total other comprehensive income	**5,114**	**-18**
Total comprehensive income attributable to owners of the parent	**36,066**	**69,802**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

Assets (EUR '000)	Notes	31 Dec. 2017	31 Dec. 2016	Change
Cash and balances at central banks	(6.1)	456,197	164,587	291,610
Loans and advances to banks	(6.3)	860,821	998,347	-137,526
Loans and advances to customers	(6.4)	10,230,232	10,854,932	-624,700
Risk provisions	(6.5)	-75,270	-97,462	22,192
Assets held for trading	(6.6)	476,252	555,293	-79,041
Positive fair value of hedges (hedge accounting)	(6.7)	405,229	483,215	-77,986
Available-for-sale financial assets	(6.8)	1,593,005	1,967,148	-374,143
Financial assets designated as at fair value through profit or loss	(6.9)	19,474	20,340	-866
Investments accounted for using the equity method	(6.10)	26,238	29,922	-3,684
Investment property	(6.11)	41,382	54,117	-12,735
Intangible assets	(6.13)	932	918	14
Property, plant and equipment	(6.14)	69,672	77,525	-7,853
Current tax assets	(6.16)	20,659	20,333	326
Deferred tax assets	(6.16)	4,076	1,443	2,633
Other assets	(6.17)	226,827	261,393	-34,566
Disposal groups held for sale (IFRS 5)	(6.18)	12,287	-	12,287
Total assets		**14,368,013**	**15,392,051**	**-1,024,038**

Equity and liabilities (EUR '000)		31 Dec. 2017	31 Dec. 2016	Change
Deposits from banks	(6.20)	1,365,168	1,462,298	-97,130
Deposits from customers	(6.21)	4,049,846	3,847,855	201,991
Debts evidenced by certificates	(6.22)	6,893,636	7,698,831	-805,195
Liabilities held for trading	(6.23)	432,716	502,954	-70,238
Negative fair value of hedges (hedge accounting)	(6.24)	705,616	793,697	-88,081
Provisions	(6.25)	40,908	50,155	-9,247
Current tax liabilities	(6.26)	19,349	20,127	-778
Deferred tax liabilities	(6.26)	43,075	36,955	6,120
Other liabilities	(6.27)	139,845	129,430	10,415
Subordinated capital	(6.28)	1,453	202,381	-200,928
Equity (inc. non-controlling interests)*	(6.29)	676,401	647,368	29,033
Equity attributable to owners of the parent – share capital		51,981	51,981	-
Equity attributable to owners of the parent – reserves		616,035	586,968	29,067
Non-controlling interests		8,385	8,419	-34
Total equity and liabilities		**14,368,013**	**15,392,051**	**-1,024,038**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 Dec. 2017, EUR '000	Balance at 1 Jan. 2017	Profit/loss for the year	Capital in-creases	Divi-dends paid	Changes in scope of consolidation	Other compre-hensive income	Trans-fers	Balance at 31 Dec. 2017
Share capital	51,981	-	-	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	-	-	191,824
Retained earnings	359,380	30,953	-	-7,000	-	-	-	383,334
IAS 19 reserve	-5,484	-	-	-	-	293	-	-5,191
Available-for-sale reserve	41,301	-	-	-	-	4,820	-	46,121
Currency translation reserve	-53	-	-	-	-	-	-	-53
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**638,949**	**30,953**	**-**	**-7,000**	**-**	**5,113**	**-**	**668,016**
Non-controlling interests	8,419	166	-	-200	-	-	-	8,385
TOTAL EQUITY	**647,368**	**31,119**	**-**	**-7,200**	**-**	**5,113**	**-**	**676,401**

31 Dec. 2016, EUR '000	Balance at 1 Jan. 2016	Profit/loss for the year	Capital in-creases	Divi-dends paid	Changes in scope of consolidation	Other compre-hensive income	Trans-fers	Balance at 31 Dec. 2017
Share capital	51,981	-	-	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	-	-	191,824
Retained earnings	293,267	69,820	-	-2,000	-1,702	-	-5	359,380
IAS 19 reserve	-4,393	-	-	-	-	-1,091	-	-5,484
Available-for-sale reserve	40,246	-	-	-	-	1,055	-	41,301
Currency translation reserve	-70	-	-	-	-	17	-	-53
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**572,855**	**69,820**	**-**	**-2,000**	**-1,702**	**-19**	**-5**	**638,949**
Non-controlling interests	8,624	178	841	-261	-968	-	5	8,419
TOTAL EQUITY	**581,479**	**69,998**	**841**	**-2,261**	**-2,670**	**-19**	**-**	**647,368**

See Note 6.29 Equity for a discussion of the consolidated statement of changes in equity.

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

EUR 6thsd in after-tax gains on available-for-sale (AFS) financial instruments (2016: EUR 1,301thsd) was recycled from other comprehensive income to profit or loss.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	31 Dec. 2017	31 Dec. 2016
Profit for the year (before non-controlling interests)	**31,119**	**69,998**
Non-cash comprehensive income items		
Amortisation, depreciation, impairment and write-ups	8,566	-14,965
Allocations to and reversals of provisions and risk provisions	-2,831	8,010
Gains on disposal of financial assets and property, plant and equipment	-2,978	-41,073
Other adjustments	-63,377	5,309
Changes in assets and liabilities due to operating activities after adjustments for non-cash components		
Loans and advances to banks	137,596	-71,971
Loans and advances to customers	472,372	748,815
Available-for-sale financial assets	379,857	163,022
Other operating assets	116,708	-163,730
Deposits from banks	-89,119	-753,086
Deposits from customers	222,279	595,004
Debts evidenced by certificates	-674,557	-457,005
Other operating liabilities	2,313	30,995
CASH FLOWS FROM OPERATING ACTIVITIES	**537,948**	**119,323**
Proceeds from sale of/redemption of:		
Other investments	100	-
Property, plant and equipment, intangible assets and investment property	13,534	3,399
Purchase of:		
Participations	-17	-92
Property, plant and equipment, intangible assets and investment property	-1,742	-17,861
Cash flows from the disposal of subsidiaries	-	-807
CASH FLOWS FROM INVESTING ACTIVITIES	**11,874**	**-15,361**
Dividends paid	-7,200	-2,261
Subordinated debt – outflows	-200,786	-1,598
CASH FLOWS FROM FINANCING ACTIVITIES	**-207,986**	**-3,860**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**-50,228**	**-4,501**
CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD	**164,587**	**68,986**
Cash flows from operating activities	537,948	119,323
Cash flows from investing activities	11,874	-15,361
Cash flows from financing activities	-207,986	-3,860
Effect of exchange rate changes on cash and cash equivalents	-50,228	-4,501
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**456,197**	**164,587**
PAYMENTS FOR TAXES, INTEREST AND DIVIDENDS (in cash flows from operating activities)		
Income taxes refunded/paid	-11,192	-11,228
Interest received	500,090	558,087
Interest paid	-391,294	-444,431
Dividends on AFS investments received	810	2,170
Dividends received from associates	566	697
Dividends received from joint ventures	297	271

Changes in liabilities arising from financing activities

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

EUR '000	Total 1.1.2016	Cash flows	Non-cash changes	31 Dec. 2016
Subordinated debt	205,449	-1,598	-1,470	202,381
Liabilities from financing activities	**205,449**	**-1,598**	**-1,470**	**202,381**

Information on the consolidated statement of cash flows can be found in Note 4.

NOTES
TO THE CONSOLIDATED FINANCIAL STATEMENTS AND GOVERNING BODIES

1. General information

HYPO NOE Landesbank für Niederösterreich und Wien AG, domiciled at Hypogasse 1, 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. The former HYPO NOE Gruppe Bank AG, into which the retail and housing finance business of former wholly-owned subsidiary HYPO NOE Landesbank AG was integrated, was renamed HYPO NOE Landesbank für Niederösterreich und Wien AG with effect from 23 September 2017. The merger, which is now complete, has also resulted in changes to the segment reporting for 2017. Reporting will henceforth be on four segments: Public Sector, Real Estate Clients & Key Accounts, Retail and Corporate Customers, Treasury & ALM, and the reconciliation with consolidated profit under Corporate Center.

HYPO NOE Landesbank für Niederösterreich und Wien AG is one of Austria's largest Landesbanken (state banks), and provides a comprehensive range of financial and property services in tandem 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 Landesbank für Niederösterreich und Wien AG** mainly serves large state and local government clients. It specialises in providing services to the public sector, real estate clients and large corporates, as well as treasury services for clients based in Austria and abroad. It is a universal bank serving retail customers, professionals and business customers in Lower Austria and Vienna, and has 27 branches. **HYPO NOE First Facility GmbH** is one of the leading full-line facility management service providers in Austria and the CEE region.

The 2017 consolidated financial statements will be published in the Wiener Zeitung on 9 March 2018, and posted in the Investor Relations/Reports section of the Group's website (www.hyponoe.at).

2. Accounting standards

The consolidated financial statements of the HYPO NOE Group for the year ended 31 December 2017 were drawn up in accordance with section 245a Unternehmensgesetzbuch (Austrian Business Code) and section 59a Bankwesengesetz (Banking Act), as well as Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002, and 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 International Financial Reporting 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 2017, and applicable to the business activities of the HYPO NOE Group.

NEW AND AMENDED STANDARDS THAT AFFECT THE HYPO NOE GROUP'S FINANCIAL STATEMENTS:

Amendments to IFRS 7 Disclosure Initiative – mandatory in the EU for reporting periods beginning on or after 1 January 2017

The amendments to IFRS 7 are intended to improve the information provided on changes in an entity's debt. This involves making disclosures on the liabilities arising from financing activities.

This requirement is met by changes to the CONSOLIDATED STATEMENT OF CASH FLOWS, Changes in liabilities arising from financing activities.

Annual Improvements to IFRS Standards, 2014-2016 Cycle

IFRS 12 Disclosure of Interests in Other Entities – mandatory in the EU for reporting periods beginning on or after 1 January 2018

Notes disclosures pursuant to IFRS 12, apart from financial information, must also be made for entities classified as held for sale under IFRS 5.

NEW AND AMENDED STANDARDS NOT YET APPLIED, WHICH ARE CURRENTLY EXPECTED TO AFFECT THE HYPO NOE GROUP'S CONSOLIDATED FINANCIAL STATEMENTS BUT ARE NOT YET MANDATORY AND HAVE NOT BEEN APPLIED EARLY:

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

The IASB published the final version of IFRS 9 Financial Instruments in July 2014. Although early application is permitted, the HYPO NOE Group does not plan to apply IFRS 9 until 1 January 2018.

IFRS 9 includes new classification and measurement approaches for financial assets. These reflect the business models under which assets are held, as well as the characteristics of their cash flows.

The likely effects of applying IFRS 9 to the 2018 consolidated financial statements were investigated, and the projections will be progressively refined and adapted to market developments in the course of 2018. In the light of the current market situation and validation status of the parameters, the first-time application effect on the CRR capital ratio is put at between -0.8 and -1.1 percentage points. The two key drivers are the remeasurement required by the standard and the reclassification of the nostro portfolio. In 2018 particularly close attention will be paid to validating the parameters and to the sensitivity of results to them.

IFRS 9 implementation project

The project work aimed at implementing the new IFRS 9 accounting standard began back in 2015. It chiefly related to:

- Determining the business model and assessing the cash flow criteria for the financial instruments;
- Calculating the effects of the broader approach to impairment under IFRS 9;
- Introducing customised accounting software with a view to maximising the automation of clearing, improving the Bank's accounting processes and underpinning its comprehensive financial reporting;
- IT implementation projects at the Allgemeines Rechenzentrum (ARZ) shared accounting service centre, mainly focusing on fair value and impairment calculation.

Due to the importance and complexity of the project a central management team was established, reporting directly and regularly to the chief risk officer. Besides the Group accounting, strategic and operational risk management, and IT organisation functions, all the relevant subsidiaries were involved in the project.

The sub-project concerned with classifying and valuing financial projects was very largely completed by the end of 2017; this resulted in a comprehensive revision and redefinition of the business models. The accounting effects of the classification and measurement of investments, loans meeting the solely payments of principal and interest (SPPI) criteria, and the firmed-up business models – especially the nostro portfolio – are described in detail in the note on classification.

In 2017 work on implementing the impairment calculation software led to repeated modifications reflecting ongoing changes in market practice. The detailed calculations and sensitivity analyses performed make it possible to judge the capital effects. Any accounting and technical fine tuning that is still needed will be carried out in 2018. The note on impairment gives a detailed description of the project.

Due to the wide-ranging demands in terms of IT implementation and the related costs, the Group decided to perform most of the IT work collaboratively, at ARZ, So as to pool expertise, and minimise the implementation risks and costs.

In 2018 the emphasis will be on finalising the IT implementations and fine tuning the parameters applied. The complexity of the new standard and the insights gained from exchanging information with other market players will require ongoing adjustments in the course of the year. At the same time the internal governance structures and validation of the parameters will be further refined and consolidated. This will also call for revisions to internal documentation such as regulations and work instructions.

Classification

IFRS 9 specifies three categories for the classification of financial assets: measured at amortised cost; at fair value through profit or loss (FVTPL); and at fair value through other comprehensive income (FVOCI). The IAS 39 categories – held to maturity (HTM); loans and receivables (LAR); and available for sale (AFS) – are no longer included in IFRS 9. Embedded derivatives where the underlying is a financial asset are never recognised separately under IFRS 9. Instead, the entire hybrid contract is assessed for the purpose of classification.

IAS 39 portfolios were classified on this basis in accordance with related business models. With few exceptions, loans and advances to banks and to customers are measured at amortised cost. During the business model analysis, a small proportion (less than 2%) of these assets were identified that do not meet the classification criteria (solely payments of principal and interest [SPPI]) or, in the case of fixed interest rates that deviate from the standard, do not pass the internal benchmark test, and consequently cannot be carried at amortised cost.

Other debt instruments were classified on the basis of the business strategy according to the business model concerned. Part of the portfolio is held for earnings diversification purposes, and to reinvest equity ("hold" business model). However most of it consists of liquid assets, used to manage the liquidity buffer for short and medium-term liquidity ("hold and sell" business model). In consequence, around 42% of the assets in the nostro portfolio were classified as measured at amortised cost, 48% as measured at fair value through OCI, and 10% as measured at FVTPL. About half of the effect of changeover of the profit reporting to the CRR capital ratio is due to the reclassification of the financial instruments; the undisclosed reserves embodied by the latter are no longer shown under CRR capital.

As regards financial liabilities, IFRS 9 generally retains the classification method used in IAS 39. However, whereas under IAS 39 all changes in fair value are recognised through profit or loss, IFRS 9 requires the following presentation:

- Change in credit risk: presented in other comprehensive income (OCI);
- Remaining changes: recognised in profit or loss.

The HYPO NOE Group has not recognised any financial liabilities as at fair value through profit or loss, and does not currently intend to do so.

Investments

AFS investments are classified on the basis of their fair value. The HYPO NOE Landesbank für Niederösterreich und Wien AG Management Board has decided to classify all the existing holdings as FVOCI with no recycling. The reason for this decision was that no material increase in the value of these holdings is to be expected, and that such strategic investments are not held for sale. The initial reclassification effect on the CRR leverage ratio is minor.

Impairment losses

Under IFRS 9, the incurred losses model adopted in IAS 39 is replaced with a forward-looking model based on expected credit losses on financial assets and contract assets. This demands considerable judgement regarding the extent to which expected credit losses are influenced by changes in economic factors.

The IFRS 9 impairment model is applicable to financial assets measured at amortised cost or at FVOCI (with the exception of investments, including equities) and to contract assets.

Impairment is measured on the basis of the following principles:

- **Stage 1:** 12-month credit losses: expected credit losses resulting from default events that are possible within the 12 months after the reporting date, based on the expected 12-month risk of default and the actual expected loss in the event of default.
- **Stage 2:** Lifetime expected credit losses: the expected credit losses that result from all possible default events over the expected residual life of a financial instrument, also taking into account anticipated deterioration in creditworthiness due to expected macroeconomic conditions.

The main parameters are the segment loss given default (LGD) on collaterals, and the unsecured portion of receivables, as well as the probability of default (PD). The lifetime probability of default is calculated on the basis of the current rating and the modelled migration probabilities, augmented by forward looking macroeconomic scenarios. The expected secured and unsecured recoveries at the expected point of default are calculated, as well as the LGD. The parameters are based on internal data histories where sufficient data is available. Due to the low historic default rates, and hence the statistically insignificant number of exposures, internal data are augmented by external sources. Regular validation is crucial to the reliability of the parameters. Because of this, in 2016 the rating systems were comprehensively revised, and the key parameters restarted and extended up to 2018.

The entire lifetime expected loss must be recognised for instruments where the risk of default has increased significantly since their addition. The level of significance can be determined by the entity. Lifetime credit losses are applied to trade receivables, and to loans and advances that do not include material financing components.

- **Stage 3:** Impairment of loans in default: the scenario-weighted impairment loss is calculated on the basis of the expected recoveries, taking the expected realisation of collateral into account.

The Group has used an internal model and a variety of scenarios to calculate the impairment losses. The first-time application effect chiefly depends on the behaviour of the risk parameters, and these will be tested against various scenarios in 2018. The effect in 2018 largely depends on shifts in the ratings in the portfolio, the risk parameters (loss given default [LGD] and probability of default [PD]), and the macroeconomic environment.

Hedges

Upon first-time application of IFRS 9, entities may elect to continue applying the hedge accounting rules specified in IAS 39 instead of the changes introduced by IFRS 9. The HYPO NOE Group intends to conform to the new requirements under IFRS 9.

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

A preliminary appraisal in the course of the IFRS 9 project indicates that the current hedge accounting methods, which the Group determines, will meet the requirements of the standard.

Modifications

Modifications were subjected to a comprehensive analysis. In particular, non-contractual adjustments to margins were examined in detail. The first-time application effect is recognised, but is unlikely to have a significant impact on results.

Notes and regulatory reporting

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

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

Applying the new IFRS 9 risk provisions will reduce the IFRS capital requirements. The additional disclosure requirements with regard to risk provisions are likely to have a significant effect on Group supervisory reporting (e.g. solvency, large exposures, leverage ratio and net stable funding ratio).

Transitional provisions

The Group does not expect to have recourse to the transitional arrangements for initial application of the new CRR impairment rules.

Changes resulting from the application of IFRS 9 will normally be applied retrospectively, unless the HYPO NOE Group intends to make use of the exception under which it may choose not to adjust comparative figures from previous periods to the alterations to classification and measurement (including impairment). Differences between the carrying amounts of financial assets and liabilities resulting from the application of IFRS 9 will generally be recognised in retained earnings and other reserves as at 1 January 2018.

IFRS 15 and the Clarifications to IFRS 15 Revenue from Contracts with Customers – mandatory in the EU for reporting periods beginning on or after 1 January 2018

The standard specifies when and in what amount reporting entities must recognise revenue. IFRS 15 supersedes the following standards and interpretations:

IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, and IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

IFRS 15 sets out a standardised model for identifying performance obligations and transferring control of goods or services. The standard requires entities to report more useful information to users of financial statements than before. To this end, the standard offers a single, principles-based, five-step model to be applied to all contracts with customers.

Contracts with customers are reported as liabilities, assets or receivables in the statement of financial position. This depends on the relationship between fulfilment of the entity's performance obligation and payment by the customer. A contract liability is recognised if the customer has paid the consideration before the entity supplies the goods or performs the services in question. In contrast, if the entity has supplied goods or performed services and the customer has not yet paid the consideration, a contract asset or a receivable is recognised in the statement of financial position. Contract assets and receivables are accounted for in accordance with IFRS 9.

IFRS 15 applies to all contracts with customers, except:
- Leases, which are subject to IAS 17 Leases;
- Financial instruments and other contractual rights or obligations, which are subject to IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements, and IAS 28 Investments in Associates and Joint Ventures;
- Insurance contracts, which are covered by IFRS 4 Insurance Contracts;
- Non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

As a banking business that as at December 2016 no longer included any property development companies in consolidation, the main concerns for the Group are the reporting of interest, dividends and commissions. The effects of the application of IFRS with regard to the sale of goods and to construction contracts are of secondary importance to the HYPO NOE Group.

The Group does not intend to apply IFRS 15 early, and will instead do so from 1 January 2018. The Group will assess the requisite supplementary disclosures in the notes in conjunction with the IAS 1 Disclosure Initiative, and on the basis of their materiality.

IFRS 16 Leases – mandatory in the EU for reporting periods beginning on or after 1 January 2019

IFRS 16 supersedes the current standards on leases (IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Early application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at the same time as or prior to application of IFRS 16. The Group plans initial application of IFRS 16 as from 1 January 2019. A project to implement IFRS 16 was launched at the start of 2018.

Lessee

IFRS 16 introduces a single accounting model under which leases are recognised in the lessee's statement of financial position. The lessee recognises a right-of-use asset representing its right to use the underlying leased asset, and a lease liability representing its obligation to make lease payments. There are exceptions for short-term leases and leases where the underlying asset is of low value.

From the HYPO NOE Group's perspective, the changes will affect tenancy agreements relating to properties owned by third parties (e.g. bank branches). Initial investigations of the impact on the statement of financial position did not indicate any significant effects on total assets.

As a lessee, at the transition point on 1 January 2019 the Group can take

- a retrospective approach,
- or a modified retrospective approach with optimum practical simplification rules.

As things stand, management has not yet decided which transitional approach to adopt.

Lessor

The accounting requirements for lessors under IFRS 16 are comparable to those of the current standard, meaning that lessors will continue to classify leases as either operating or finance leases. As the HYPO NOE Group mainly accounts for finance leases through project companies, in accordance with IAS 17, at first sight it appears that the move to IFRS 16 will not have any impact.

3. Significant accounting policies

The consolidated financial statements of the HYPO NOE Group for the year ended 31 December 2017 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, which contains disclosures pursuant to the provisions on the operational and financial review in section 267 Austrian Business Code, is part of the notes.

The consolidated financial statements are based on the separate financial statements of all the consolidated Group companies as at 31 December 2017, prepared 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 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.

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.

Non-current assets and groups of assets are classified as held for sale if they are available for immediate sale in their present condition and their sale within one year of classification is highly probable. Recognition of financial assets held for sale and disposal groups is at the lower of the carrying amount or fair value, less costs to sell. Such classification results in the assets concerned being shown separately in the statement of financial position as IFRS 5 disposal groups. The profit or loss items remain where they were.

Income from loans and advances with negative interest rates (see Note 5.1.b Interest and similar expense by IAS 39 measurement categories) and deposits with negative interest rates (see Note 5.2.b Interest and similar expense by IAS 39 measurement categories) is reported as interest income.

Derivative transactions are netted in the statement of financial position in some cases (default, insolvency, etc.), provided that there is an agreement to this effect (8.1.5 Offsetting of financial assets and liabilities).

Estimation uncertainty and judgements

All the estimates and judgements required by IFRS 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 that appear reasonable under the circumstances. Particularly frequent use of estimates and assumptions was made when valuing investments, valuing the EWU Group (see Note 3.2.3 Associates and joint ventures), assessing inclusion in the scope of consolidation (Note 3.1 Basis of consolidation), recognising deferred tax assets attributable to tax loss carryforwards (Note 3.17 Tax assets and liabilities), recognising credit provisions (estimating recoverable amounts and calculating default probabilities; Note 3.12 Risk provisions), recognising provisions (Note 3.13 Provisions, in particular regarding the discount rate used in connection with employee benefits, and Note 6.25.2 Disclosures on employee benefits), as well as performing fair value measurement (on the basis of observable market data; Note 8.1.2 Fair value hierarchy disclosures).

In order to determine materiality, A materiality threshold is set each year on the basis of the annual financial statements for the preceding years. Using figures from the statement of financial position and statement of profit or loss to determine the materiality threshold is intended to ensure that all of the relevant factors have been incorporated in the annual financial statements. The calculation serves as an indicator that enables the Group to estimate and evaluate materiality. The final assessment of materiality also takes account of qualitative factors and special circumstances.

Where estimates and judgements were necessary in respect of certain items, the assumptions made are explained in the corresponding notes.

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. The scope of consolidation is reviewed on an ongoing basis. Apart from the parent, HYPO NOE Landesbank für Niederösterreich und Wien AG, the Group comprises a total of 66 Austrian subsidiaries in which the parent meets the criteria for control. Besides the parent, a total of 68 domestic subsidiaries were included in consolidation in the previous reporting period.

At present, 36 Austrian and five foreign companies are accounted for using the equity method. During the previous period, 31 domestic and five foreign companies were accounted for in the consolidated financial statements using the equity method.

Because the foreign business generates insufficient earnings to justify the market risk exposures involved, four of the five consolidated foreign subsidiaries of HYPO NOE First Facility GmbH accounted for using the equity method in 2016 (those in Bulgaria, Hungary, Romania and Slovakia), namely those belonging to the Real Estate & Large Corporates segment, were reclassified as IFRS 5 disposal groups when these financial statements for 2017 were drawn up (see note 6.18 Disposal groups held for sale [IFRS 5]). The disposal of HYPO NOE First Facility GmbH's CEE subsidiaries has been initiated by approaching potential acquirers, and a share deal is currently expected in 2018.

Due to the change in the location plans for HYPO NOE Landesbank für Niederösterreich und Wien AG and the resultant intention to dispose of Obere Donaustrasse 61 Liegenschaftserrichtungs- und -verwertungs GmbH, which belongs to the Real Estate & Large Corporates segment, the latter has been reclassified and is presented as an IFRS 5 disposal group in the 2017 consolidated financial statements. This transaction is due to be carried out in the first quarter.

The Group's interests are set out in Note 3.2.

Subsidiaries are included in the consolidated financial statements from the date on which control is obtained and hence the criteria for a parent company are met. Control exists when all three of the following conditions are fulfilled:

- The parent has power over the investee;
- The parent has exposure, or rights, to variable returns from its involvement with the investee;
- The parent has the ability to use its power over the investee to affect the amount of the returns.

Material operating subsidiaries are included in the consolidated financial statements from the point at which the HYPO NOE Group obtains control until that at which it is no longer exercised. The Group regularly assesses whether certain facts or circumstances indicate that one or more of the above conditions for control are no longer fulfilled. When determining whether control as defined by IFRS 10 exists, the Group assesses a variety of factors including voting rights, the purpose and design of the investee, and the opportunities to exercise influence. Where the voting rights are seen as conclusive in judging whether control exists, the HYPO NOE Group is normally assumed to control an investee if it directly or indirectly holds or controls more than half of the voting rights. Besides voting rights, other rights and de facto circumstances are taken into account. Where the Group does not control a majority of the voting rights but does possess the practical ability to direct relevant activities, the Bank is also assumed to control an entity.

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 fair value as at the acquisition date. Any excess of the cost over the fair value of the net assets acquired is reported as goodwill (i.e. as an intangible asset; see Note 3.10 Intangible assets, and property, plant and equipment). Negative differences are recognised directly in profit or loss following an additional review. The carrying amount of 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. Accordingly, the same consolidation method was applied as that used for the Austrian Business Code consolidated statements. The valuations of the investments were netted against the pro rata carrying amounts of the equity of the subsidiaries at the dates of consolidation. The 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 reported separately in the consolidated statement of changes in equity, and also after profit/loss for the year in the statement of comprehensive income, under 5.16 Non-controlling interests.

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

All material intra-Group transactions are eliminated on consolidation.

The HYPO NOE Group does not apply proportionate consolidation, as it does not hold interests in joint operations.

Joint ventures (IFRS 11) 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 (Note 3.2 Investments). The first step towards determining whether there is joint control is to discover who exercises power over the relevant activities. Joint control exists if such power is exercised by two or more parties on a contractual basis. Associates are entities over which the HYPO NOE Group directly or indirectly has significant influence. Significant influence over an entity usually exists if the Group holds between 20% and 50% of the voting power. Besides the extent of the voting rights, the Group also takes other factors into account. These include representation of the Bank on the management or supervisory bodies of the investee or participation in key decisions. In such cases, thought is given to whether there is significant influence even if the Group holds less than 20% of the voting rights.

If an entity accounted for using the equity method applies accounting policies that diverge from those of the Group, adjustments are made to align the investee's accounting policies to the Group's IFRS policies. The results are reported under a separate item in the statement of financial position (Note 6.10 Investments accounted for using the equity method), and in the statement of comprehensive income (Note 5.9 Net gains or losses on investments accounted for using the equity method).

Interests in non-consolidated subsidiaries and other investments are measured at fair value or at amortised cost. Impairments are reported under Note 6.8 Available-for-sale financial assets and Note 3.2 Investments.

Changes in 2017

Mergers, name changes and reorganisations

The merger of HYPO NOE Landesbank AG, a consolidated subsidiary, with the acquiring entity, HYPO NOE Gruppe Bank AG, was completed by its entry in the register of companies as at 23 September 2017. Beyond the resultant change to the segment reporting, the transaction has no effect on the consolidated financial statements. The merger led to the renaming of HYPONOE Gruppe Bank AG as HYPO NOE Landesbank für Niederösterreich und Wien AG.

The registration of the transaction on 7 October 2017 marked the merger of HYPO Delta Immobilienerrichtungs- und Verwertungs GmbH with another consolidated subsidiary, Hypo Omega Holding GmbH. The registration of the merger of consolidated subsidiaries Strategic Equity Beteiligungs-GmbH and Strategic Real Estate GmbH on 13 December 2017 completed that transaction. The renaming of the transferee as Strategic Equity Beteiligungen GmbH was registered on 22 December 2017. The latter two mergers have no material effect on these consolidated financial statements.

Acquisitions and changes in the form of consolidation

HYPO NOE Leasing GmbH acquired a 50% interest in BSZ Eisenstadt Immobilien GmbH, in addition to the 50% already held, by way of an acceptance declaration dated 20 November 2017 and an entry in the register of companies dated 29 November 2017. The company, which was accounted for using the equity method in the previous year, is now included in consolidation.

Disposals

NÖ. Verwaltungszentrum - Verwertungsgesellschaft m.b.H. ceded all the shares in AELIUM Grundstückvermietungs Gesellschaft m.b.H. to HYPO NOE Leasing GmbH on 21 July 2017. Consolidation was unaffected.

3.2 INVESTMENTS

3.2.1 Subsidiaries

The following consolidated, directly or indirectly held Group companies were included in the IFRS consolidated financial statements of HYPO NOE Landesbank für Niederösterreich und Wien AG as at 31 December 2017:

Company name	Domicile	Interest	of which indirect	Reporting date
67 consolidated subsidiaries				
HYPO NOE Landesbank für Niederösterreich und Wien AG	St. Pölten			31 Dec. 2017
HYPO NOE Leasing GmbH	St. Pölten	100.00%	-	31 Dec. 2017
CALCULATOR Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2017
CURIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2017
FAVIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
NÖ. Verwaltungszentrum - Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
PROVENTUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
Sana Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
Telos Mobilien - Leasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
Treisma Grundstücksverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
VIA-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
HYPO Niederösterreich-Immobilienleasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
FORIS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%	31 Dec. 2017
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%	31 Dec. 2017
HYPO Niederösterreichische Liegenschaft GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2017
NEUROM Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
NÖ. HYPO LEASING URBANITAS Grundstück-vermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
AELIUM Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
NÖ. HYPO LEASING Landeskliniken Equipment GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2017
Obere Donaustrasse 61 Liegenschaftserrichtungs- und -verwertungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2017
NÖ. HYPO LEASING AGILITAS Grundstücksvermietung Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2017
ALARIS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2017
CALLIDUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
CLIVUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
COMITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
NÖ. HYPO LEASING FIRMITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
NÖ. HYPO LEASING GERUSIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2017
ARTES Grundstückvermietungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2017
LITUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%	31 Dec. 2017
PINUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	99.00%	99.00%	31 Dec. 2017
NÖ. HYPO LEASING STRUCTOR Grundstück-vermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2017
VIRTUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	65.00%	65.00%	31 Dec. 2017
Adoria Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%	31 Dec. 2017
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%	31 Dec. 2017
VESCUM Grundstückvermietungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2017
VITALITAS Grundstückverwaltung GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2017
METIS Grundstückverwaltungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2017

Company name	Domicile	Interest	of which indirect	Reporting date
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%	31 Dec. 2017
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%	31 Dec. 2017
SATORIA Grundstückvermietung GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2017
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	66.67%	66.67%	31 Dec. 2017
Landeskrankenhaus Tulln-Immobilienvermietung Gesellschaft m.b.H.	St. Pölten	100.00%	56.42%	31 Dec. 2017
Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
HYPO-REAL 93 Mobilien-Leasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
NÖ. HYPO LEASING MENTIO Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
NÖ. HYPO LEASING NITOR Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
NÖ. HYPO LEASING MEATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2017
NÖ. HYPO LEASING ASTEWOG Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2017
BSZ Eisenstadt Immobilien GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2017
NEMUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2017
HYPO NOE Real Consult GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2017
HYPO NOE Immobilienmanagement GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2017
HBV Beteiligungs-GmbH	St. Pölten	100.00%	-	31 Dec. 2017
ZELUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
Benkerwiese Verwaltungs- und Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2017
Benkerwiese Mietergemeinschaft GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2017
HYPO NOE First Facility GmbH	Vienna	100.00%	100.00%	31 Dec. 2017
HYPO NOE Versicherungsservice GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2017
Strategic Equity Beteiligungen GmbH	Vienna	100.00%	100.00%	31 Dec. 2017
SRE Immobilien GmbH	Vienna	100.00%	100.00%	31 Dec. 2017
HYPO NOE Valuation & Advisory GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2017
HYPO NOE Immobilien Beteiligungsholding GmbH	St. Pölten	100.00%	-	31 Dec. 2017
HYPO Omega Holding GmbH	St. Pölten	100.00%	-	31 Dec. 2017
HYPO Alpha Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2017
HYPO Beta Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2017
HYPO Gamma Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2017

3.2.2 Summary financial information regarding subsidiaries partly held by non-controlling interests

The table below provides financial information relating to subsidiaries in which the Group holds non-controlling interests, including the leasing companies, which are no longer shown separately. The share of non-controlling interests in the profit or loss of each company is shown under Note 5.16. The non-controlling interests do not participate in other comprehensive income.

	Subsidiaries with non-controlling interests	
Assets and liabilities in accordance with IFRS before intra-Group elimination, EUR '000	**31 Dec. 2017**	**31 Dec. 2016**
Loans and advances to banks	4,196	284
Loans and advances to customers	495,476	531,234
Current tax assets	974	974
Deferred tax assets	246	115
Other assets	75,173	52,528
Total assets	**576,065**	**585,135**
Deposits from banks	440,344	431,092
Deposits from customers	84,462	81,904
Deferred tax liabilities	5,625	5,407
Other liabilities	24,775	46,028
Subordinated capital	2,907	2,907
Equity	17,952	17,798
Equity attributable to owners of the parent	*9,567*	*9,379*
Non-controlling interests	*8,385*	*8,419*
Total equity and liabilities	**576,065**	**585,136**

Dividends of EUR 200thsd were distributed to non-controlling interests in 2017. After adjustment for non-cash components of assets and liabilities, the cash flow contribution recognised in the consolidated statement of cash flows was immaterial.

3.2.3 Associates and joint ventures

Investments in associates and entities under joint control are recognised at cost, and are included in the consolidated statement of financial position at the date on which significant influence is obtained. In subsequent periods the carrying amount of the holdings is adjusted for changes in equity and if material the entire carrying amount is tested for impairment (see Note 6.10 Investments accounted for using the equity method and Note 3.2 Investments).

The Group ceases to use equity method accounting from the point at which the investment no longer represents an associate or a joint venture, or the investment must be classified as held for sale in accordance with IFRS 5. As part of the ongoing review of the scope of consolidation, investments accounted for using the equity method where the interest is below the Group's specified materiality threshold may be deconsolidated and reported as available-for-sale financial assets (Note 6.8). Such AFS investments are regularly reviewed for factors that may require the investment to be consolidated or accounted for using the equity method.

The Group's share of the annual profit or loss, and any impairment losses or reversals are recorded under net gains or losses on investments accounted for using the equity method (Note 5.9). Exchange differences arising from investments accounted for using the equity method are reported as part of consolidated equity, under the currency translation reserve item.

The following table shows the carrying amount and the share in profit or loss of each company, as well as the annual, interim or consolidated financial statements used in the calculation of the carrying amount. The first figure stated for each company refers to the current reporting period, and the second figure is the comparative amount for the previous reporting period. Where the date of the annual financial statements used differs from that of the consolidated financial statements, the companies concerned are managed by third parties, and the lack of control means that the Group cannot exert any influence to prevent the early preparation of the financial statements. Delays in contributions to profit or loss were classed as immaterial in the light of the comparative amounts.

The cash flow contributions of associates and joint ventures are immaterial.

Four joint ventures accounted for using the equity method in accordance with IAS 28

Management board positions held by key management personnel as well as other details are reported in Note 8.5 Disclosures on related-party relationships.

The joint ventures shown below implement joint leasing projects on the basis of agreements with partners. Joint control of the companies has been agreed in general terms, and the Group therefore classifies these companies as joint ventures. Joint ventures do not contribute to other comprehensive income.

EUR '000 Company name	Domicile	Interest	of which indirect	Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
Palatin Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	50.00%	50.00%	109	-8	31 Dec. 2017
				267	10	31 Dec. 2016
Viminal Grundstückverwaltungs Gesellschaft m.b.H.	Vienna	50.00%	50.00%	126	126	31 Dec. 2017
				-	-	31 Dec. 2016
NÖ. HYPO Leasing und Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG	St. Pölten	50.00%	50.00%	684	-367	31 Dec. 2017
				1,054	-25	30.09.2016

The following joint venture is jointly controlled by means of unanimous resolutions on the appointment of management board members. Detailed information on this material investment are given in the disclosures below on material associates and joint ventures accounted for using the equity method.

EUR '000 Company name	Domicile	Interest	of which indirect	Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
Niederösterreichische Vorsorgekasse AG	St. Pölten	49.00%	-	3,009	521	31 Dec. 2017
				2,632	749	31 Dec. 2016
Joint ventures - subtotal as at 31 Dec. 2017				**3,928**	**272**	
Joint ventures - subtotal as at 31 Dec. 2016				**3,953**	**733**	

33 associates accounted for using the equity method in accordance with IAS 28

The positions held by key management personnel on the management boards of associates, as well as other detailed information, are shown together in Note 8.5 Disclosures on related-party relationships. Joint ventures do not contribute to other comprehensive income.

Associates in which less than 50% is held but there is a significant influence, and those in which over 50% is held, are accounted for using the equity method, as required by the materiality criteria.

The share of other comprehensive income attributable to currency translation, at nil (31 Dec. 2016: EUR 23thsd), relates to the translation of the results of foreign associates.

EUR '000 Company name	Domicile	Interest	of which indirect	Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
Gemeinnützige Wohnungsgesellschaft "Austria" Aktiengesellschaft	Mödling	44.39%	44.39%	Included in the consolidated financial statements of EWU		
„Wohnungseigentümer“ Gemeinnützige Wohnbaugesellschaft m.b.H.	Mödling	44.75%	44.75%			
GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H.	Mödling	42.60%	42.60%			
NÖ Wohnbaugruppe Service GmbH	Mödling	43.91%	43.91%			
EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft (consolidated financial statements)	St. Pölten	44.79%	-	5,858	-1,452	31 Dec. 2017
				7,373	-6,398	31 Dec. 2016
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	Korneu-burg	32.50%	-	1,452	510	31 Dec. 2016
				1,411	586	31 Dec. 2015
Hotel- und Sportstätten-Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG	St. Pölten	45.41%	45.41%	673	-1	31 Dec. 2017
				673	1	31 Dec. 2016
NÖ. Landeshauptstadt - Planungsgesellschaft m.b.H.	St. Pölten	39.00%	39.00%	311	20	31 Dec. 2016
				291	-42	31 Dec. 2015
Quadrant Q ELF Projektentwicklungs GmbH & Co KG	St. Pölten	48.00%	48.00%	Included in the consolidated financial statements of NID		
NID Beteiligungs GmbH	St. Pölten	48.00%	48.00%			
NID Bestandsliegenschaften GmbH	St. Pölten	48.00%	48.00%			
Porzellangasse 64 Bestandsliegenschaften GmbH	St. Pölten	48.00%	48.00%			
Kremser Gasse 35 Bestandsliegenschaften GmbH	St. Pölten	48.00%	48.00%			
Dominikanerplatz 2 Bestandsliegenschaften GmbH	St. Pölten	48.00%	48.00%			
Tauchnergasse 1-7 Immobilienentwicklung GmbH	St. Pölten	48.00%	48.00%			
wvg "Projekt Brauhausstrasse 6-8" Errichtungsgesellschaft m.b.H.	Vienna	12.00%	12.00%			
Quadrant Q ELF Projektentwicklungs GmbH	St. Pölten	48.00%	48.00%			
Quadrant Q ZWÖLF Projektentwicklungs GmbH	St. Pölten	48.00%	48.00%			
Quadrant Q DREIZEHN Projektentwicklungs GmbH	St. Pölten	48.00%	48.00%			
Quadrant Q ZWEI Projektentwicklungs GmbH & Co KG	St. Pölten	48.00%	48.00%			
Quadrant Q ZWEI Projektentwicklungs GmbH	St. Pölten	48.00%	48.00%			
Landersdorfer Strasse 48-50 Projektentwicklung GmbH	St. Pölten	48.00%	48.00%			

EUR '000 Company name	Domicile	Interest	of which indirect	Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
Steinmüllergasse 64 Development GmbH	St. Pölten	48.00%	48.00%	Included in the consolidated financial statements of NID		
Josef-Heinzl-Gasse 1 Immobilienentwicklung GmbH	St. Pölten	48.00%	48.00%			
Neustift-am-Walde 32 Immobilienentwicklung GmbH	St. Pölten	48.00%	48.00%	Included in the consolidated financial statements of NID		
Haymogasse 102 Immobilienentwicklung GmbH	St. Pölten	48.00%	48.00%			
Stettnerweg 11-15 Liegenschaftsentwicklungs GmbH	St. Pölten	48.00%	48.00%			
Hauptplatz 18 Entwicklungs- und Verwertungs GmbH	St. Pölten	48.00%	48.00%			
				14,016	-736	31 Dec. 2017
NOE Immobilien Development AG (consolidated financial statements)	St. Pölten	48.00%	48.00%	14,752	-	31 Dec. 2016
				-	-5	31 Dec. 2017
Franz-Glaser-Gasse 28 Immobilienentwicklung GmbH	St. Pölten	50.00%	50.00%	-	-	31 Dec. 2016
				-	-	31 Dec. 2016
Ernst Hora Elektroinstallationen Gesellschaft m.b.H.	Vienna	100.00%	100.00%	-	-	31 Dec. 2015
				-	-	31 Dec. 2016
first facility Macedonia dooel	Skopje	100.00%	100.00%	-	-	31 Dec. 2015
				-	4	31 Dec. 2016
Niederösterreichische Facility Management GmbH	Wiener Neustadt	40.00%	40.00%	17	97	31 Dec. 2015
Associates - subtotal at 31 Dec. 2017				**22,310**	**-1,659**	
Associates - subtotal at 31 Dec. 2016				**24,517**	**-5,755**	

No associates were deconsolidated in 2017, while four were classified as held for sale in accordance with IFRS 5, and one joint venture was consolidated for the first time; in 2016 there was one deconsolidation of an associate:

EUR '000 Company name	Domicile	Interest	of which indirect	Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
			Acquisition of an interest and consolidation in 2017	-	-	31 Dec. 2017
BSZ Eisenstadt Immobilien GmbH	St. Pölten	50.00%	50.00%	-	-	31 Dec. 2016
			IFRS 5	-	-39	31 Dec. 2016
first facility Ingatlankezelö Korlátolt Felelösségü Társaság	Budapest	100.00%	100.00%	909	201	31 Dec. 2015
			IFRS 5	-	36	31 Dec. 2016
first facility Imobilie SRL	Bucharest	55.00%	55.00%	-	-50	31 Dec. 2015
			IFRS 5	-	73	31 Dec. 2016
first facility Bulgaria EOOD	Sofia	100.00%	100.00%	425	62	31 Dec. 2015
			IFRS 5	-	19	31 Dec. 2016
first facility - Slovakia s.r.o.	Bratislava	100.00%	100.00%	119	10	31 Dec. 2015
Orchisgasse 66 Liegenschafts GmbH (previously Haring Liegenschaftsentwicklungs GmbH)	Vienna		Deconsolidated in 2016		-14	31.03.2016
Deconsolidated associates - subtotal at 31 Dec. 2017				**-**	**89**	
Deconsolidated associates - subtotal at 31 Dec. 2016				**1,453**	**209**	

For further details on the following totals, see Note 6.10 Investments accounted for using the equity method, as well as Note 5.9 Net gains or losses on investments accounted for using the equity method.

Investments accounted for using the equity method - total at 31 Dec. 2017	**26,238**	**-1,298**	
Investments accounted for using the equity method - total at 31 Dec. 2016	**29,923**	**-4,813**	

Detailed disclosures on material associates and joint ventures accounted for using the equity method

The following company is a joint venture accounted for using the equity method:
- Niederösterreichische Vorsorgekasse AG

Joint control is exercised by means of unanimous resolutions on the appointment of management board members.

The following sub-group, including its subsidiaries, is classified as an associate accounted for using the equity method:
- EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft
- and its subsidiaries
- Gemeinnützige Wohnungsgesellschaft "Austria" Aktiengesellschaft
- „Wohnungseigentümer“ Gemeinnützige Wohnbaugesellschaft m.b.H.
- GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H.
- NÖ Wohnbaugruppe Service GmbH

The significant influence over EUW is partly exercised by means of the appointment of members of the Group’s key management to positions at these companies.

The following sub-group, including its subsidiaries, is classified as an associate accounted for using the equity method:
- NOE Immobilien Development AG

and its subsidiaries
- Steinmüllergasse 64 Development GmbH
- Hauptplatz 18 Entwicklungs- und Verwertungs GmbH
- Haymogasse 102 Immobilienentwicklung GmbH
- Neustift-am-Walde 32 Immobilienentwicklung GmbH
- Stettnerweg 11–15 Liegenschaftsentwicklungs GmbH
- Quadrant Q ELF Projektentwicklungs GmbH & Co KG
- NID Beteiligungs GmbH
- NID Bestandsliegenschaften GmbH
- Porzellangasse 64 Bestandsliegenschaften GmbH
- Dominikanerplatz 2 Bestandsliegenschaften GmbH
- Kremser Gasse 35 Bestandsliegenschaften GmbH
- Josef-Heinzl-Gasse 1 Immobilienentwicklung GmbH
- Landersdorfer Strasse 48–50 Projektentwicklung GmbH
- Quadrant Q ELF Projektentwicklungs GmbH
- Quadrant Q ZWÖLF Projektentwicklungs GmbH
- Quadrant Q DREIZEHN Projektentwicklungs GmbH
- Quadrant Q ZWEI Projektentwicklungs GmbH & Co KG
- Quadrant Q ZWEI Projektentwicklungs GmbH
- Tauchnergasse 1–7 Immobilienentwicklung GmbH
- wvg “Projekt Brauhausstraße 6–8“ Errichtungsgesellschaft m.b.H. (a NID Group company classified as an associate accounted for using the equity method)

The positions held by key management personnel on the management boards of associates and joint ventures, as well as other details are set out in Note 8.5 Disclosures on related-party relationships.

Niederösterreichische Vorsorgekasse AG is a separate financial services provider, and is the employee benefit fund that manages employees’ termination benefit entitlements. Employers pay statutory contributions on behalf of employees. As there is a requirement for unanimous resolutions on the appointment of the management board, the company is classified as being under joint control. Consolidation is performed using the company’s preliminary Austrian Business Code financial statements.

The subsidiaries of **EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft** are mainly concerned with the acquisition, disposal and management of land, buildings and apartments on behalf of third parties, and also act as property developers. They are subject to the Austrian Wohnungsgemeinnützigkeitsgesetz (Non-profit Housing Act). The Act includes capital protection provisions in the form of restrictions on the treatment of members with respect to property law such as the maximum distributable profit and the stipulation that in the event of the liquidation of a company any surplus must be used for non-profit purposes. With respect to valuation, it should be noted that the equity method specified by IAS 28 (initial recognition at cost) does not take account of the restrictions in the Act. Subsequent measurement of the capital that does not need to be considered uses adjustment items derived from the capital protection provisions in the Non-profit Housing Act. The basis for the reporting is the preliminary Austrian Business Code statements, reconciled with IFRS in equity and using adjustment items in the financial information. With an interest of 44.79%, the Group has sufficient voting rights to influence the company's relevant activities.

IAS 36 states that the value of a company's assets as reported in the statement of financial position may not exceed their recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal and the value in use of an asset.

As regards measurement, it should be noted that owing to the EWU Group's non-profit status and the applicable legislation, conventional company valuation methods are of limited relevance.

Under paragraph 6 IAS 36 in conjunction with paragraph 5 IFRS 13, an objective (fair) value must be ascertained to calculate fair value less costs of disposal.

Due to the restrictive provisions of the Non-profit Housing Act with regard to the generation and use of profits, the application of fair value measurement would be inappropriate. The HYPO NOE Group has adopted a value-in-use approach that reflects the special characteristics of non-profit construction companies.

Value in use is the present value of the future cash flows expected to be derived from use of an asset (paragraphs 30ff. IAS 36).

The Group calculates the realisable value of the investment in the EWU Group with reference to the value in use concept, applying the following value components:

a) as yet unrecognised benefits of expected future lending to the EWU Group, comprising surplus cash flows generated at HYPO NOE Group level;

b) the present value of expected dividend payments by EWU Group companies flowing directly to the HYPO NOE Group.

a) Benefits of future new lending business

The HYPO NOE Group calculates the benefits of future lending (i.e. new business still to be generated) by first identifying the relevant surplus cash flows on the basis of the expected level of replacement business (existing loans due to mature are offset by new loans in this model) and the average net margin on new lending. These surplus cash flows are then discounted on the basis of the perpetual annuity model, applying a discount rate. In order to simplify the calculation, instead of the perpetual annuity model a time horizon of 250 years if taken when discounting future payment flows.

The assumed realisable and sustainable level of new lending is determined by the business unit responsible – Housing Development – taking market conditions into account. The new lending on which the valuation is based was EUR 4,500thsd in 2017 (2016: EUR 4,500thsd).

In order to factor inflation into the forecast of future new lending trends, it is assumed that nominal funding needs will steadily increase due to rising construction and maintenance costs (materials and labour).

Average income is based on projected earnings for the 2017-2021 period, in accordance with the medium-term planning parameters.

The net margin is derived from internal estimates of the existing business of the EWU Group companies over time, according to medium-term planning assumptions last updated at the end of 2016 (average business volume, commissions, customer interest contribution, liquidity costs and the imputed cost of risk). Average income less other costs is calculated on the basis of the figures for each of the years of the plan (2017–2021). Medium-term planning is Management's core managerial and budgeting tool.

Unit costs, the discount rate and reductions in income (due to taxes) are calculated separately and taken into account when estimating effective surplus cash flows.

Average income before tax and after other costs is used to arrive at the additional benefits from new lending. The net margin after tax is calculated on this basis, taking account of the nominal corporation tax rate and the financial stability contribution. It is assumed that this net margin remains constant throughout the planning period.

The Group calculates the discount rate for surplus cash flows using the capital asset pricing model (CAPM), i.e. discount rate = risk-free interest rate + beta factor x market risk premium + country risk premium).

The recommendation of the corporate valuation working group of the Expert Committee on Business Administration of the Chamber of Accountants and Tax Consultants on the base rate and market risk premium (final draft of 17 October 2017) was published on 14 December 2017.

The working group takes the view that it is currently appropriate to base the expected market risk premium (before income tax) on an expected nominal market return in a range of 7.5-9.0%. The expected market risk premium should be set according to the base rate at the cut-off date, resulting in higher market risk premiums at times of low base rates (and vice versa).

For internal valuation purposes in the HYPO NOE Group, an average expected nominal market return of 8.25% has therefore been assumed.

This recommendation comes into effect on 1 January 2018, and early application is advised. HYPO NOE is following this guidance, and the new market return has been applied to all valuations in accordance with the Austrian Business Code and IFRS used to prepare the consolidated financial statements for the year ended 31 December 2017.

The overall discount rate applied by the Group to the benefits arising from future new lending is 4.61% (2016: 4.75%).

Projected new lending and the net margin are used to calculate the annual financial surplus. Because it is assumed that the net margin remains constant over the entire planning period, growth in new lending is the main value driver for added benefits from lending to the EWU Group.

The value of the benefits from future lending recognised in the consolidated financial statements as at 31 December 2017, calculated on the basis of the methods and parameters described above, is EUR 4,243thsd (2016: EUR 5,843thsd).

The year-on-year reduction in the value of the benefits from future new lending is due to the higher discount rate (up by approx. 86 basis points as compared to 2016). The discount rate is affected by the change in the calculation method at the end of 2017 described above.

b) Present value of expected dividends

The HYPO NOE Group uses the net asset value (NAV) method as the basis for valuation of the EWU Group, applying the dividend discount model (DDM). NAV is a form of intrinsic value that is equal to the total value of all of an entity's tangible and intangible assets less its liabilities.

As a holding company for investments, the ability of the EWU Group to generate cash flows is determined by its financial assets, which are equity interests.

The HYPO NOE Group has therefore recognised the EWU Group's four investments at market value in the NAV calculation. Market values are arrived at using the dividend discount method, taking into account the restrictions imposed by the Non-profit Housing Act with regard to annual dividend payments by non-profit housing developers. The DDM is used to determine the value of equity by calculating the present value of future expected dividends. Under the applicable legislation, annual distributions (dividends) are based on the share capital employed, and the return may not exceed 3.5%. Because of this, a 3.5% yield was taken as the figure for sustainable and distributable earnings and is the basis for calculating the fair value of equity. Sustainable earnings (dividends) were calculated for the four equity investments.

The Group derives the discount rate applied to the dividend payments from the capital asset pricing model (CAPM), i.e. discount rate = risk-free interest rate + beta factor x market risk premium + country risk premium).

The overall discount rate applied by the HYPO NOE Group to obtain the present value of expected dividend payments is 6.31% (2016: 6.52%).

The Group's 44.8% share of the present value of expected dividends from the EWU Group was equivalent to EUR 1,616thsd as at 31 December 2017 (2016: EUR 1,528thsd). This increase as compared to the previous reporting period primarily reflects the lower discount rate applied in 2017. The discount rate is affected by the change in the calculation method at the end of 2017 (see a) Benefits of future new lending business).

The total value in use of the EWU Group – comprising a) the benefits of new lending and b) the present value of expected dividends – is EUR 5,859thsd (2016: EUR 7,372thsd).

The **NOE Immobilien Development AG** (NID AG) Group specialises in property development, housing construction and neighbourhood development, with a focus on Lower Austria, Vienna and the Danube region. It mainly invests in intergenerational residential construction schemes forming part of municipal urban development projects.

The basis for the initial disclosure of financial information was the fair value of the NID AG Group's IFRS equity (EUR 14,752thsd), stated under net gains or losses on disposal of consolidated subsidiaries (Note 5.8), and the delta amount (EUR 1,271thsd), reported under the "Goodwill allocated to assets" item, arising from the disposal of NID AG and its inclusion as an investment accounted for using the equity method. This amount, attributable to the start-up losses of the individual project companies from previous periods that do not qualify for capitalisation, was allocated to assets at project-company level. The movements in this item are the exact opposite of the realisation of income from the projects, meaning that it will be reversed over subsequent periods. During the reporting period EUR 366thsd was reversed. Besides the goodwill measurement, the NID Group is also constantly accounted for using the equity method. During the reporting period this led to the recognition of EUR 367thsd in negative goodwill. Measurement of the NID Group and the properties held by NID AG was performed with the aid of valuations by HYPO NOE Valuation & Advisory GmbH and value confirmations by the management.

With an interest of 48%, the Group has sufficient voting power to influence the company's relevant activities.

Summary financial information on the material associates is provided in the table below.

Detailed disclosures on associates and joint ventures accounted for using the equity method

	Niederösterreichische Vorsorgekasse AG		EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft (consolidated financial statements)		NOE Immobilien Development AG (consolidated financial statements)	
Percentage holding	49.00%	49.00%	44.79%	44.79%	48.00%	48.00%

EUR '000 at reporting date of consolidated financial statements	**31 Dec. 2017**	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**
Non-current assets	6,967	6,063	1,527,614	1,503,671	68,153	60,304
Current assets	34	142	163,297	154,019	10,208	17,275
of which cash and cash equivalents	*29*	*81*	*100,134*	*89,561*	*5,883*	*16,788*
Long-term borrowings	-5	-3	-1,526,415	-1,530,401	-41,807	-20,362
Short-term borrowings	-562	-569	-41,320	-24,259	-9,239	-29,132
Net assets (100%)	**6,434**	**5,634**	**123,176**	**103,030**	**27,315**	**28,085**
Group share of net assets	**3,153**	**2,761**	**55,171**	**46,147**	**13,111**	**13,481**
Adjustment items pursuant to the capital protection provisions in the Non-profit Housing Act	-	-	-49,250	-38,653	-	-
Goodwill allocated to assets	-	-	-	-	905	1,271
Dividends received	-144	-129	-62	-122	-	-
Carrying amount of interests in associates	**3,009**	**2,632**	**5,858**	**7,372**	**14,016**	**14,752**

EUR '000 – profit/loss as basis for inclusion in annual report	**31 Dec. 2017**	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016***
Interest income	218	170	428	426	-557	4
Other income	3,210	2,952	149,536	152,179	4,487	795
Operating expense	-2,023	-1,382	-129,396	-138,198	-4,730	-2,093
Profit before tax	1,404	1,739	20,567	14,407	-800	-1,293
Income tax expense	-340	-212	-11	-10	-53	321
Profit for the year (100%)	**1,064**	**1,528**	**20,556**	**14,397**	**-853**	**-972**
Pro rata reversals allocated to assets	-	-	-	-	-326	-
Group share of adjustment items pursuant to the capital protection provisions of the Non-profit Housing Act – impairment	-	-	-10,659	-12,846	-	-
Group share of profit/loss	**521**	**749**	**-1,452**	**-6,398**	**-735**	**-**

*For information purposes only: no measurement gains or losses from the NID AG group since the carrying amount was equal to the fair value at the time of the transaction.

3.2.4 Interests in excess of 20% in associates classified as financial instruments in accordance with IAS 39

The companies listed below are recognised as available-for-sale investments where the Group's interest is in excess of 20%. An internal assessment of Castellum Schallaburg Grundstückvermietungs Gesellschaft m.b.H., VIA DOMINORUM Grundstückverwertungs Gesellschaft m.b.H. and Wilax Wien-Laxenburg NÖ Veranstaltungs Gesellschaft mbH found that the Group exercised neither control as defined by IFRS 10 nor significant influence in the meaning of IAS 28, and these entities were hence not consolidated or accounted for using the equity method. In the case of NÖ Kulturwirtschaft GesmbH, the Group does not exercise significant influence in the meaning of IAS 28, so the company is not accounted for using the equity method. As the other companies are immaterial, they are reported as AFS investments in which the Group has interests of over 20%.

Non-consolidated AFS investments (interest in excess of 20%)

Company name	Domicile	Interest	of which indirect
Castellum Schallaburg Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
VIA DOMINORUM Grundstückverwertungs Gesellschaft m.b.H.	St. Pölten	95.00%	95.00%
Wilax Wien-Laxenburg NÖ Veranstaltungs Gesellschaft mbH	St. Pölten	100.00%	100.00%
NÖ Kulturwirtschaft GesmbH. (consolidated financial statements)	St. Pölten	40.52%	40.52%
Psychosoziales Zentrum Schiltern Gesellschaft m.b.H.	Schiltern, Langenlois	26.67%	-
EFH-Beteiligungsgesellschaft m.b.H.	Vienna	50.00%	-
SPORTZENTRUM Niederösterreich GmbH	St. Pölten	49.00%	49.00%
CULINA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%
FACILITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%
TRABITUS Grundstückvermietungs Gesellschaft m.b.H.	Vienna	50.00%	25.00%
UNDA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%
Purge Grundstücksverwaltungs-Gesellschaft m.b.H.	Vienna	50.00%	50.00%
NÖ Raiffeisen Kommunalprojekte Service Gesellschaft m.b.H. & NÖ.HYPO Leasinggesellschaft m.b.H. - Strahlentherapie OG	St. Pölten	50.00%	50.00%
N.Ö. Kommunalgebäudeleasing Gesellschaft m.b.H.	Vienna	33.30%	-
NÖ-KL Kommunalgebäudeleasing Gesellschaft m.b.H.	Vienna	33.30%	-
Quirinal Grundstücksverwaltungs Gesellschaft m.b.H.	Vienna	33.33%	-
KASERNEN Projektentwicklungs- und Beteiligungs GmbH	Vienna	25.00%	-
Orchisgasse 66 Liegenschafts GmbH (previously Haring Liegenschaftsentwicklungs GmbH)	Vienna	25.00%	25.00%

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 them 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments are initially recognised at fair value plus transaction costs. The exception are assets measured at fair value through profit or loss (FVTPL). 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 an appropriate interest rate (discounted cash flow method). Measurement is performed using standard financial valuation techniques. Information on observable inputs is given in Note 8.1.2 Fair value hierarchy disclosures. Common 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 cannot be reliably measured.

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. Over-the-counter (OTC) currency and interest rate options are measured using widely accepted option pricing models such as the Black Scholes or Hull White models (Note 8.1 Fair value disclosures in accordance with IFRS 7 and IFRS 13).

Customer swaps are measured using an internal model based on the DCF method, taking account of the current interest rate and basis spread curves. Prevalent option valuation 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 counterparty concerned operates.

3.4 FINANCIAL ASSETS

IAS 39 classifies financial assets according to the following 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 (Note 6.3 Loans and advances to banks, Note 6.4 Loans and advances to customers and Note 3.8 Lease accounting).

Loans and receivables are measured at amortised cost (gross), and impairments are recognised as credit provisions, under "Risk provisions" (Note 6.5 Risk provisions and credit provisions).

Additional information on the fair value of loans and receivables measured at amortised cost is given under Note 8.1 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.

At HYPO NOE Landesbank für Niederösterreich und Wien AG, 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 6.6 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 5.5 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 provided under Note 8.1 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 in any other category.

In the case of HYPO NOE Landesbank für Niederösterreich und Wien AG these are shares and other variable-income securities, bonds, public debt certificates and other fixed-income securities, holdings in non-consolidated subsidiaries (interest over 50%), holdings in associates (interest of 20-50%) and other investments (interest less than 20%). For further information, see Note 6.8 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), and are not recognised in profit or loss.

In the event of disposal of an 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 recognised in profit or loss over the remaining life of the asset using the effective interest method. In the event of impairments attributable to credit ratings, an impairment loss is recognised (Note 5.10 Net gains or losses on available-for-sale financial assets). If impairment losses are reversed, 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 determined using observable inputs (Level 2). Unobservable inputs may also be applied (Level 3).

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 fair value through profit or loss (Note 6.9 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 net gains or losses on financial assets designated as at fair value through profit or loss (Note 5.11).

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 provided under Note 8.1 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

This item includes a loan containing a material embedded derivative.

5. Held-to-maturity (HTM) financial investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities normally meet the criteria for assignment to this category. It consists entirely of bonds, public debt certificates and other fixed-income securities.

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 breaks financial liabilities down into the following 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. For liabilities at cost (LAC) see Note 6.20 Deposits from banks, Note 6.21 Deposits from customers and Note 6.22 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 can be found under Note 8.1 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 to hedge interest rate or foreign-exchange-related transactions (Note 6.23 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 5.5 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 provided under Note 8.1 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 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 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 separate 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 according to one of the categories described above. A hedging relationship exists where the underlying and hedging transaction, and the hedged risk can be specified. The hedging relationship is deemed to exist 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 on an ongoing basis. 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 the underlying are reported in the statement of comprehensive income, under net gains or losses on hedges (Note 5.12).

The HYPO NOE Group only 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.

Analyses of hedges broken down by the underlying transactions hedged are shown in Note 6.7 Positive fair value of hedges (hedge accounting) and Note 6.24 Negative fair value of hedges (hedge accounting).

3.8 LEASE ACCOUNTING

Additional information on the leasing business can be found under Note 8.3 Leasing disclosures.

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 to the lessee, 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 finance charge is reported under interest and similar income (Note 5.1).

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 reported as assets in the consolidated statement of financial position. The lease payments are carried as administrative expenses (Note 5.6 Administrative expenses).

3.9 INVESTMENT PROPERTY

Land and buildings held to earn rental income or for capital appreciation are classified as investment property. In cases of mixed occupancy, significant parts of land and buildings used by third parties are likewise 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 6.11 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 5.1 Interest and similar income and Note 5.14 Net gains or losses on other financial investments).

In 2016, fair value was determined on the basis of independent valuations, using the income approach based on the applicable codes for building components. In 2017 these valuations were reviewed and confirmed by HYPO NOE Valuation & Advisory GmbH (Note 8.1.1 Fair value).

3.10 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.

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.

Breakdowns of intangible assets, and property, plant and equipment can be found in Notes 6.13 and 6.14 respectively.

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
- Computer software and hardware 3-5 years

Any indications of impairment in property, plant and equipment, buildings and building alterations 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 the summary in Note 5.6 Administrative expenses and the detailed disclosures in Note 5.6.3 Depreciation, amortisation and impairment). Gains and losses on disposal of property, plant and equipment are recognised under net other operating income (Note 5.7).

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 difference, this is reported in Note 8.1 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

3.11 OTHER ASSETS

Other assets (Note 6.17) 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), and property classified as inventory. Property classified as inventory is reported at acquisition or construction cost.

The disclosures are assessed in the light 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 on the basis of independent valuations. Costs are estimated on the basis of the implementation cost of a given project.

Other non-bank receivables are measured at amortised cost.

Measurement gains are reported under Note 5.7 Net other operating income.

3.12 RISK PROVISIONS

Individual impairment allowances, collective impairment allowances incurred but not reported (IBNR) and general provisions are recognised for identifiable lending risks.

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

Future cash flows (expected repayments) are discounted using the effective interest rate. If there are collaterals for receivables (e.g. mortgages or guarantees), the future cash flows from their recoverable amounts must be deducted when measuring the impairment loss. An impairment loss is calculated on the basis of the present value of the total of estimated future cash flows – including expected interest payments – as of the dates they fall due.

IBNR collective impairment allowances are recognised for reductions in the value of the Group lending portfolio as at the end of the reporting period. It is assumed that there will be incurred but unreported losses in respect of a given percentage of customers without default ratings at the end of the reporting period.

When computing these risk provisions, all exposures affected by credit risk – financial assets measured at amortised cost (loans and receivables, and financial instruments held to maturity) – and all committed lines of credit, and contingent liabilities of HYPO NOE Landesbank für Niederösterreich und Wien AG are included. Both financial instruments not classified as held to maturity and derivatives are excluded as they are measured at fair value.

Estimation is on the basis of the expected losses, taking into account: (a) the risk volume; (b) the historical probability of default (PD); (c) loss given default (LGD) ratios; (d) personal securities for individual customers; and (e) the period of time between occurrence of the loss and its identification, i.e. the loss identification period (LIP).

The IBNR collective impairment allowance is calculated for loans and advances to banks and customers with internal ratings of between 1A and 4E, using the HYPO NOE Landesbank für Niederösterreich und Wien AG master scale shown in Note 8.6 Risk management. In 2017, the LIP for loans and advances to large corporates, housing cooperatives and public sector enterprises was set at six months, i.e. a LIP factor of 6/12. For all other loans and advances, the previous loss identification period of four months (LIP factor of 4/12) was retained.

The IBNR collective impairment allowance is calculated using the following formula:
IBNR collective impairment allowance = expected loss * LIP factor

The following improvements were made to the calculation:

- The LGD ratio for collateral was refined;
- The LGD ratio for unsecured loans was made more granular, and was specified for individual segments.

Total risk provisions in respect of loans and advances carried as assets are 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 6.5 Risk provisions and credit provisions). The risk provisions for off-balance-sheet transactions are included under provisions (Note 6.25). Allocations to and reversals of impairment allowances and risk provisions arising from lending business are reported in the statement of comprehensive income, under credit provisions (for a detailed analysis, see Note 5.3).

Note 6.5 Risk provisions and credit provisions offers quantitative and narrative disclosures on individual and collective customer impairment allowances. Impairment of AFS assets is discussed under Note 3.4 Financial assets.

An overview of credit provisions can be found in Note 5.3, and further information is provided in Note 8.6 Risk management.

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

3.13 PROVISIONS

Information on provisions can be found in Note 6.25 to the statement of financial position.

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 the sense that the necessary funds are not set aside externally but retained internally. 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 at 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, and in the statement of comprehensive income, under other comprehensive income. Actuarial gains and losses on the jubilee benefit provision are shown under administrative expenses in the statement of comprehensive income (Note 5.6).

Measurement of the long-term employee benefit provisions was based on the statutory retirement ages of 60 for women and 65 for men. Account was taken of the progressive increase in the retirement age for women from 60 to 65.

The discount rate applied to measurement at the end of the reporting period was 1.3% p.a. (2016: 1.1% 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 2.3% p.a. (2016: 2.0% p.a.) and future pension increases of 2.0% p.a. (2016: 2.0% p.a.) were assumed. As in 2016, an adjustment of 7.0% p.a. for employee turnover was applied to the jubilee benefit provision.

Measurement was based on the biometric estimates contained in the latest Austrian actuarial table for pension insurance, 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 6.25 Provisions.

This item also includes provisions for credit risks (unused credit lines, guarantees and provision of collateral).

Allocations to and reversals of "Other provisions" are mainly shown under net other operating income (Note 5.7). Movements in provisions for credit risks are reported in the statement of comprehensive income, under credit provisions (Note 5.3).

3.14 OTHER LIABILITIES

Other liabilities (Note 6.27) are stated at amortised cost where they relate to accruals and deferrals or sundry other liabilities.

Long-term incentive plan

Since 2012 the HYPO NOE Group has enabled members of top management (key management) to benefit from the Company's long-term profitability and the growth in shareholder value. The long-term incentive plan (LTIP) is an important means of aligning the interests of key management 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 that mirrors 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 the end of the five-year minimum holding period. The scheme is reported under Note 5.6.1 Staff costs.

3.15 "GENUINE" SALE AND REPURCHASE AGREEMENTS

"Genuine" sale and 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. IAS 39 states that the transferor shall continue 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 2017 and 2016, the HYPO NOE Group did not enter into any sale and repurchase agreements as a transferor. The sale and repurchase agreements as a transferee are discussed in Note 6.3.1 "Genuine" sale and repurchase agreements (as the transferee).

3.16 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 exchange rate ruling on the transaction date.

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

3.17 TAX ASSETS AND LIABILITIES

HYPO NOE Landesbank für Niederösterreich und Wien AG is liable to tax in Austria. Since 2008, use has been made of the option of group taxation, with HYPO NOE Landesbank für Niederösterreich und Wien AG acting as the tax group parent company. To this end, the parent has 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 relevant items in the consolidated statement of financial position (Note 6.16 Tax assets and 6.26 Tax liabilities).

Current tax assets and liabilities are measured at current rates and the amounts expected to be paid to/recovered from the taxation authorities.

Deferred tax assets and liabilities are measured using 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 likely that sufficient taxable profit will be available. The HYPO NOE Group's tax loss carryforwards are recognised in Austria and are available for use without time limit. The relevant calculations are based on an updated budget for each company, 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.

Deferred tax assets and liabilities are recognised and reversed either in profit or loss, under income tax expense, or in equity (Note 5.15 Income tax expense) if the underlying item is recognised outside profit or loss (e.g. the revaluation reserve for AFS financial instruments).

4. 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. Cash flows from operating activities are presented according to the indirect method, while cash flows from investments, business transactions, dividends and subordinated debt are presented using the direct method.

The cash flows from **operating activities** mainly 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. When reconciling items of profit or loss for the year before non-controlling interests, non-cash items are removed. Adjustments are made for depreciation and amortisation, impairment and write-ups of property, plant and equipment, financial assets and loans and advances, and allocations to and reversals of provisions and risk provisions. Gains on the disposal of financial assets and property, plant and equipment, which form part of cash flows from investing activities, are also adjusted, as are sundry items. Sundry items primarily include non-cash items such as measurement gains and losses on investments accounted for using the equity method, on assets and liabilities held for trading, and on hedges, as well as deferred taxes. Taxes and interest paid and dividends received are reported as disclosures supplementary to cash flows from operating activities.

The cash flows from **investing activities** largely concern cash inflows and outflows from investments in and disposals of property, plant and equipment, and investment property. There were no financial assets held to maturity in 2017 or in the preceding year. As in the previous period, there were no significant proceeds from the acquisition of subsidiaries in 2017. The 2016 figures included a cash flow relating to the disposal of subsidiaries. This is attributable to the NOE Immobilien Development transaction (see Note 5.8). Cash flows also resulted from the disposal of land in 2016.

Dividends paid to owners of the parent including minority interests and interest payments on subordinated debt account for the majority of the cash flows from **financing activities**. The entire state government-backed subordinated capital, amounting to EUR 200,000thsd, was repaid in 2017.

Cash flows from **changes in exchange rates** relate to transactions denominated in foreign currencies. The change in this item is due to the change in the value of the Swiss franc.

Cash and cash equivalents consist of cash on hand and balances at central banks repayable on demand. This item corresponds to cash and balances at central banks in the statement of financial position.

Cash and cash equivalents rose by EUR 291,610thsd in 2017, to stand at EUR 456,197thsd. The main drivers for this positive cash flow were a substantial fall in loans and advances to customers, the decrease in AFS assets (as a result of redemptions) and a rise in deposits from customers. This more than offset the repayment of debts evidenced by certificates. Details can be found in the consolidated statement of cash flows and the table presented below it, "Changes in liabilities arising from financing activities".

5. Notes to the statement of comprehensive income

5.1 INTEREST AND SIMILAR INCOME

Interest capitalised by the Group in 2017 amounted to EUR 3,200thsd (2016: EUR 3,576thsd). The average capitalisation rate was 1.01% (2016: 1.06%).

Interest income decreased by EUR 64,946thsd in 2017, to stand at EUR 500,699thsd. This resulted in large part from scheduled repayments of loans and advances to customers and redemptions of securities, in order to prepare for the redemption of issued bonds in autumn 2017. Unchanged low market interest rates also weighed on interest income. Under its established hedging strategy, the HYPO NOE Group avoids fixed interest rate positions and only authorises them as part of targeted control measures.

5.1.a Interest and similar income

EUR '000	2017	2016
Interest income from:		
Cash and balances at central banks	-3,277	2
Loans and advances to banks	8,729	2,343
Loans and advances to customers	177,637	193,896
Bonds	43,366	52,109
Hedges (hedge accounting)	146,019	177,712
Other interest income (incl. negative interest)	102,178	112,428
of which net gains or losses on investment property:	*804*	*1,036*
rental income	*2,495*	*3,191*
Depreciation	*-1,691*	*-2,155*
Current income from:		
Leases	25,236	24,985
Shares and other variable-income securities	780	387
Participations	31	1,783
Total	**500,699**	**565,645**

5.1.b Interest and similar income by IAS 39 measurement category

EUR '000	2017	2016
Interest and similar income from:		
Loans and receivables (LAR)	184,743	199,000
Available-for-sale (AFS) assets	44,177	53,996
Assets measured using the fair value option (FVO)	787	299
Assets held for trading (HFT)	98,749	105,873
Impaired loans and advances (unwinding)	2,239	3,092
Hedges (hedge accounting)	146,019	177,712
Interest income attributable to other periods	257	191
Net gains or losses on investment property:	804	1,036
Rental income	*2,495*	*3,191*
Depreciation	*-1,691*	*-2,155*
Current lease income	25,226	24,975
Current origination and commitment fees	4,805	4,474
Balances at central banks and receivables subject to negative interest rates	-7,107	-5,003
Total	**500,699**	**565,645**

5.2 INTEREST AND SIMILAR EXPENSE

The year-on-year reduction in debts evidenced by securities is reflected in interest expense, which fell by EUR 50,172thsd in 2017, to EUR 391,034thsd. The significant increase in fixed-term deposits in recent years, in particular from corporate customers, was maintained despite a further slight reduction in market interest rates; however, interest expense declined further. The remaining interest expense was largely made up of interest paid on derivatives held for trading.

5.2.a Interest and similar expense

EUR '000	2017	2016
Interest expense on:		
Liabilities to central banks	-	-325
Deposits from banks	-13,412	-9,774
Deposits from customers	-19,980	-29,163
Debts evidenced by certificates	-150,807	-178,765
Subordinated capital	-725	-1,682
Hedges (hedge accounting)	-109,553	-119,841
Other interest expense (incl. negative interest)	-96,557	-101,656
Total	**-391,034**	**-441,206**

5.2.b Interest and similar expense by IAS 39 measurement category

EUR '000	2017	2016
Interest expense on:		
Financial liabilities measured at amortised cost (LAC)	-186,363	-220,886
Financial liabilities held for trading (HFT)	-95,606	-101,208
Hedges (hedge accounting)	-109,553	-119,841
Deposits with negative interest rates	488	729
Total	**-391,034**	**-441,206**

5.3 CREDIT PROVISIONS

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

EUR '000	2017	2016
Allocations	**-14,867**	**-22,991**
Individual impairment allowances	-12,375	-21,107
Collective impairment allowances	-2,396	-1,673
Other credit provisions	-97	-211
Reversals	**21,170**	**10,189**
Individual impairment allowances	18,927	7,709
Collective impairment allowances	2,024	2,248
Other credit provisions	219	232
Receipts from impaired assets	**3,833**	**5,943**
Direct write-offs	**-1,035**	**-930**
Total	**9,100**	**-7,789**

The reduction in credit provisions between 2016 and 2017 was mainly the result of proceeds from reversals of credit provisions due to effective workout management and the low level of new allocations to individual impairment allowances.

5.4 NET FEE AND COMMISSION INCOME

Net fee and commission income was up by EUR 1,923thsd in 2017, to stand at EUR 15,381thsd. Fee and commission expense rose slightly, by EUR 414thsd, due to increased issuance activity during the year. This was offset by substantial increases in fee and commission income, Mainly from the securities and custody account business, as well as from payment transactions. Income from lending declined.

EUR '000	2017	2016
Fee and commission income	**18,871**	**16,534**
Loans and advances	654	1,345
Securities and custody account business	6,868	4,484
Payment transactions	6,584	5,900
Foreign exchange, foreign notes and coins, and precious metals	215	251
Other services	3,878	3,916
Diversification	672	634
Other fee and commission income	-	4
Fee and commission expense	**-3,490**	**-3,076**
Loans and advances	-69	-79
Securities and custody account business	-1,820	-1,433
Payment transactions	-1,148	-1,086
Other services	-14	-12
Diversification	-439	-466
Total	**15,381**	**13,458**

5.5 NET TRADING INCOME

EUR '000	2017	2016
Interest rate transactions	5,734	-2,175
Foreign exchange transactions	-5,731	2,840
Other transactions	-512	-
Total	**-509**	**665**

The contributions of interest rate transactions largely reflect the difference between the present value of customer derivatives and the related hedges. The effect of foreign exchange transactions on income was mainly due to a USD-denominated cross-currency interest rate swap, which hedges the exchange risk related to a USD-denominated debt issue. Net other operating income includes the offsetting effect of foreign exchange transactions.

5.6 ADMINISTRATIVE EXPENSES

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

EUR '000	2017	2016
Staff costs	-63,833	-67,841
Other administrative expenses	-46,753	-54,821
Depreciation, amortisation and impairment	-5,221	-6,275
Total	**-115,806**	**-128,937**

5.6.1 Staff costs

EUR '000	2017	2016
Wages and salaries	-49,672	-52,170
*phantom share based cash incentives**	*-65*	*-26*
Social security costs	-10,312	-10,820
Cost of voluntary employee benefits	-1,083	-1,181
Retirement benefit costs	-1,428	-1,631
Termination benefit costs	-1,338	-2,039
of which expenses for provident fund	*-558*	*-603*
Total	**-63,833**	**-67,841**

*For information on share-based remuneration see 3.14 Other liabilities

Measures to optimise costs and improve efficiency initiated in 2015 and continued in 2016 and 2017 led to a significant reduction in staff costs during the reporting period.

	2017	2016
Average number of employees (incl. staff on parental leave)	834	896

EUR '000	2017	2016
Salaries of Management Board members	**-2,570**	**-1,573**
Short-term employee benefits	*-1,956*	*-1,187*
of which current remuneration	*-1,307*	*-996*
Post-employment benefits	*-614*	*-382*
Termination benefits	*-*	*-3*
Supervisory Board members' remuneration (non-employees)	**-120**	**-99**
Supervisory Board members' salaries	**-754**	**-468**
Remuneration of key management (other than the members of the Management Board and Supervisory Board of the parent):	**-4,190**	**-4,408**
Current remuneration	*-3,435*	*-3,940*
Short-term employee benefits	*-525*	*-207*
Post-employment benefits	*-222*	*-254*
Other long-term benefits	*-10*	*-2*
Provision for termination benefits	*2*	*-5*

EUR '000	2017	2016
Termination benefit expenses incl. provident fund for:	**-1,338**	**-2,039**
Management Board	-504	-306
Key management	-80	-71
Other employees	-754	-1,662
Pension expenses for:	**-1,428**	**-1,632**
Management Board	-110	-82
Key management	-157	-192
Other employees (including former employees)	-1,161	-1,358

The "Supervisory Board members' remuneration" item forms part of other administrative expenses, but is shown in the supplementary information on staff costs in the interests of clarity. All of the information in the two tables above relates to the individuals who held the respective positions at the end of the reporting period or during the reporting period.

The pensions of former Management Board members and their surviving dependants amounted to EUR 341thsd (2016: EUR 388thsd). A total of EUR 0thsd was allocated to provisions (2016: EUR 551thsd).

The works agreement concluded by HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG to ensure provision of retirement, invalidity and surviving dependants' benefits was transferred to HYPO NOE Landesbank für Niederösterreich und Wien AG as part of the merger of the two companies. HYPO NOE Leasing GmbH concluded such an agreement in 2009.

In order to implement these agreements, pension fund contracts were concluded with Viktoria Volksbanken Pensionskassen AG. Viktoria Volksbanken Pensionskassen AG was taken over by BONUS Pensionskassen Aktiengesellschaft in a merger effective 23 June 2016.

The pension fund contracts oblige the employer to contribute 2.7-3.2% of employees' eligible salaries (including administrative costs and plus insurance tax) to the fund. The percentages applicable to senior management personnel are 4.2-6% and 10%. Following the merger of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG, since 1 October 2017 the percentages previously applicable at HYPO NOE Gruppe Bank AG have been applied throughout the Group: 6% for department heads and 10% for division heads. In the case of employees who joined the pension scheme on or before 31 December 2012, the employer's contributions vest five years after payments begin; in that of employees joining after 1 January 2013, the employer's contributions vest three years after payments begin. Eligibility for employer's contributions is conditional on five years' service; eligible prior service is counted. For 2017 the contributions amounted to EUR 1,058thsd (2016: EUR 1,013thsd).

Key management in the HYPO NOE Group comprises "identified staff". This includes those individuals who are directly or indirectly responsible for planning, managing and supervising the Group's activities. The members of the Management and Supervisory Boards are also classified as key management. The list of key management including their names, functions and the group companies of which they are employees is updated at the end of each reporting period.

5.6.2 Other administrative expenses

EUR '000	2017	2016
Premises	-4,772	-5,606
Office and communication expenses	-1,070	-1,274
IT expenses	-9,103	-8,775
Legal and consultancy costs	-3,906	-4,957
Advertising and entertainment costs	-4,641	-5,321
Warranty costs	32	-378
Other administrative expenses	-23,293	-28,510
Total	**-46,753**	**-54,821**

EUR '000	2017	2016
The following fees of the auditors of the consolidated financial statements are included in legal and consultancy costs:		
Annual audit	*-494*	*-641*
Other auditing services	*-58*	*-84*
Tax advice	*-307*	*-189*
Other services	*-85*	*-166*
Total	**-944**	**-1,080**

EUR '000	2017	2016
Other administrative expenses are made up of:		
Financial stability contribution (bank tax)	-9,403	-14,900
Deposit insurance fund and resolution fund	-8,411	-8,101
Expenses for FMA and AFREP	-479	-426
Cost of compliance with company law	-652	-803
Training costs	-414	-117
Vehicle and fleet expenses	-1,016	-1,092
Insurance	-413	-374
Travel expenses	-366	-365
Cost of information procurement and payment transactions	-807	-1,085
Sundry other administrative expenses	-1,332	-1,247
Total	**-23,293**	**-28,510**

The Abgabenänderungsgesetz (Tax Amendment Act) passed in 2016 introduced amendments to the Stabilitätsabgabegesetz (Stability Contribution Act). In particular, the method of calculation was modified, which resulted in a lower levy on the HYPO NOE Group. In addition to the statutory financial stability contribution, in 2016 all banks were required to pay a supplementary one-off stability contribution. This special payment could be made as a lump sum in 2016 or paid in instalments over the following four financial years. The HYPO NOE Group resolved to pay the one-off contribution in part-payments across the four years up to 2020, in accordance with section 5 Stability Contribution Act.

5.6.3 Depreciation, amortisation and impairment

EUR '000	2017	2016
Depreciation and amortisation	**-5,221**	**-5,847**
Intangible assets	-682	-712
Buildings used by Group companies	-1,878	-1,840
Equipment, fixtures and furnishings (incl. low value assets)	-2,661	-3,295
Impairment	**-**	**-428**
Intangible assets	-	-428
of which goodwill	*-*	*-428*
Total	**-5,221**	**-6,275**

Impairment recognised in 2016 relates to a goodwill item. This has now been written off in full (see Note 6.13 Intangible assets).

5.7 NET OTHER OPERATING INCOME

EUR '000	2017	2016
Other rental income	**357**	**340**
Gains/losses on:	1,963	-252
disposal of intangible assets, and property, plant and equipment	1,963	-252
Net gains on recognition and reversal of provisions	**300**	**6,345**
Sundry other operating income	**26,527**	**25,354**
Sundry other income	43,914	36,425
Sundry other expenses	-17,387	-11,071
Total	**29,147**	**31,787**

Income in 2016 included recognition of partial reversal of a provision for the debt warranty (see Note 6.25.1 Movements in provisions).

Sundry other expenses/income include net gains on currency translation of EUR 6,788thsd (2016: EUR 1,638thsd) – see Note 5.13 Net gains and losses on financial assets and liabilities.

This item also includes gains of EUR 4,983thsd (2016: EUR 6,845thsd) in administrative and intermediation fees,

as well as net gains on debt repurchases of EUR 246thsd (2016: EUR 1,145thsd) and net gains of EUR 6,832thsd (2016: EUR 7,532thsd) from purchase price adjustments resulting from early repayments in connection with a loan purchase.

5.8 NET GAINS OR LOSSES ON DISPOSAL OF CONSOLIDATED SUBSIDIARIES

EUR '000	2017	2016
Cash and balances at central banks	-	16,788
Investment property	-	27,032
Tax assets	-	487
Other assets	-	33,272
Total assets	**-**	**77,578**
Deposits from banks	-	20,362
Deposits from customers	-	310
Tax liabilities	-	188
Other liabilities	-	28,634
Total liabilities	**-**	**49,495**
Proceeds of disposal	-	21,716
+ Fair value of remaining interest held by the Group	-	14,752
- Assets disposed of	-	-77,578
+ Liabilities disposed of	-	49,495
Net gains or losses on disposal of consolidated subsidiaries	-	8,384
Net gains or losses recognised in profit or loss	**-**	**8,384**

EUR '000	2017	2016
Consideration received in cash and cash equivalents	-	15,981
Less cash and cash equivalents sold	-	-16,788
Proceeds from the disposal of subsidiaries	**-**	**-807**
Amount outstanding from the corporate transaction	-	10,598

Net gains on disposal of consolidated subsidiaries in 2016 related to the concentration of the real estate portfolio, and improved implementation of development projects then at the planning stage by bringing in external investors in NOE Immobilien Development AG (NID). The agreement in question was signed on 27 December 2016 and registered on 30 December 2016. NID, development projects, as well as project companies and holding companies that form part of this structure were removed from the scope of consolidation in the HYPO NOE Group annual report.

Information on the residual interest of 48%, which is accounted for using the equity method, is provided in Note 3.2.3 Associates and joint ventures, and Note 5.9 Net gains or losses on investments accounted for using the equity method.

5.9 NET GAINS OR LOSSES ON INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

This item includes net gains or losses relating to one foreign and 36 Austrian associates and joint ventures accounted for using the equity method. A detailed overview of these companies can be found in Note 3.2.3 Associates and joint ventures.

EUR '000	2017	2016
Net gains on investments accounted for using the equity method	-1,298	-4,813
of which Palatin Grundstückverwaltungs Gesellschaft m.b.H.	-8	10
of which Viminal Grundstückverwaltungs Gesellschaft m.b.H.	126	-
of which NOE Immobilien Development AG (consolidated financial statements)	-736	-
of which NÖ. HYPO Leasing und Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG	-367	-25
of which Niederösterreichische Vorsorgekasse AG	521	749
of which EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft (consolidated financial statements)	-1,452	-6,398
of which Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	510	586
of which NÖ. Landeshauptstadt - Planungsgesellschaft m.b.H.	20	-42
of which Haring Liegenschaftsentwicklungs GmbH	-	-14
Total	**-1,298**	**-4,813**

5.10 NET GAINS OR LOSSES ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

EUR '000		2017	2016
Income from financial assets		**468**	**57,387**
Gains on disposal	(5.13)	468	32,698
Write-ups		-	24,689
Expenses arising from financial assets		**-631**	**-398**
Losses on disposal	(5.13)	-	-42
Depreciation, amortisation and impairment		-631	-356
Total		**-163**	**56,989**

In 2016, the HYPO NOE Group accepted the second tender offer for its Heta Asset Resolution AG (Heta) debt instruments, opting for the swap offer and exchanging all its Heta debt instruments, valued at EUR 225m (nostro position), for zero-coupon bonds issued by the Carinthian Compensation Payment Fund. The bonds were disposed of in December 2016. This means that the HYPO NOE Group no longer holds any Heta debt instruments. The net gains and losses recognised in 2016 predominantly relate to this transaction.

5.11 NET GAINS OR LOSSES ON FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

EUR '000	2017	2016
Net gains or losses on financial assets	**57**	**249**
Loans	57	311
Bonds	-	-62
Total	**57**	**249**

5.12 NET GAINS OR LOSSES ON HEDGES

This item comprises gains or losses on the underlying transactions attributable to hedged risk and to remeasurement of hedging instruments to fair value (hedge accounting).

EUR '000	2017	2016
Hedge accounting	**-5,369**	**-1,224**
Net gains on underlying transactions	21,092	67,885
Net losses on hedging instruments	-26,461	-69,109
Total	**-5,369**	**-1,224**

The net loss on hedges is principally attributable to the different discount rates applied to hedges and the related underlying transactions. The different discounting of hedges caused by changed market standards (OIS discounting) produces temporary differences in the results. Derivatives measured at fair value (hedge transactions) predominantly form part of closed positions. Early repayments were the second main contributor to the greater net loss. These negative effects are largely offset in comprehensive income by prepayment penalties received; this is disclosed under item 5.7 Net other operating income.

5.13 NET GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES

EUR '000		2017	2016
Net realised gains on financial assets and liabilities not measured at fair value through profit or loss		**1,016**	**32,941**
Available-for-sale financial assets	(5.10)	468	32,656
Loans and receivables (incl. finance leases)	(5.14)	548	166
Other	(5.14)	-	119
Net losses/gains on financial assets and liabilities held for trading	(5.5)	**-509**	**665**
Interest rate instruments and related derivatives		5,734	-2,175
Foreign exchange trading		-5,731	2,840
Other (incl. hybrid derivatives)		-512	-
Gains or losses on financial assets and liabilities measured at fair value through profit or loss	(5.11)	**57**	**249**
Gains or losses on hedge accounting	(5.12)	**-5,369**	**-1,224**
Net gains on currency translation	(5.7)	**6,788**	**1,638**
Total		**1,983**	**34,269**

5.14 NET GAINS OR LOSSES ON OTHER FINANCIAL INVESTMENTS

EUR '000		2017	2016
Gains or losses on disposal of receivables and promissory notes	(5.13)	**548**	**166**
Investment property		**24**	**56**
Proceeds from disposals	(5.13)	-	1,207
Carrying amounts of disposals	(5.13)	-	-1,088
Let investment property		25	-48
Vacant investment property		-1	-15
Total		**572**	**222**

5.15 INCOME TAX EXPENSE

This item includes all taxes payable on profits for the reporting period.

EUR '000	2017	2016
Current income tax	-8,083	-20,511
Deferred income tax	-1,575	-2,921
Total	**-9,658**	**-23,432**

A reconciliation of the expense that would result from applying the standard rate of corporation tax to the reported tax expense is shown below.

EUR '000	2017	2016
Profit for the year before tax	40,777	93,430
x income tax rate	25%	25%
= anticipated income tax expense	**-10,194**	**-23,358**
Reductions in tax liability	**478**	**3,070**
Tax-free income from investments	215	624
Other tax-free income	263	2,446
Increases in tax liability	**-1,161**	**-3,235**
Non-deductible expenses	-668	-1,729
Investments accounted for using the equity method	-493	-1,506
Tax effects of other differences	**1,220**	**91**
Adjustments to and non-recognition of deferred tax	-316	-5
Previous years	2,096	623
Prepayments	-21	-44
Other adjustments	-539	-483
Total	**-9,658**	**-23,432**

Net deferred tax liabilities of EUR 1,704thsd (2016: deferred tax credits of EUR 6thsd) were recognised directly in equity. The basis for non-recognition of deferred tax in profit or loss for associates and joint ventures is EUR 1,972thsd (2016: EUR 6,023thsd).

EUR '000	Net deferred taxes 1 Jan. 2017	Changes in scope of consolidation	Change 2017 Recognised in profit or loss	Change 2017 Not recognised in profit or loss	Net deferred taxes 31 Dec. 2017	of which assets	of which liabilities
Loans and advances (to banks and customers) incl. risk provisions	-184,331	-	20,919	-	-163,412	448	-163,859
Positive fair value of hedges (hedge accounting)	-120,804	-	34,559	-	-86,244	-	-86,244
Assets held for trading	-129,795	-	22,966	-	-106,829	-	-106,829
Financial instruments (FVO, AFS)	-47,418	-	10,205	-	-38,820	1,659	-40,479
Other assets (statement of financial position)	-768	-	2,349	-	1,581	3,247	-1,666
Liabilities (debts evidenced by certificates and deposits from banks and customers)	112,536	-	-37,904	-	74,632	74,632	-
Liabilities held for trading	125,739	-	-21,425	-	104,313	104,313	-
Negative fair value of hedges (hedge accounting)	198,424	-	-30,340	-	168,084	168,084	-
Other liabilities (statement of financial position)	1,725	-	-2,748	-	-1,120	5,961	-7,081
Actuarial gains and losses in accordance with IAS 19	-	-	-	-98	-	-	-
Available-for-sale (AFS) financial instruments	-	-	-	-1,607	-	-	-
Tax loss carryforwards available for use without time limit	9,180	207	-364	-	8,816	8,816	-
Currency translation reserve	-	-	-	-	-	-	-
Total	**-35,512**	**207**	**-1,782**	**-1,704**	**-38,999**	**367,160**	**-406,158**

The taxable temporary differences related to interests in affiliated companies, joint ventures and associates for which no deferred tax liabilities were recognised under paragraph 39 IAS 12 totalled EUR 2,504thsd (2016: EUR 5,845thsd).

Note 6.16 Tax assets and Note 6.26 Tax liabilities provide a detailed analysis of the deferred tax assets and liabilities.

The deconsolidation of project companies as a result of the NID transaction gave rise to a deferred tax effect in 2016, which is presented under "Changes in scope of consolidation".

EUR '000	Net deferred taxes 1 Jan. 2016	Changes in scope of consolidation	Change 2016 Recognised in profit or loss	Change 2016 Not recognised in profit or loss	Net deferred taxes 31 Dec. 2016	of which assets	of which liabilities
Loans and advances (to banks and customers) incl. risk provisions	-172,543	-	-11,787	-	-184,331	1,109	-185,440
Positive fair value of hedges (hedge accounting)	-127,365	-	6,561	-	-120,804	-	-120,804
Assets held for trading	-134,176	-	4,381	-	-129,795	-	-129,795
Financial instruments (FVO, AFS, HTM)	-47,832	-	766	-	-47,418	20	-47,438
Other assets (statement of financial position)	-1,373	-	606	-	-768	3,258	-4,025
Liabilities (debts evidenced by certificates and deposits from banks and customers)	117,915	-	-5,379	-	112,536	112,536	-
Liabilities held for trading	129,242	-	-3,504	-	125,739	125,739	-
Negative fair value of hedges (hedge accounting)	185,241	-	13,184	-	198,424	198,424	-
Other liabilities (statement of financial position)	4,524	-	-3,163	-	1,725	7,535	-5,811
Actuarial gains and losses in accordance with IAS 19	-	-	-	364	-	-	-
Available-for-sale (AFS) financial instruments	-	-	-	-352	-	-	-
Tax loss carryforwards available for use without time limit	14,015	245	-4,835	-	9,180	9,180	-
Currency translation reserve	-	-	6	-6	-	-	-
Total	**-32,353**	**245**	**-3,166**	**6**	**-35,512**	**457,801**	**-493,313**

5.16 NON-CONTROLLING INTERESTS

EUR '000	2017	2016
FORIS Grundstückvermietungs Gesellschaft m.b.H.	-5	-9
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	99	-29
LITUS Grundstückvermietungs Gesellschaft m.b.H.	-7	-52
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	-25	-40
Adoria Grundstückvermietungs Gesellschaft m.b.H.	-13	-20
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	-44	-44
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	1	-17
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	32	-10
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	-204	-13
Josef-Heinzl-Gasse 1 Immobilienentwicklung GmbH	-	-1
Hauptplatz 18 Entwicklungs- und Verwertungs GmbH	-	57
Total	**-166**	**-178**

6. Notes to the statement of financial position

6.1 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 shown at nominal value. This item rose by EUR 291,610thsd in 2017, to EUR 456,197.

Interest income is reported under "Interest and similar income" (Note 5.1).

EUR '000	31 Dec. 2017	31 Dec. 2016
Cash on hand	12,935	12,924
Balances at central banks	443,262	151,663
Total	**456,197**	**164,587**

6.2 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 8.3 Leasing disclosures), overnight money and time deposits, and unlisted securities. They include accrued interest but are gross of impairment losses (see Note 6.3 Loans and advances to banks and Note 6.4 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 5.1).

The current risk situation is discussed in detail in Note 8.6 Risk management.

6.3 LOANS AND ADVANCES TO BANKS

6.3.1 Geographical analysis

EUR '000	31 Dec. 2017	31 Dec. 2016
Domestic banks	66,211	112,712
Foreign banks		
CEE	519	421
Rest of the world	794,091	885,214
Total	**860,821**	**998,347**

6.3.2 "Genuine" repurchase agreements (as the transferee)

In 2016 securities were transferred by way of reverse repo transactions, subject to a contractual obligation to return them to the HYPO NOE Group. The transferor retained all the risks and rewards of ownership.

These transactions were largely tri-party repos.

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 passes from the transferor to the transferee. However, economic ownership (cash flows, risks and opportunities) remains with the transferor.

As the securities continue to be accounted for by the transferor, the transferee is not obliged to report them as assets.

EUR '000	31 Dec. 2017	31 Dec. 2016
Loans and advances to banks under repo agreements	-	49,961

6.4 LOANS AND ADVANCES TO CUSTOMERS

6.4.1 Customer group analysis

The public sector customers group includes financial solutions designed for public sector clients in Austria and abroad.

The business customer group normally relates to energy and infrastructure businesses, regulated companies, and leading manufacturers. Lending to small and medium-sized enterprises (SMEs), and to capital-intensive medical practices and other professionals' businesses largely relates to health, housing and education.

The housing developer customer group comprises non-profit housing associations and other developers, as well as commercial developers and purchased subsidised home loans.

The retail customer group also includes purchased subsidised home loans.

EUR '000	31 Dec. 2017	31 Dec. 2016
Public sector customers	4,909,607	5,150,341
Business customers	1,527,976	1,778,604
Housing developers	1,556,353	1,540,216
Retail customers	2,178,155	2,325,131
Professionals	58,141	60,640
Total	**10,230,232**	**10,854,932**

6.4.2 Geographical analysis

EUR '000	31 Dec. 2017	31 Dec. 2016
Domestic customers	9,256,681	9,661,128
Foreign customers		
CEE	386,361	469,121
Rest of the world	587,190	724,683
Total	**10,230,232**	**10,854,932**

6.5 RISK PROVISIONS AND CREDIT PROVISIONS

Loans and advances to customers included interest-free loans and advances of EUR 32,106thsd, of which the unsecured portion of EUR 13,472thsd was impaired (2016: EUR 68,226thsd including EUR 28,199thsd impaired).

Additional narrative information is given in Note 3.12 Risk provisions and Note 8.6 Risk management.

6.5.1 Analysis of risk provisions and credit risk provisions by customer group

"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), as well as reclassifications to individual impairment allowances.

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

EUR '000	1 Jan. 2016	Exchange differences	Allocations	Utilisation	Reversals	Unwinding	Other changes	31 Dec. 2016
Risk provisions for customers: individual impairment allowances	**-95,313**	**-4**	**-21,107**	**12,696**	**7,709**	**3,092**	**-**	**-92,927**
Public sector customers	-5,352	-	-21	-1	-	22	-	-5,352
Business customers	-59,216	-4	-18,365	8,907	4,731	2,389	-	-61,558
Housing developers	-124	-	-3	-	-	3	-	-124
Retail customers	-28,623	-	-2,281	3,403	2,727	630	-	-24,144
Professionals	-1,998	-	-437	387	251	48	-	-1,749
Risk provisions for customers: collective impairment allowances	**-5,110**	**-**	**-1,673**	**-**	**2,248**	**-**	**-**	**-4,535**
Subtotal: risk provisions for customers	**-100,423**	**-4**	**-22,780**	**12,696**	**9,957**	**3,092**	**-**	**-97,462**
Credit provision	-3,398	-	-211	-	232	-	-	-3,377
Total	**-103,821**	**-4**	**-22,991**	**12,696**	**10,189**	**3,092**	**-**	**-100,839**

6.5.2 Geographical analysis of risk provisions

EUR '000	31 Dec. 2017	31 Dec. 2016
Domestic	-48,203	-58,715
Foreign		
CEE	-7,733	-11,096
Rest of the world	-19,334	-27,651
Total risk provisions	**-75,270**	**-97,462**

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

The disclosures below largely relate to loans and advances to customers. Any other impairments are disclosed in the notes to the items concerned.

The tables show the value of the collateral as calculated for regulatory purposes. The receivables of the leasing subsidiary, amounting to around EUR 2,199,059thsd (2016: EUR 2,131,982thsd), are shown gross of collateral. The LAR category includes loans and advances to banks, loans and advances to customers and balances at central banks. The AFS class of assets shown in the table does not include any equity instruments and investments.

The financial assets were tested for impairment on the basis of the most recent information available, and those that were neither impaired nor past due were treated as recoverable.

31 Dec. 2017, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total
Gross carrying amount (not individually impaired)	12,822,695	37,550	1,413	12,861,658
of which LAR	11,326,540	37,550	1,413	11,365,503
AFS assets	1,496,155	-	-	1,496,155
Gross carrying amount (individually impaired)	154,817	8,486	44,656	207,959
of which LAR	115,670	8,486	44,656	168,812
AFS assets	39,147	-	-	39,147
Gross carrying amount	**12,977,512**	**46,036**	**46,069**	**13,069,617**
of which LAR	11,442,210	46,036	46,069	11,534,315
AFS assets	1,535,302	-	-	1,535,302
Collateral in the form of LAR				**4,774,560**
of which secured by mortgages				1,846,681
loans secured in other ways				44,402
financial guarantees received				2,883,477
Collateral in the form of AFS assets				**465,591**
Collective impairment allowances (LAR)	-4,814	-90	-3	-4,907
Individual impairment allowances (LAR)	-39,490	-2,454	-28,419	-70,363
Net carrying amount	**12,933,208**	**43,492**	**17,647**	**12,994,347**

31 Dec. 2016, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total
Gross carrying amount (not individually impaired)	12,666,909	38,655	2,557	12,708,121
of which LAR	10,791,678	38,655	2,557	10,832,890
AFS assets	1,875,231	-	-	1,875,231
Gross carrying amount (individually impaired)	175,790	2,319	67,070	245,179
of which LAR	134,850	2,319	67,070	204,239
AFS assets	40,940	-	-	40,940
Gross carrying amount	**12,842,699**	**40,974**	**69,627**	**12,953,300**
of which LAR	10,926,528	40,974	69,627	11,037,129
AFS assets	1,916,171	-	-	1,916,171
Collateral in the form of LAR				**4,703,031**
of which secured by mortgages				1,766,036
loans secured in other ways				48,683
financial guarantees received				2,888,312
Collateral in the form of AFS assets				**465,591**
Collective impairment allowances (LAR)	-4,400	-77	-58	-4,535
Individual impairment allowances (LAR)	-44,748	-683	-47,497	-92,928
Net carrying amount	**12,793,551**	**40,214**	**22,072**	**12,855,837**

In 2017 collateral seized with the intention of disposal totalled a modest EUR 24thsd (2016: EUR 56thsd). These assets are referred to in Note 6.17 Other assets.

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

31 Dec. 2017, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total
Risk provisions for customers: individual impairment allowances	**-39,490**	**-2,453**	**-28,420**	**-70,363**
Central banks	-	-	-	-
General governments	-5,562	-	-	-5,562
Other financial corporations	-	-	-	-
Non-financial corporations	-28,547	-2,296	-9,488	-40,331
Households	-5,381	-157	-18,932	-24,470
Risk provisions for customers and banks: collective impairment allowances	**-4,814**	**-90**	**-3**	**-4,907**
Total risk provisions	**-44,304**	**-2,543**	**-28,423**	**-75,270**

31 Dec. 2016, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total
Risk provisions for customers: individual impairment allowances	**-44,748**	**-682**	**-47,497**	**-92,927**
General governments	-5,351	-	-	-5,351
Non-financial corporations	-35,201	-169	-25,075	-60,445
Households	-4,196	-513	-22,422	-27,131
Risk provisions for customers and banks: collective impairment allowances	**-4,400**	**-77**	**-58**	**-4,535**
Total risk provisions	**-49,148**	**-759**	**-47,555**	**-97,462**

6.5.4 Forborne exposures

The tables below show the changes in forborne exposures, as well as analyses by geographical area, rating class and maturity. The presentation includes both forborne instalments and arrears. In 2017 forbearance measures in respect of a total of EUR 8,826thsd in individual impairment allowances were recognised in profit or loss. Most of the exits were due to repayments. See Note 8.6 Risk management for an additional narrative discussion.

Forborne exposures at 1 Jan. 2017, EUR '000	Additions (+)	Exits (-)	Forborne exposures at 31 Dec. 2017	Interest income from existing loans and advances recognised in profit or loss	Individual impairment allowances	Collective impairment allowances
126,935	6,252	-51,628	81,558	2,488	-16,315	-38

Forborne exposures at 1 Jan. 2016, EUR '000	Additions (+)	Exits (-)	Forborne exposures at 31 Dec. 2016	Interest income from existing loans and advances recognised in profit or loss	Individual impairment allowances	Collective impairment allowances
100,690	38,559	-12,313	126,935	1,698	-30,617	-179

Geographical analysis

EUR '000	31 Dec. 2017	31 Dec. 2016
Domestic customers	19,584	49,472
Foreign customers		
CEE	48,503	52,077
Rest of the world	13,471	25,386
Total	**81,558**	**126,935**

Breakdown by rating

31 Dec. 2017, EUR '000	Not past due and not individually impaired	Not past due but individually impaired	Less than 90 days overdue	90 or more days overdue	Total	Collateral received
Rating class 2	-	-	-	-	**-**	-
Rating class 3	-8,297	-	-	-	**-8,297**	1,623
Rating class 4	-4,601	-	-	-	**-4,601**	3,577
Rating class 5	-415	-67,078	-15	-1,153	**-68,661**	6,456
Total	**-13,312**	**-67,078**	**-15**	**-1,153**	**-81,558**	**11,656**

31 Dec. 2016, EUR '000	Not past due and not individually impaired	Not past due but individually impaired	Less than 90 days overdue	90 or more days overdue	Total	Collateral received
Rating class 2	-	-	-	-	**-**	217
Rating class 3	-21,465	-	-	-	**-21,466**	2,473
Rating class 4	-13,516	-	-244	-	**-13,760**	6,004
Rating class 5	-1,217	-77,960	-636	-11,898	**-91,709**	28,749
Total	**-36,198**	**-77,960**	**-880**	**-11,898**	**-126,935**	**37,442**

Breakdown by maturity

31 Dec. 2017, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total	Collateral received
Gross carrying amount (not individually impaired)	13,312	-	-	**13,312**	5,600
Gross carrying amount (individually impaired)	67,078	15	1,153	**68,245**	6,056
Collective impairment allowances	-38	-	-	**-38**	-
Individual impairment allowances	-15,652	-13	-650	**-16,315**	-
Net carrying amount	**76,603**	**-**	**1,555**	**65,205**	**11,656**

31 Dec. 2016, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total	Collateral received
Gross carrying amount (not individually impaired)	36,198	420	-	**36,618**	10,006
Gross carrying amount (individually impaired)	77,960	460	11,896	**90,316**	27,436
Collective impairment allowances	-178	-2	-3	**-183**	-
Individual impairment allowances	-21,719	-106	-8,792	**-30,617**	-
Net carrying amount	**92,262**	**772**	**3,101**	**96,135**	**37,442**

6.6 ASSETS HELD FOR TRADING

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

Realised gains and losses, and measurement gains and losses are reported under the "Net trading income" item (Note 5.5).

EUR '000	31 Dec. 2017	31 Dec. 2016
Positive fair value of financial instruments (banking book)		
Interest rate derivatives	462,150	545,164
Foreign exchange derivatives	14,102	7,026
Other assets held for trading	-	3,103
Total	**476,252**	**555,293**

6.7 POSITIVE FAIR VALUE OF HEDGES (HEDGE ACCOUNTING)

The positive fair value of hedges is reported separately, on the assets side of the consolidated statement of financial position, provided that they qualify for hedge accounting under IAS 39.

Measurement gains and losses on fair value hedges are recognised in profit or loss, under the "Net gains or losses on hedges" item (Note 5.12). Current income from hedges is reported under Note 5.1 Interest and similar income.

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

EUR '000	31 Dec. 2017	31 Dec. 2016
Assets	**2,293**	**1,660**
Loans and advances to banks	-	452
Loans and advances to customers	1,761	537
Financial assets	532	671
Liabilities	**402,936**	**481,555**
Deposits from banks	591	1,871
Deposits from customers	4,533	23,363
Debts evidenced by certificates	397,812	456,321
Total	**405,229**	**483,215**

6.8 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 unconsolidated subsidiaries, and equity investments not held for sale. For additional information see part 3 of Note 3.4 Financial assets, Available-for-sale financial assets (AFS).

Gains and losses on disposal, and measurement gains and losses are reported under the "Net gains and losses on available-for-sale assets" item (Note 5.10).

EUR '000	31 Dec. 2017	31 Dec. 2016
Other equity instruments	54,875	48,063
Bonds	1,535,302	1,916,170
Interests in unconsolidated subsidiaries (over 50%)	106	106
Interests in associates (20%-50%)	485	492
Other investments	2,237	2,317
Total	**1,593,005**	**1,967,148**

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

See narrative Note 3.4 Financial assets, 4. Financial assets designated as at fair value through profit or loss (FVPL).

EUR '000	31 Dec. 2017	31 Dec. 2016
Loans	19,474	20,340
Total	**19,474**	**20,340**

6.10 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Additional information on investments accounted for using the equity method is given in Note 3.2.3 Associates and joint ventures.

EUR '000	31 Dec. 2017	31 Dec. 2016
Banks	3,009	2,632
Non-banks	23,229	27,290
Total	**26,238**	**29,922**

Losses totalling EUR 61thsd (31 Dec. 2016: EUR 313thsd) were not recognised through profit or loss. In 2017 these accumulated losses fell by EUR 252thsd, whereas they rose by EUR 181thsd in 2016. None of the companies accounted for using the equity method as at 31 December 2017 – or at the end of the previous year – were listed.

The reduction in the carrying amount is chiefly due to the impairment of EWU and the result posted by NOE Immobilien Development AG (including the pro rata reversal of the goodwill recognised in respect of the project companies).

6.11 INVESTMENT PROPERTY

Land and buildings held to earn rental income, for a currently undetermined future use or for anticipated capital appreciation are reported under this item (see Note 3.9 Investment property).

Rental income in the reporting period was EUR 2,495thsd (2016: EUR 3,191thsd).

EUR '000	31 Dec. 2017	31 Dec. 2016
Investment property	41,382	54,117

The fair value of investment properties as at 31 December 2017 was EUR 47,805thsd (31 Dec. 2016: EUR 55,872thsd). Additional information on this item is given under 8.1 Fair value disclosures (IFRS 7 and IFRS 13).

Changes in investment property are shown in the statement of movements in financial assets, below.

6.12 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 (less than 20%). The additions and disposals reflect the various carrying amounts, and the related cash flows are shown in the consolidated statement of cash flows, under cash flows from investing activities.

The change due to IFRS 5 relates to the Obere Donaustrasse 61 Liegenschaftserrichtungs- und verwertungs GmbH, and to the subsidiaries of First Facility GmbH, which are accounted for using the equity method and reported as held for sale.

The net measurement loss on investments accounted for using the equity method was chiefly attributable to the revaluation of the EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft sub-group and of NOE Immobilien Development AG (see Note 3.2.3 Associates and joint ventures for detailed disclosures).

EUR '000	Note	Cost							
		1 Jan. 2017	Changes in scope of consolidation	Additions	Disposals	Transfers	Changes due to IFRS 5	Other changes	31 Dec. 2017
Available-for-sale financial assets	(6.8)	6,428	-	2	-103	-	-	-	6,326
Investments accounted for using the equity method	(6.10)	29,377	-10	5	-	-	-2,502	-	26,870
Investment property	(6.11)	60,915	-	163	-	-	-12,484	-	48,501
Total financial investments		**96,720**	**-10**	**170**	**-103**	**-**	**-14,986**	**-**	**81,697**

EUR '000	Note	Cost							
		1 Jan. 2016	Changes in scope of consolidation	Additions	Disposals	Transfers	Changes due to IFRS 5	Other changes	31 Dec. 2016
Available-for-sale financial assets	(6.8)	7,161	14,191	93	-	-14,997	-	-20	6,428
Investments accounted for using the equity method	(6.10)	14,380	-	-	-	14,997	-	-	29,377
Investment property	(6.11)	80,574	-25,191	16,031	-10,499	-	-	-	60,915
Total financial investments		**102,115**	**-11,000**	**16,124**	**-10,499**	**-**	**-**	**-20**	**96,720**

Depreciation, amortisation and remeasurement (+/-) of investments accounted for using the equity method								Carrying amount	
1 Jan. 2017	Changes in scope of consolidation	Depreciation, amortisation and remeasurement (+/-) of investments accounted for using the equity method	Impairments	Write-ups	Disposals	Changes due to IFRS 5	31 Dec. 2017	1 Jan. 2017	31 Dec. 2017
-3,513	-	-	-	-	15	-	-3,498	2,915	2,828
545	-	-1,868	-276	4	-	963	-632	29,921	26,238
-6,704	-	-1,701	-	-	-	1,287	-7,118	54,211	41,383
-9,672	**-**	**-3,569**	**-276**	**4**	**15**	**2,250**	**-11,248**	**87,047**	**70,449**

Depreciation, amortisation and remeasurement (+/-) of investments accounted for using the equity method								Carrying amount	
1 Jan. 2016	Changes in scope of consolidation	Depreciation, amortisation and remeasurement (+/-) of investments accounted for using the equity method	Impairments	Write-ups	Disposals	Changes due to IFRS 5	31 Dec. 2016	1 Jan. 2016	31 Dec. 2016
-3,456	-	-	-57	-	-	-	-3,513	3,705	2,915
6,557	-254	7,201	-12,959	-	-	-	545	20,937	29,922
-11,870	5,138	-2,165	-	-	2,193	-	-6,704	68,704	54,211
-8,769	**4,884**	**5,036**	**-13,016**	**-**	**2,193**	**-**	**-9,672**	**93,346**	**87,048**

6.13 INTANGIBLE ASSETS

Intangible assets acquired for consideration, such as software, are reported here. This item is discussed in Note 3.10 Intangible assets, and property, plant and equipment.

Depreciation and amortisation, and impairments are reported in the statement of comprehensive income (see the summary table in Note 5.6 Administrative expenses and the detailed disclosures in Note 5.6.3 Depreciation, amortisation and impairment). Gains and losses on disposal of property, plant and equipment are recognised under net other operating income (Note 5.7). The additions and disposals reflect the various carrying amounts, and the related cash flows are shown in the consolidated statement of cash flows, under cash flows from investing activities.

EUR '000	31 Dec. 2017	31 Dec. 2016
Intangible assets		
Software	932	918
Total intangible assets	**932**	**918**

6.14 PROPERTY, PLANT AND EQUIPMENT

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 details see Note 3.10 Intangible assets, and property, plant and equipment. The additions and disposals reflect the various carrying amounts, and the related cash flows are shown in the consolidated statement of cash flows, under cash flows from investing activities.

EUR '000	31 Dec. 2017	31 Dec. 2016
Property, plant and equipment		
Land and buildings	61,581	68,137
IT equipment	476	740
Equipment, fixtures and furnishings	7,577	8,588
Other property, plant and equipment	38	60
Total property, plant and equipment	**69,672**	**77,525**

The carrying amount of land as at 31 December 2017 was EUR 12,983thsd (2016: EUR 17,392thsd).

The fair value of land and buildings as at 31 December 2017 was EUR 71,242thsd (2016: EUR 78,480thsd).

6.15 MOVEMENTS IN INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

	Cost					
EUR '000	1 Jan. 2017	Additions	Disposals	Transfers	Other changes	31 Dec. 2017
Intangible assets						
Software	7,918	638	-6	96	-36	8,610
Goodwill	877	-	-	-	-	877
Total intangible assets	**8,795**	**638**	**-6**	**96**	**-36**	**9,487**
Property, plant and equipment						
Land and buildings	83,476	20	-8,051	-	-	75,446
IT equipment	4,468	181	-80	-125	-	4,444
Equipment, fixtures and furnishings	36,250	1,447	-3,833	29	-172	33,741
Other property, plant and equipment	125	-	-	-	-	125
Total property, plant and equipment	**124,319**	**1,648**	**-11,964**	**-96**	**-172**	**113,756**

	Cost					
EUR '000	1 Jan. 2016	Additions	Disposals	Transfers	Other changes	31 Dec. 2016
Intangible assets						
Software	7,371	625	-78	-	-	7,918
Goodwill	877	-	-	-	-	877
Total intangible assets	**8,248**	**625**	**-78**	**-**	**-**	**8,795**
Property, plant and equipment						
Land and buildings	81,491	2,605	-620	-	-	83,476
IT equipment	4,195	421	-148	-	-	4,468
Equipment, fixtures and furnishings	38,283	934	-2,967	-	-	36,250
Other property, plant and equipment	105	20	-	-	-	125
Total property, plant and equipment	**124,074**	**3,980**	**-3,735**	**-**	**-**	**124,319**

Depreciation, amortisation and remeasurement (+/-) of investments accounted for using the equity method						Carrying amount	
1 Jan. 2017	Depreciation and amortisation	Impairments	Transfers	Disposals	31 Dec. 2017	1 Jan. 2017	31 Dec. 2017
-7,000	-682	-	-39	43	-7,678	918	932
-877	-	-	-	-	-877	-	-
-7,877	**-682**	**-**	**-39**	**43**	**-8,555**	**918**	**932**
-15,339	-1,878	-	-	3,352	-13,865	68,137	61,581
-3,728	-319	-	-	79	-3,968	740	476
-27,662	-2,297	-	39	3,756	-26,164	8,588	7,577
-65	-22	-	-	-	-87	60	38
-46,794	**-4,516**	**-**	**39**	**7,187**	**-44,084**	**77,525**	**69,672**

Depreciation, amortisation and remeasurement (+/-) of investments accounted for using the equity method						Carrying amount	
1 Jan. 2016	Depreciation and amortisation	Impairments	Transfers	Disposals	31 Dec. 2016	1 Jan. 2016	31 Dec. 2016
-6,388	-712	-	-	100	-7,000	983	918
-449	-	-428	-	-	-877	428	-
-6,837	**-712**	**-428**	**-**	**100**	**-7,877**	**1,411**	**918**
-13,510	-1,840	-	-	11	-15,339	67,981	68,137
-3,523	-329	-	-	124	-3,728	672	740
-26,839	-2,942	-	-	2,119	-27,662	11,444	8,588
-43	-22	-	-	-	-65	62	60
-43,915	**-5,133**	**-**	**-**	**2,254**	**-46,794**	**80,159**	**77,525**

6.16 TAX ASSETS

See Note 3.17 Tax assets and liabilities for a narrative discussion of income tax.

EUR '000	31 Dec. 2017	31 Dec. 2016
Current tax assets	20,659	20,333
Deferred tax assets	4,076	1,443
Total	**24,735**	**21,776**

Deferred tax assets were recognised in respect of the following items:

EUR '000	31 Dec. 2017	31 Dec. 2016
Loans and advances to customers	-	1,950
Risk provisions	5	739
Financial investments	1,750	28
Property, plant and equipment	21	24
Debts evidenced by certificates	-	6,347
Liabilities held for trading	-	2
Provisions	101	914
Other liabilities	1	1,300
Subordinated capital	-	23
Tax loss carryforwards	3,375	3,216
Deferred tax assets before offsetting	**5,253**	**14,543**
less deferred tax liabilities	-1,177	-13,100
Reported net deferred tax assets	**4,076**	**1,443**

No deferred tax assets were recognised in respect of tax loss carryforwards of EUR 18,255thsd (2016: EUR 20,120thsd).

6.17 OTHER ASSETS

For a narrative discussion of this item see Note 3.11 Other assets.

EUR '000	31 Dec. 2017	31 Dec. 2016
Accruals and deferrals	9,018	1,332
Other receivables and assets	217,809	260,061
of which future finance lease assets	*196,092*	*233,618*
value added tax (VAT) and other tax credits (other than income tax)	*8,501*	*8,461*
property classified as inventory	*55*	*55*
trade receivables	*9,533*	*3,995*
collateral seized with the intention of disposal	*24*	*56*
Total	**226,827**	**261,393**

The decline in future lease assets arises from the reclassification of loans and advances to customers at inception of the lease agreements.

6.18 DISPOSAL GROUPS HELD FOR SALE (IFRS 5)

This item includes assets arising from disposals and not generated through continued use. Classification under this item only takes place if a non-current asset or disposal group is available for sale immediately in its current condition and disposal is highly likely. If the Management Board undertakes to make a disposal it is assumed that the latter will take place within one year of classification.

Recognition is at the lower of the carrying amount or fair value, less costs to sell.

In the event that the Group has committed to a disposal resulting in the sale of an investment in a company accounted for using the equity method, the investment is classified as held for sale, provided that the above conditions are met. Use of the equity method is terminated at this point.

An impairment loss of EUR 512thsd was recognised in 2017. The expense is reported under net other operating income (Note 5.7).

EUR '000	31 Dec. 2017	31 Dec. 2016
Disposal groups held for sale (IFRS 5)	12,287	-
of which investments accounted for using the equity method	*986*	-
investment property	*11,300*	-
Total	**12,287**	**-**

The held for sale asset group includes the foreign subsidiaries of HYPO NOE First Facility GmbH, as well as Obere Donaustrasse 61 Liegenschaftserrichtungs- und -verwertungs GmbH, the disposal of which was initiated in 2017.

6.19 DEPOSITS

Deposits from banks and customers, including debts evidenced by certificates, are carried at amortised cost (see Note 6.20 Deposits from banks, Note 6.21 Deposits from customers and Note 6.22 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 the "Interest and similar expense" item (Note 5.2).

Where hedge accounting is applied, the movements in the fair value of the underlying are recognised in profit or loss, under the "Net gains or losses on hedges" item (Note 5.12).

6.20 DEPOSITS FROM BANKS

6.20.1 Geographical analysis

EUR '000	31 Dec. 2017	31 Dec. 2016
Domestic banks	322,863	257,591
Foreign banks		
CEE	458,521	33,755
Rest of the world	583,784	1,170,952
Total	**1,365,168**	**1,462,298**

6.20.2 "Genuine" sale and repurchase agreements (as the transferor)

The assets transferred under these agreements were loaned, with a contractual obligation to return them, and the Group retained substantially all the risks and rewards of ownership.

These transactions are largely tri-party repos and collateralised loans from the ECB and the OeNB.

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 passes from the transferor to the transferee. However, 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 (sold under a reverse repo agreement). The commercial banks receive liquid funds in return, in the form of central bank money. The collateral remains their property.

As at 31 December 2017 the carrying amount of the securities transferred under "genuine" repurchase agreements was nil (31 Dec. 2016: nil).

EUR '000	31 Dec. 2017	31 Dec. 2016
Liabilities to banks under repo agreements	-	-

6.21 DEPOSITS FROM CUSTOMERS

6.21.1 Customer group analysis

EUR '000	31 Dec. 2017	31 Dec. 2016
Savings deposits	**923,520**	**948,739**
Demand and time deposits	**3,126,326**	**2,899,116**
Public sector customers	1,101,952	889,296
Business customers	1,170,015	1,377,405
Housing developers	256,943	126,604
Retail customers	528,327	451,250
Professionals	69,089	54,561
Total	**4,049,846**	**3,847,855**

6.21.2 Geographical analysis

EUR '000	31 Dec. 2017	31 Dec. 2016
Domestic customers	3,749,081	3,135,646
Foreign customers		
CEE	60,304	114,055
Rest of the world	240,461	598,154
Total	**4,049,846**	**3,847,855**

The deposits from customers include Mündelgeld savings deposits (trustee savings accounts); an analysis is shown below.

EUR '000	Trustee savings accounts	Guaranteed by the state government	Requiring coverage	Cover assets	Surplus coverage
31 Dec. 2017	6,133	76	6,057	8,000	1,943
31 Dec. 2016	6,382	266	6,116	7,000	884

6.22 DEBTS EVIDENCED BY CERTIFICATES

EUR '000	31 Dec. 2017	31 Dec. 2016
Covered and municipal bonds	4,868,342	4,268,363
Other bonds	2,025,294	3,430,202
Profit-sharing certificates	-	266
Total	**6,893,636**	**7,698,831**

Debts evidenced by certificates included EUR 1,016,391thsd (2016: EUR 305,052thsd) in new issues floated during the reporting period. The Group repurchased issued debt amounting to EUR 27,008thsd (2016: EUR 102,816thsd). The decline in debts evidenced by certificates in the third quarter of 2017 is due to the scheduled redemption of own issues guaranteed by the State of Lower Austria.

6.23 LIABILITIES HELD FOR TRADING

The negative fair value of derivatives not qualifying for hedge accounting is reported under this item. These instruments were recognised at fair value, while realised gains and losses, and measurement gains and losses were recognised through profit and loss as part of the "Net trading income" item (for a detailed analysis, see Note 5.5 Net trading income).

See narrative Note 3.5 Financial liabilities, part 2. Liabilities held for trading (HFT) for a discussion of these liabilities.

EUR '000	31 Dec. 2017	31 Dec. 2016
Negative fair value of financial instruments (banking book)		
Interest rate derivatives	417,327	500,148
Foreign exchange derivatives	15,389	2,806
Total	**432,716**	**502,954**

6.24 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.

Measurement gains and losses on fair value hedges are recognised in profit or loss, under the "Net gains or losses on hedges" item (Note 5.12).

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

EUR '000	31 Dec. 2017	31 Dec. 2016
Assets	**674,784**	**765,681**
Loans and advances to customers	550,511	631,647
Available-for-sale financial assets	124,273	134,034
Liabilities	**30,832**	**28,016**
Deposits from banks	109	109
Debts evidenced by certificates	30,723	27,907
Total	**705,616**	**793,697**

6.25 PROVISIONS

For information on the measurement methods applied to provisions, see Note 3.13 Provisions.

EUR '000	31 Dec. 2017	31 Dec. 2016
Employee benefit provisions	**36,207**	**37,722**
Provisions for pensions	23,092	24,644
Provisions for termination benefits	11,124	11,220
Provisions for jubilee benefits	1,991	1,858
Credit provisions	**579**	**3,377**
Other provisions	**4,122**	**9,056**
Total	**40,908**	**50,155**

6.25.1 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.

Other provisions are measured on the basis of estimates by independent experts, of the Bank's own experience, and of discounted cash flow methods. The carrying amounts reflect best estimates of the expenditure required to settle the obligations.

The maturity analyses did not reveal any significant interest rate effects.

EUR '000	1 Jan. 2017	Allocations	Utilisation	Reversals	Discount unwinding effect	Transfers	31 Dec. 2017
Employee benefit provisions	**37,722**	**762**	**-2,368**	**-**	**91**	**-**	**36,207**
Provisions for pensions	24,644	65	-1,480	-	-137	-	23,092
Provisions for termination benefits	11,220	539	-751	-	116	-	11,124
Provisions for jubilee benefits	1,858	158	-137	-	112	-	1,991
Credit provisions	**3,377**	**97**	**-**	**-219**	**-**	**-2,676**	**579**
Other provisions	**9,056**	**2,104**	**-8,175**	**-257**	**383**	**1,011**	**4,122**
Total	**50,155**	**2,963**	**-10,543**	**-476**	**474**	**-1,665**	**40,908**

The increased utilisation of the "Other provisions" reflects recourse to the debtor warrant (Pfandbriefbank (Österreich) AG).

The allocations to "Other provisions" include provision for legal risks arising from litigation related to derivatives. The "Other provisions" item includes litigation costs, of which EUR 2,717thsd (2016: EUR 319thsd) were in dispute.

The credit provisions were transferred to "Risk provisions for customers: individual impairment allowances" (Note 6.5 Risk provisions and credit provisions).

EUR '000	1 Jan. 2016	Allocations	Utilisation	Reversals	Discount unwinding effect	Transfers	31 Dec. 2016
Employee benefit provisions	**36,959**	**789**	**-1,967**	**-107**	**2,048**	**-**	**37,722**
Provisions for pensions	23,571	57	-1,532	-	2,548	-	24,644
Provisions for termination benefits	11,377	544	-343	-	-358	-	11,220
Provisions for jubilee benefits	2,011	188	-92	-107	-142	-	1,858
Credit provisions	**3,398**	**211**	**-**	**-232**	**-**	**-**	**3,377**
Other provisions	**15,437**	**395**	**-313**	**-6,463**	**-**	**-**	**9,056**
Total	**55,794**	**1,395**	**-2,280**	**-6,802**	**2,048**	**-**	**50,155**

6.25.2 Disclosures on employee benefits

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.

Current service cost and interest cost are recognised in profit or loss, under "Staff costs" (5.6.1 Staff costs).

The actuarial gains and losses are entirely attributable to the change in the financial assumptions applied.

The HYPO NOE Group's defined benefit plans give rise to pension, termination benefit and jubilee benefit obligations. IAS 19 defines pension and termination benefit obligations as benefits that are payable after the completion of employment. Jubilee benefits are classified as other long-term employee benefits.

At present the Group has three defined benefit pension plans, and the remaining obligations have been transferred to an outside pension fund. The only other defined benefit obligations are to retired employees and their eligible survivors.

There are termination benefit obligations under the old legislation. These are to employees who entered the service of the Group before 1 January 2003 and did not receive termination benefits as a result of a group transfer. Under the new termination benefit legislation the benefits are contracted out to a termination benefit fund (see the "Expenses for provident fund" item in Note 5.6.1 Staff costs).

The jubilee benefits depend on employees' length of service, and are governed by the collective agreement applicable to the employment contract concerned.

EUR '000	Provisions for pensions	Provisions for termination benefits	Provisions for jubilee benefits	Total
Present value of DBO at 31 Dec. 2015	**23,571**	**11,377**	**2,011**	**36,959**
Service cost	57	544	81	682
Interest cost	496	239	46	781
Payments	-1,532	-343	-92	-1,967
Actuarial gains and losses recognised in profit or loss	-	-	-188	-188
Actuarial gains and losses not recognised in profit or loss	2,052	-597	-	1,455
Present value of DBO at 31 Dec. 2016	**24,644**	**11,220**	**1,858**	**37,722**
Service cost	65	539	157	761
Interest cost	272	129	22	423
Payments	-1,480	-750	-137	-2,367
Actuarial gains and losses recognised in profit or loss	-	-	91	91
Actuarial gains and losses not recognised in profit or loss	-409	-13	-	-422
Present value of DBO at 31 Dec. 2017	**23,092**	**11,124**	**1,991**	**36,207**

The average duration of the pension obligation is 11.3 years, and that of the termination benefit obligation is 10.0 years.

Assumptions underlying employee benefit calculations

The first table shows the present values of the defined benefit obligations (DBOs) in respect of pensions, termination benefits and jubilee benefits as at 31 December 2017, and the service and interest cost, and underlying assumptions (discount rate, salary increases and pension increases) for 2017 on which the calculations are based. The amounts for members of the Supervisory and Management Boards and for key management are also shown.

These DBOs are subject to longevity and discount rate risk.

The other tables present sensitivity analyses that show how changes in some parameters (the discount rate, salary and pension increases, and life expectancy) would affect the DBO recognised.

The first two calculations show the sensitivity to a change in the discount rate (plus or minus 0.25%) with the remaining parameters unchanged. The others show the effects of the following assumptions: Salary increases or reductions of 0.25%, pension increases or reductions of 0.25%, and a rise or fall of one year in life expectancy, while the remaining parameters are unchanged.

The last line of the table models DBO given that the parameters remain unchanged from the previous year.

Reported present value of defined benefit obligation (DBO)

EUR '000	Provisions for pensions	Provisions for termination benefits	Provisions for jubilee benefits	Total
Carrying amounts as at 31 Dec. 2017				
Discount rate 1.3%, salary increase 2.3%, pension increase 2.0%				
DBO	23,092	11,124	1,991	36,207
Current service cost (CSC) (2017 forecast)	69	535	166	770
Interest cost (INT) (2017 forecast)	301	152	28	481
of which Supervisory and Management boards:				
DBO	*1,017*	*314*	*21*	*1,351*
CSC (2017 forecast)	*24*	*14*	*1*	*39*
INT (2017 forecast)	*14*	*4*	*-*	*18*
key management staff (identified staff)				
DBO	*-*	*185*	*68*	*253*
CSC (2017 forecast)	*-*	*11*	*5*	*16*
INT (2017 forecast)	*-*	*5*	*1*	*6*

DBO sensitivities of the provision for pensions in the event of changes in assumptions

Provision for pensions, EUR '000	DBO
Carrying amounts as at 31 Dec. 2017: +0.25% discount rate Discount rate 1.55%; salary increase 2.3%; pension increase 2.0%	22,476
Carrying amounts as at 31 Dec. 2017: -0.25% discount rate Discount rate 1.05%; salary increase 2.3%; pension increase 2.0%	23,737
Carrying amounts as at 31 Dec. 2017: +0.25% salary increase Discount rate 1.3%; salary increase 2.55%; pension increase 2.0%	23,092
Carrying amounts as at 31 Dec. 2017: -0.25% salary reduction Discount rate 1.3%; salary increase 2.05%; pension increase 2.0%	23,092
Carrying amounts as at 31 Dec. 2017: +0.25% pension increase Discount rate 1.3%; salary increase 2.3%; pension increase 2.25%	23,730
Carrying amounts as at 31 Dec. 2017: -0.25% pension reduction Discount rate 1.3%; salary increase 2.3%; pension increase 1.75%	22,483
Carrying amounts as at 31 Dec. 2017: +1 year life expectancy Discount rate 1.3%; salary increase 2.3%; pension increase 2.0%	24,221
Carrying amounts as at 31 Dec. 2017: -1 year life expectancy Discount rate 1.1%; salary increase 2.0%; pension increase 2.0%	22,007
Carrying amounts as at 31 Dec. 2017: previous year's discount rate Discount rate 1.1%; salary increase 2.0%; pension increase 2.0%	23,606

DBO sensitivities of the provision for termination benefits in the event of changes in assumptions

Provision for termination benefits, EUR '000	DBO
Carrying amounts as at 31 Dec. 2017: +0.25% discount rate Discount rate 1.55%; salary increase 2.3%; pension increase 2.0%	10,838
Carrying amounts as at 31 Dec. 2017: -0.25% discount rate Discount rate 1.05%; salary increase 2.3%; pension increase 2.0%	11,424
Carrying amounts as at 31 Dec. 2017: +0.25% salary increase Discount rate 1.3%; salary increase 2.55%; pension increase 2.0%	11,464
Carrying amounts as at 31 Dec. 2017: -0.25% salary reduction Discount rate 1.3%; salary increase 2.05%; pension increase 2.0%	10,798
Carrying amounts as at 31 Dec. 2017: previous year's discount rate Discount rate 1.1%; salary increase 2.0%; pension increase 2.0%	10,961

The HYPO NOE Group does not have any plan assets.

6.26 TAX LIABILITIES

See narrative Note 3.17 Tax assets and liabilities for details of income tax.

EUR '000	31 Dec. 2017	31 Dec. 2016
Current tax liabilities	19,349	20,127
Deferred tax liabilities	43,075	36,955
Total	**62,424**	**57,082**

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	31 Dec. 2017	31 Dec. 2016
Loans and advances to customers	156,370	183,837
Risk provisions	5,877	318
Assets held for trading	106,829	129,795
Positive fair value of hedges (hedge accounting)	86,244	119,502
Financial investments	42,022	40,505
Provisions	40	2,240
Other liabilities	1,182	-
Deferred tax liabilities before offsetting	**398,564**	**476,198**
Less deferred tax assets	-355,490	-439,243
Reported net deferred tax liabilities	**43,075**	**36,955**

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

6.27 OTHER LIABILITIES

Other liabilities include accruals and deferrals, and sundry other liabilities. See narrative Note 3.14 Other liabilities for details of this item.

EUR '000	31 Dec. 2017	31 Dec. 2016
Accruals and deferrals	24,492	27,555
Sundry other liabilities	115,352	101,875
of which trade payables	*22,055*	*28,270*
outstanding invoices	*77,331*	*47,227*
VAT and other tax liabilities (other than income tax)	*3,274*	*6,919*
legal and consultancy costs	*656*	*1,230*
phantom share based cash incentives	*457*	*1,339*
Total	**139,844**	**129,430**

6.28 SUBORDINATED CAPITAL

Subordinated liabilities and supplementary capital are reported as subordinated capital.

Subordinated liabilities are certificated or uncertificated liabilities which, in the event of liquidation or insolvency, are contractually subordinated to the claims of other creditors. Interest expense is reported under the "Interest and similar expense" item (Note 5.2).

The entire state government-backed subordinated capital, amounting to EUR 200,000thsd, was repaid in 2017.

EUR '000	31 Dec. 2017	31 Dec. 2016
Subordinated capital	1,453	202,381
of which contributions by silent partners	*1,453*	*1,453*

6.29 EQUITY

As was the case a year earlier, at 31 December 2017 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 2017 the share capital (issued capital) of HYPO NOE Landesbank für Niederösterreich und Wien AG was also unchanged, at EUR 51,980,500; it is fully paid-up. Every share confers the right to one vote. In 2016 a dividend of EUR 7,000,000 was paid to the owners. This corresponds to a rounded-up dividend yield of EUR 0.98 per share. Management proposes the distribution of EUR 3,500,000 in dividends in 2018.

The Management Board is empowered to issue additional Tier 1 capital as defined by the CRR.

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

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 57(5) Banking Act, 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 from 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 currency translation reserve includes the exchange differences in respect of the companies accounted for using the equity method.

EUR 6thsd in after-tax gains on available-for-sale (AFS) financial instruments (2016: EUR 1,301thsd) was recycled from other comprehensive income to profit or loss.

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

A summary of equity items is shown below. Additional information is presented in the consolidated statement of changes in equity.

EUR '000	31 Dec. 2017	31 Dec. 2016
Share capital	51,981	51,981
Capital reserves	191,824	191,824
of which appropriated reserve	*94,624*	*94,624*
unappropriated reserve	*97,200*	*97,200*
Revaluation surplus	40,930	35,817
Retained earnings	383,281	359,327
Equity attributable to owners of the parent	**668,016**	**638,949**
Non-controlling interests	8,385	8,419
Total	**676,401**	**647,368**

6.30 CONSOLIDATED CAPITAL RESOURCES AND REGULATORY CAPITAL ADEQUACY REQUIREMENTS

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

In order to increase the resilience of Austrian banks against specific systemic risks, in December 2015 the FMA prescribed an additional equity buffer (systemic risk buffer) at consolidated group level for a number of domestic banks, under the Kapitalpuffer-Verordnung (Capital Buffer Order), in the form of a hard Tier 1 capital ratio of 1% of the total risk exposure. The original order has since twice been amended (Federal Law Gazette II No. 117/2016 and 357/2017), in neither case affecting the HYPO NOE Group. The HYPO NOE Group has factored the buffer into the hard Tier 1 capital requirement since 1 January 2016.

The phased introduction of the capital conservation buffer, in equal steps, began at the start of 2016. When complete in 2019, this will represent an additional own funds requirement in the form of hard Tier 1 capital of 2.5% of the total risk exposure; during the reporting period the buffer was 1.25% of total risk exposure.

Determination of the additional own funds requirement (likewise in the form of hard Tier 1 capital) created by the countercyclical capital buffer also commenced at the beginning of 2016. The calculation basis is defined exposures to given countries; in 2017 these were: Norway (1.5-2.0%); Sweden (1.5-2.0%); the Czech Republic (0.5%); Iceland (1-1.25%); Slovakia (0.5%); the Hong Kong Special Administrative Region in the People's Republic of China (1.25%). According to the European Systemic Risk Board and the Bank for International Settlements, in 2018 the Czech Republic (1%), Slovakia (1.25%) and Hong Kong (1.875%) will increase their buffer requirements at different junctures, while Lithuania (0.5%), the United Kingdom (initially 0.5% and later 1%) will be introducing buffers with varying timing. The Group was not confronted with a major increase in its equity needs in 2017 as a result of these buffer requirements (approx. EUR 472thsd or 0.014% as at 31 Dec. 2017, versus EUR 88thsd or 0.002% at year-end 2016). The announced changes are only expected to raise the own funds requirement to about EUR 1.3m or 0.04%, which is still insignificant.

The banking supervisors judge the adequacy of the banks' capital on the basis of the risk assessment performed as part of the supervisory review and evaluation process (SREP). In the course of the SREP, the supervisors also examine the banks' leverage ratios and gauge whether there is a need for additional capital buffers.

The process of assessing capital adequacy and the need for additional capital requirements largely comes down to three factors: the risk of unexpected losses and of expected losses not covered by sufficient assets over a 12-month period; underestimation of risks due to deficiencies in the internal risk models; and risks arising from weaknesses in internal governance, including the internal control system and other process vulnerabilities.

The SREP guidelines provide for two benchmarks of banks' capital adequacy. One is the total SREP capital requirement (TSCR). This is the sum of the capital requirements under Article 92 CRR and additional capital requirements to be specified in more detail by the supervisory authorities. The other is the overall capital requirement (OCR) – the sum of the TSCR, the capital buffers and the macro-prudential requirements.

As of the end of July 2017 HYPO NOE Landesbank für Niederösterreich und Wien AG and the HYPO NOE Group met the TSCR requirement of an additional 1.9% of equity set by the FMA. This meant that HYPO NOE Landesbank für Niederösterreich und Wien AG and the HYPO NOE Group were then required to comply with minimum capital ratios of 5.5% for hard Tier 1 capital, 7.4% for Tier 1 capital and 9.9% for total capital.

The Tier 1 capital and equity ratios as at the end of the reporting period were 19.9%, and as with the exception of the effects of the changeover to IFRS 9 no developments that would lead to a significant reduction are anticipated in 2018, this additional regulatory requirement should continue to be comfortably met, along with the others.

Capital management

Determination of capital requirements and investment opportunities

We set out to manage the Company's capital in a responsible and value-led manner, in the interest of its owner. The methods primarily used are budget and scenario analysis. Taking the current capital situation as their starting point, these take account of specific economic parameters over a five-year, medium-term planning horizon. Among other things, it is necessary to assess whether the risk-bearing capacity (Pillar II) is conformed to, given the planning assumptions made.

Communication of the results as an aid to capital management decision-making

The Group's budgeting and medium-term planning takes place in close consultation with all the market departments, Treasury/Capital Market, ALM, Strategic Risk Management, Controlling, Strategic Planning, Human Resources, Finance & Reporting, Participations, and the chief executives of the subsidiaries concerned. There are regular liaison discussions with the Management Board. The medium-term plan is usually approved by the Management Board on an annual basis and notified to the Supervisory Board.

If the budget and scenario analysis indicates a need for capital management actions, the latter may involve reducing or suspending dividend payments, rights issues (capital market), and/or balance sheet and RWA reductions.

Basel Committee on Banking Supervision (BCBS) Paper 277

The above objectives, methods and processes mean that in all essentials the HYPO NOE Group conforms to the four components of good practice put forward by BCBS Paper 277 entitled "A Sound Capital Planning Process: Fundamental Elements":

- Internal control and governance;
- Capital policy and risk capture;
- Forward-looking view;
- Management framework for preserving capital.

Capital management actions in 2017

No capital measures were necessary in 2017. The profit for the year was partly retained and used to strengthen the Company's capital.

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

EUR '000	CRR/CRD IV 31 Dec. 2017	CRR/CRD IV 31 Dec. 2016
Share capital	136,546	136,546
of which paid-up capital instruments	*51,981*	*51,981*
premiums	*84,566*	*84,566*
Reserves, differences and non-controlling interests	523,189	489,801
of which retained earnings	*377,469*	*348,792*
other reserves	*104,744*	*104,744*
transitional adjustments for additional minority interests	*121*	*242*
accumulated comprehensive income	*40,855*	*36,024*
Prudential filter: adjustments in the interest of conservative measurement	-3,634	-4,350
Other transitional adjustments to hard Tier 1 capital	-9,224	-16,631
Intangible assets	-862	-834
Hard Tier 1 capital	646,015	604,533
Additional Tier 1 capital	-	-
Core (Tier 1) capital	**646,015**	**604,533**
Deductions due to holdings, pursuant to Art. 36 and Art. 89 CRR	-	-
Eligible Tier 1 capital	**646,015**	**604,533**
Eligible subordinated debt issued by the Group's parent	-	21,692
Eligible subordinated debt issued by subsidiaries	-	6,504
of which grandfathering	*-*	*476*
Supplementary capital (Tier 2)	-	28,196
Deductions due to holdings, pursuant to Art. 36 and Art. 89 CRR	-	-
Eligible supplementary capital (after deductions)	**-**	**28,196**
Total eligible capital	**646,015**	**632,730**
Capital requirement	**259,854**	**295,994**
Surplus capital	**386,161**	**336,736**
Coverage ratio (%)	248.61%	213.76%
Tier 1 capital ratio (%) in accordance with Art. 92(2)(b) CRR	19.89%	16.34%
Tier 1 capital ratio (%) in accordance with Art. 92(2)(b) CRR – fully loaded	20.17%	16.78%
Total capital ratio (%) in accordance with Art. 92(2)(c) CRR	19.89%	17.10%
Total capital ratio (%) in accordance with Art. 92(2)(c) CRR – fully loaded	20.17%	17.53%

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

EUR '000	CRR/CRD IV 31 Dec. 2017	CRR/CRD IV 31 Dec. 2016
Risk-weighted exposure for credit risk	2,831,046	3,265,067
of which 8% minimum capital requirement	226,484	261,205
Capital requirement for open currency positions	-	-
Capital requirement for operational risk	24,557	23,704
Capital requirement for CVA	8,814	11,085
Total capital requirement	**259,854**	**295,994**

In 2017 the Group's risk weighted assets were EUR 2.831bn – down by around EUR 434m year on year. Receivables fell by about EUR 275m. The reason for this effect was the sharp increase in the central governments and central banks exposure class (up by EUR 249m), almost all of which had a 0% risk weighting. This was mainly as a result of the higher amounts invested with the OeNB, and with regional and local authorities as at the end of the reporting period (up by EUR 612m). The latter chiefly related to long-term social infrastructure leasing projects undertaken on behalf of the Lower Austrian state government, such as the St. Pölten state hospital.

The most significant RWA reductions, totalling around EUR 367m, were in "exposures to corporates". This decline was to be expected given the sharp decrease of EUR 575m in the related exposures.

As at 31 December 2017, the HYPO NOE Group's Tier 1 capital ratio was 19.9% – an increase of 355 basis points on the 16.3% recorded a year earlier.

As the eligible supplementary capital was completely repaid in 2017 the equity ratio was also 19.9% as at 31 December 2017. This corresponded to an increase of 279 basis points as compared to the 17.1% ratio as at year-end 2016.

As a result, the Group far exceeded the total minimum regulatory requirements in terms of the Tier 1 capital and total capital (SREP total capital) ratios of 7.4% and 9.9% respectively, and the combined capital buffer requirements of 2.264% in 2017. It is also extremely well placed to meet the additional requirements that are due to be imposed in coming years.

7. Business segment information

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

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

Previously, segment reporting and internal Group reporting was broken down into four segments: Gruppe Bank, Landesbank, Leasing and Other (focused on real estate subsidiaries).

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

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

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

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

Profit-centre accounting and the subsidiaries' financial statements in accordance with IFRS form the technical basis for segment reporting at HYPO NOE Landesbank für Niederösterreich und Wien AG. The same accounting policies as those described in Note 2 Accounting policies are applied to the preparation of these statements. Accruals are reported during the year in each of the operating segments in respect of one-off payments made at the start of the year (resolution and deposit insurance fund contributions, one-off financial stability contribution). The difference between the accruals and the total payment is allocated to the Corporate Center (reconciliation column) during the year.

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

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

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

The breakdown by geographical area in accordance with paragraph 33 IFRS 8 is based on the domicile of the reporting company, and accordingly all interest income is allocated to Austria. Non-current Group assets are located in Austria, with the exception of the carrying amounts of the foreign subsidiaries of HYPO NOE First Facility GmbH accounted for using the equity method. Information on the carrying amounts of the aforementioned subsidiaries is provided in Note 3.2.3 Associates and joint ventures, above.

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

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

Public Sector

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

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

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

A business relationship with a major customer in the meaning of paragraph 34 IFRS 8 is included in the Public Finance unit. The customer in question is a public authority, and the services provided to it include leases as well as financing and deposits. Dealings with this customer and its allocable group entities, in accordance with the definition of major investments without taking into account the exemption for sub-groups, generated net interest income of EUR 21.4m. This income is made up of EUR 6.8m from direct business relationships with the customer, EUR 4.2m from direct business relationships with allocable group entities, and indirect business relationships in the form of lease refinancing amounting to EUR 10.4m.

Real Estate & Large Corporates

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

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

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

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

Retail and Corporate Customers

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

Services for small and medium-sized enterprises (SMEs) in Lower Austria and Vienna have been further extended this year with the introduction of regional corporate relationship managers based in larger branches.

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

Treasury & ALM

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

Corporate Center

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

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

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

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

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

a) Costs of cash collateral for customer derivatives without collateral agreements The assets of HYPO NOE Landesbank für Niederösterreich und Wien AG include substantial cash collateral positions (loans and advances to banks), which are hedged by the fair value of derivatives. A large proportion of these positions relate to customer derivatives concluded without collateral agreements. In accordance with the risk limits, market hedging of these customer derivatives was obligatory, and collateral obligations were not the market standard when most of the transactions were concluded.
As a result of developments on financial markets and changes in the regulatory framework, hedging of derivatives concluded between banks by means of cash collateral is now common practice or obligatory, as there is a clearing obligation. In the case of customer derivatives concluded without collateral agreements, the HYPO NOE Group does not receive collateral from customers, but must post cash collateral with hedging partners. Liquidity costs are incurred when refinancing this collateral.
Treasury & ALM is responsible for managing all collateral positions; however, the refinancing costs attributable to the aforementioned positions are allocated to the Corporate Center.
Collateral requirements for future customer derivatives will be met by means of pricing or collateral agreements with customers, and are therefore not included in this asymmetric allocation.

b) Effects of the Austrian Supreme Court's ruling on negative interest rates for consumer loans The legislator's ruling that a floor of 0% only applies to the external interest rate charged to consumers, and a floor may not applied to the related indicator (e.g. Euribor) went against the prevailing interpretation of the law and also had a negative impact on the Bank's interest rate management methods. The decision was in contrast to the Bank's current management methodology.
The negative interest rate effects of the ruling are therefore recognised in the Corporate Center. Treasury & ALM is responsible for management of the term structure.
The effect will relate exclusively to consumer loans, as long as money market rates (primarily the CHF LIBOR and three- and six-month Euribor) are negative.

7.1 BUSINESS SEGMENT INFORMATION

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

31 Dec. 2017, EUR '000	Public Sector	Real Estate & Large Corporates	Retail and Corporate Customers	Treasury & ALM	Corporate Center	Group
Net interest income	34,876	37,098	27,209	20,751	-10,269	109,665
Credit risk provisions	-725	6,366	3,530	-66	-5	9,100
= Net interest income/ expense after risk provisions	**34,151**	**43,464**	**30,739**	**20,685**	**-10,274**	**118,765**
Net fee and commission income/expense	3,005	976	11,407	499	-506	15,381
Net trading loss	5,001	-263	-	-5,247	-	-509
Net losses on hedges	-	-	-	-5,369	-	-5,369
Net gains or losses on financial assets measured using the fair value option (FVO)	-	57	-	-	-	57
Net gains or losses on available-for-sale (AFS) financial assets	-	-	-	-163	-	-163
Net gains or losses on other financial investments	38	-3	-	150	387	572
Net other operating income/expense	1,789	12,833	1,871	16,040	-3,386	29,147
= Operating income/expense after credit risk provisions	**43,984**	**57,064**	**44,017**	**26,595**	**-13,779**	**157,881**
Administrative expenses	-27,427	-31,428	-40,481	-16,465	-5	-115,806
Net gains or losses on disposal of consolidated subsidiaries	-	-	-	-	-	-
Net gains or losses on investments accounted for using the equity method	-240	-638	-	-	-420	-1,298
= Profit before tax	**16,317**	**24,998**	**3,536**	**10,130**	**-14,204**	**40,777**
Income taxes						-9,658
= Profit for the period						**31,119**
Non-controlling interests						-166
= Profit attributable to owners of the parent						**30,953**
Segment assets	**7,774,332**	**1,984,018**	**1,268,127**	**3,210,908**	**130,628**	**14,368,013**
Segment liabilities	**2,471,458**	**772,117**	**1,929,790**	**8,542,067**	**652,581**	**14,368,013**

The following factors had a major impact on the HYPO NOE Group during the reporting period.

Low interest rates, the Austrian Supreme Court's decision on negative interest rates on consumer loans, as well as the repayment of state-guaranteed issues and the resulting liquidity requirements all weighed on the Group's earnings. However, strict and effective cost management led to a significant reduction in administrative expenses.

Public Sector

Net interest income fell in 2017, chiefly due to the decrease in assets, which in turn is largely a result of efforts to reduce and diversify the financing portfolio. On the liabilities side, the volume of business grew significantly, mainly as the result of the successful placement of a tenant-linked bond for a subsidiary within the segment, as well as increased customer deposits. Consequently, the Public Sector segment played a significant part in enabling the Group to deal with the challenges it faced in terms of refinancing.

Public Sector's net trading income is largely influenced by the measurement effects of CVA and OIS-Euribor discounting. All customer derivatives are hedged.

Net other operating income was impacted by recognition of a provision of EUR 1.3m for legal risks related to a customer derivative.

Like all of the other segments, Public Sector benefited from the sharp reduction in administrative expenses.

Real Estate & Large Corporates

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

Credit risk provisions in the segment were positive thanks to effective workout management.

In spite of collecting penalty interest for early repayment, net other operating income declined. This was due to a fall in income from real estate services, and to the fact that the 2016 segment results included reversal of a provision of EUR 2.8m for legal risks.

Cost reductions did not fully offset these decreases in income.

Real Estate & Large Corporates also posted an increase in deposits, particularly fixed-term deposits from non-profit housing developers, which helped to address the challenges related to refinancing.

Retail and Corporate Customers

Retail and Corporate Customers reported profit before tax of EUR 3.5m, following a loss of EUR 3.3m in the previous year, thanks to improved net interest income and net fee and commission income, a positive result for credit risk provisions as a result of effective workout management and lower allocations, and lower costs. This result is highly satisfactory in light of the current level of competition and low interest rates.

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

Growth in deposits meant this segment also supported the Group in meeting its liquidity needs during the reporting period.

Treasury & ALM

The main challenge facing Treasury & ALM in 2017 was the repayment of state-backed securities and liabilities to customers. This challenge was handled effectively thanks to forward-looking liquidity management. Related accompanying measures such as establishing a corresponding liquidity position and short-term deposits with the OeNB resulted in a fall in Treasury & ALM's net interest income, in line with the segment's budget. Unchanged low market interest rates had an impact on term structure management and weighed on interest income. Under its established hedging strategy, the HYPO NOE Group avoids fixed interest rate positions and only authorises them as part of targeted control measures.

Net trading income includes measurement losses of EUR 5.6m from foreign currency positions, which were offset by identical income from currency positions, reported under net other operating income.

The differences in net gains or losses on hedges were the result of remeasurements of volumes, interest rates, imputed liquidity spreads and early repayments; income of EUR 6.8m from prepayment penalties is recognised in net other operating income.

The high net gains on AFS financial assets reported by Treasury & ALM in the previous year were predominantly the result of the sale of the Carinthian Compensation Payment Fund zero-coupon bonds the Group received in exchange for the Heta securities it had held.

Corporate Center

Net interest income in the Corporate Center includes asymmetrical allocations relating to collateral costs of EUR 5.5m (2016: costs of EUR 8.3m), as well as in relation to negative interest on consumer loans of EUR 3.1m (2016: nil) for the period under review.

Net interest income also comprises refinancing costs of EUR 1.6m for the Bank's support companies (primarily Group properties) (2016: EUR 1.5m); there was no income from AFS investments, which amounted to EUR 1.8m in 2016.

Net other operating income in the Corporate Center segment includes specific material earnings from prior years and non-recurring earnings and expenses relating to the Bank as a whole, so as to avoid, as far as possible, distorting segment reporting that provides the basis for management decisions. In the period under review, these include expenses of EUR 3m for allocations to provisions for negative interest in prior periods, as well as proceeds of EUR 2m from the sale of a Bank property. In 2016, income of EUR 3.1m was reported in relation to reversal of a provision in relation to the debt warranty for Pfandbriefstelle's issue of Heta bonds.

Net losses on investments accounted for using the equity method in the Corporate Center were significantly affected by a reduction in the value in use of the non-profit EWU sub-group of EUR 1.5m (2016: reduction of EUR 6.4m).

31 Dec. 2016, EUR '000	Public Sector	Real Estate & Large Corporates	Retail and Corporate Customers	Treasury & ALM	Corporate Center	Group
Net interest income	36,109	40,394	25,411	30,328	-7,803	124,439
Credit risk provisions	43	-10,963	3,135	7	-11	-7,789
= Net interest income/ expense after risk provisions	**36,152**	**29,431**	**28,546**	**30,335**	**-7,814**	**116,650**
Net fee and commission income/expense	3,392	1,346	10,492	-1,092	-680	13,458
Net trading loss	-1,081	1,369	5	372	-	665
Net losses on hedges	-	-	-	-1,224	-	-1,224
Net gains or losses on financial assets measured using the fair value option (FVO)	-	310	-	-61	-	249
Net gains or losses on available-for-sale (AFS) financial assets	36	-21	-	57,363	-389	56,989
Net gains or losses on other financial investments	170	253	-	-	-201	222
Net other operating income/expense	3,613	16,625	2,232	9,685	-368	31,787
= Operating income/expense after credit risk provisions	**42,282**	**49,313**	**41,275**	**95,378**	**-9,452**	**218,796**
Administrative expenses	-30,887	-34,713	-44,557	-18,754	-26	-128,937
Net gains or losses on disposal of consolidated subsidiaries	-	8,384	-	-	-	8,384
Net gains or losses on investments accounted for using the equity method	-57	307	-	-	-5,063	-4,813
= Profit before tax	**11,338**	**23,291**	**-3,282**	**76,624**	**-14,541**	**93,430**
Income taxes						-23,432
= Profit for the period						**69,998**
Non-controlling interests						-178
= Profit attributable to owners of the parent						**69,820**
Segment assets	**8,200,368**	**2,228,830**	**1,317,612**	**3,515,250**	**129,991**	**15,392,051**
Segment liabilities	**1,766,223**	**599,295**	**1,784,015**	**10,581,613**	**660,905**	**15,392,051**

8. Supplementary information

8.1 FAIR VALUE DISCLOSURES IN ACCORDANCE WITH IFRS 7 AND IFRS 13

The nature and extent of the risks associated with financial instruments, further sensitivity analysis and other disclosures also form part of Note 8.6 Risk management.

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

8.1.1 Fair value

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

	31 Dec. 2017		31 Dec. 2016	
EUR '000	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**
Assets				
Loans and advances to banks	859,056	860,821	992,739	998,347
Loans and advances to customers1	10,300,676	10,159,869	10,863,776	10,762,005
Assets held for trading	476,252	476,252	555,293	555,293
Positive fair value of hedges	405,229	405,229	483,215	483,215
Available-for-sale financial assets	1,593,005	1,593,005	1,967,148	1,967,148
Financial assets designated as at fair value through profit or loss	19,474	19,474	20,340	20,340
Investments accounted for using the equity method	26,238	26,238	29,922	29,922
Investment property	47,805	41,382	55,872	54,117
Sundry other assets (incl. IFRS 5)	239,675	239,114	261,396	261,393
Total assets	**13,967,410**	**13,821,384**	**15,229,701**	**15,131,780**
Equity and liabilities				
Deposits from banks	1,369,023	1,365,168	1,464,085	1,462,298
Deposits from customers	4,050,281	4,049,846	3,844,685	3,847,855
Debts evidenced by certificates	6,984,872	6,893,636	7,850,003	7,698,831
Liabilities held for trading	432,716	432,716	502,954	502,954
Negative fair value of hedges	705,616	705,616	793,697	793,697
Other liabilities	139,844	139,844	129,692	129,429
Subordinated capital	1,453	1,453	182,434	202,381
Total equity and liabilities	**13,683,805**	**13,588,280**	**14,767,550**	**14,637,445**

1 Carrying value of loans and advances to customers, net of impairment allowances

8.1.2 Fair value hierarchy disclosures

IFRS 13 applies to the categories of financial instruments established by IAS 39, as well as to those where fair value is required under other Standards, and to other unrecognised instruments. Under IFRS 13 these financial instruments must be grouped into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of the instruments concerned. Classification within the fair value hierarchy is carried out quarterly (for items classified as at fair value) or half-yearly (for items classified as at amortised cost) at the end of the respective reporting period.

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

Valuation-related data are parameters that are either directly or indirectly observable for an asset or liability. These are quoted prices for identical assets or liabilities in inactive markets, or for similar assets or liabilities in active or inactive markets, as well as other observable data relevant to valuation. 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: An income approach is 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 in the capital market are employed as pricing parameters. Common options pricing models are used to value options (in particular caps, floors and call rights embedded in issues and the related hedges). These models include indirectly observable parameters in the form of implicit interest rate volatility figures from established market data providers, derived from prices quoted on options markets.

Level 3: valuation techniques not based on observable inputs

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

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 is applied to determine the discounted value of all future payments at a specified measurement date (net present value). The interest rate curves directly observable on money and capital markets, and upward valuation adjustments based on internal pricing and calculation models are employed as pricing parameters.

In the case of receivables from securities in the loans and receivables category, the credit spread based on comparable (peer group) assets is used as a measurement parameter. Default risk, liquidity costs and the epsilon are employed as upward valuation adjustments for the remaining receivables. Default risk is measured using the PD and LGD parameters, as well as eligible collateral. Liquidity premiums are calculated by means of the internal liquidity cost model. Upon conclusion of a transaction, the delta for the price is offset using epsilon calibration. Epsilon calibration is applied to the fair value for the first time for transactions concluded as at 31 December 2017; previously, fair value was calculated without epsilon calibration.

The credit spread based on comparable (peer group) assets is used as a measurement parameter for available-for-sale financial assets.

Default risk, liquidity costs and the epsilon are employed as measurement parameters for financial assets measured at fair value. Default risk is measured using the PD and LGD parameters, as well as eligible collateral. Liquidity premiums are calculated by means of the internal liquidity cost model. Upon conclusion of a transaction, the delta for the price is offset using epsilon calibration.

Where the risk associated with future payments is taken into account by means of appropriate discounts, risk-free discount rates commensurate with the currencies and maturities of the bonds are applied (i.e. without upward valuation adjustments). 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 participating interests (a list of AFS investments of over 20% can be found in Note 3.2.4 Interests in excess of 20% in associates classified as financial instruments in accordance with IAS 39) 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. Credit risk and counterparty credit risk (debt value adjustment and credit 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.

The value of investment properties recognised at cost was measured by professional assessors in 2016 (income approach). For 2017 these values were confirmed by HYPO NOE Valuation & Advisory GmbH. 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 recognised at acquisition or construction cost, is reported under other assets: the applicable fair values are determined by a comparative value approach using unobservable market data from comparable market transactions such as gains on disposal and disclosed under Level 3. For the remaining other assets, the carrying amounts represent a reasonable estimate of fair value.

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

The fair value of properties in accordance with IAS 16 was EUR 71,242thsd – well above the carrying amount of EUR 61,581thsd.

Detailed information on Level 3 financial assets measured at fair value is shown in Note 8.1.3 Fair value hierarchy: Level 3 disclosures.

	From Level 1	
31 Dec. 2017, EUR '000	**To Level 2**	**To Level 3**
Assets		
Available-for-sale financial assets	10,310	-
Total assets	**10,310**	**-**

The transfer of assets measured at fair value at the end of the reporting period concerns available-for-sale securities transferred from Level 1 to Level 2 owing to an inactive market.

		Fair value measurement		
31 Dec. 2016, EUR '000	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Assets				
Loans and advances to banks	992,739	-	989,861	2,878
Loans and advances to customers	10,863,776	-	45,542	10,818,234
Assets held for trading	555,293	-	53,448	501,845
Positive fair value of hedges	483,215	-	483,215	-
Available-for-sale financial assets	1,967,148	1,766,239	64,442	136,467
Financial assets designated as at fair value through profit or loss	20,340	-	-	20,340
Investments accounted for using the equity method	29,922	-	-	29,922
Investment property	55,872	-	-	55,872
Sundry other assets (incl. IFRS 5)	261,396	-	-	261,396
Total assets	**15,229,701**	**1,766,239**	**1,636,508**	**11,826,954**
Equity and liabilities				
Deposits from banks	1,464,085	-	1,354,791	109,294
Deposits from customers	3,844,685	-	-	3,844,685
Debts evidenced by certificates	7,850,003	3,584,859	4,251,455	13,689
Liabilities held for trading	502,954	-	502,954	-
Negative fair value of hedges	793,697	-	793,697	-
Other liabilities	129,692	-	-	129,692
Subordinated capital	182,434	-	180,981	1,453
Total equity and liabilities	**14,767,550**	**3,584,859**	**7,083,878**	**4,098,813**

8.1.3 Fair value hierarchy: Level 3 disclosures

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

		Gains/losses							
EUR '000	**1 Jan. 2017**	**Recognised in profit or loss**	**Not recognised in profit or loss**	**Purchases**	**Sales**	**Transfers in/out Level 3**	**Reclassification**	**31 Dec. 2017**	**Gains/losses recognised in statement of profit or loss for assets held as at 31 Dec. 2017**
Assets									
Assets held for trading	501,845	-75,977	-	-	-	-	-	425,868	-87,331
Available-for-sale financial assets	136,467	-3,053	5,073	2	-14,339	-	-	124,151	-3,191
Financial assets designated as at fair value through profit or loss	20,340	57	-	-	-924	-	-	19,474	57
Total assets	**658,652**	**-78,973**	**5,073**	**2**	**-15,263**	**-**	**-**	**569,493**	**-90,465**

The gains or losses on Level 3 assets are largely composed of the losses of EUR 87,331thsd on assets held for trading (2016: losses of EUR 15,024thsd) discussed in Note 5.5. Net gains on financial assets designated as at fair value through profit or loss, at EUR 57thsd (2016: EUR 318thsd), are commented on in Note 5.11.

EUR '000	1 Jan. 2016	Gains/losses Recognised in profit or loss	Gains/losses Not recognised in profit or loss	Purchases	Sales	Transfers in/out Level 3	Reclassification	31 Dec. 2016	Gains/losses recognised in statement of profit or loss for assets held as at 31 Dec. 2016*
Assets									
Assets held for trading	525,386	-23,541	-	-	-	-	-	501,845	-15,024
Available-for-sale financial assets	275,309	26,395	-515	10,092	-174,794	-	-20	136,467	1,472
Financial assets designated as at fair value through profit or loss	-	311	-	20,465	-437	-	-	20,340	318
Total assets	**800,695**	**3,165**	**-515**	**30,557**	**-175,231**	**-**	**-20**	**658,652**	**-13,234**

*The previous year's figures have been adjusted

8.1.4 Level 3 sensitivity analysis

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

- CDS spreads used to determine the CVA/DVA when measuring derivatives without collateral agreements;
- Credit spreads in the measurement of illiquid securities forming part of the AFS portfolio, and
- Upward valuation adjustments to reflect credit risk and liquidity costs when measuring loans contained in the fair value portfolio.

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

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

	31 Dec. 2017		31 Dec. 2016	
EUR '000	Positive changes in fair value	Negative changes in fair value	Positive changes in fair value	Negative changes in fair value
Derivatives	1,670	-1,670	2,135	-2,135
Securities	1,207	-1,207	1,420	-1,420
Loans measured using the FVO	40	-40	58	-58
Total	**2,917**	**-2,917**	**3,613**	**-3,613**

8.1.5 Offsetting of financial assets and liabilities

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

These agreements do not fulfil the criteria for offsetting such transactions in the statement of financial position. This is because the Group is currently not entitled to offset the transactions, since under the agreements concluded an entitlement to offset transactions is only applicable under certain conditions that may arise (for example, default or insolvency of the counterparty).

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

	Financial assets/liabilities (gross)	Reported amounts offset (gross) (-)	Financial assets reported (net)	Effect of master netting agreements (-)	Collateral in the form of financial instruments (-)	
				Not offset		Net amount
31 Dec. 2016, EUR '000	(a)	(b)	(c)=(a)+(b)	(d)(i), (d)(ii)	(d)(ii)	(e)=(c)+(d)
Assets						
Assets held for trading	555,293	-	555,293	-36,747	-106	518,440
Positive fair value of hedges	483,215	-	483,215	-386,293	-76,165	20,757
Total assets	**1,038,508**	**-**	**1,038,508**	**-423,040**	**-76,271**	**539,197**
Equity and liabilities						
Liabilities held for trading	502,954	-	502,954	-36,747	-	466,207
Negative fair value of hedges	793,697	-	793,697	-386,293	-	407,404
Total equity and liabilities	**1,296,651**	**-**	**1,296,651**	**-423,040**	**-**	**873,611**

8.2 DERIVATIVES

All of the derivative financial instruments are hedges of assets and liabilities, or customer derivatives.

Most hedging activities were related to interest rate and foreign exchange risk in respect of 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 the underlying transaction in question. Customer derivatives and related hedges are reported under assets and liabilities held for trading.

Currency swaps and forwards are used as economic hedges for currency positions.

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 (DCF method). OTC currency and interest rate options are measured using common option pricing models such as the Black Scholes or Hull White models.

	31 Dec. 2017			31 Dec. 2016		
		Fair value			Fair value	
EUR '000	Nominal value	Positive	Negative	Nominal value	Positive	Negative
Derivatives held for trading						
Interest rate	5,196,582	462,150	417,327	5,999,574	545,164	500,148
Foreign currencies and gold	648,398	14,102	15,389	994,489	7,026	2,806
Total	**5,844,980**	**476,252**	**432,716**	**6,994,063**	**552,190**	**502,954**
Fair value hedges						
Interest rate	9,558,902	402,916	690,052	11,213,219	469,229	785,519
Foreign currencies and gold	168,159	2,313	15,564	289,724	13,986	8,178
Total	**9,727,061**	**405,229**	**705,616**	**11,502,943**	**483,215**	**793,697**

8.3 LEASE DISCLOSURES

Finance lease disclosures (with the Group as lessor)

EUR '000	31 Dec. 2017	31 Dec. 2016
Gross investment	**2,481,475**	**2,303,071**
Minimum lease payments	2,282,231	2,148,044
Up to 1 year	155,634	153,054
From 1 to 5 years	533,523	525,003
Over 5 years	1,593,074	1,469,987
Unguaranteed residual value	199,244	155,027
Unearned finance income	**-359,933**	**-231,244**
Up to 1 year	-36,415	-22,171
From 1 to 5 years	-127,370	-76,939
Over 5 years	-196,148	-132,134
Net investment	**2,121,542**	**2,071,827**

Net investment in finance leases is included under Note 6.4 Loans and advances to customers. Note 3.8 describes the accounting and valuation policies applied.

The Lower Austrian state government and Lower Austrian local authorities account for approximately 98% (2016: approx. 99%) of the finance leases written.

The rest of the lessees are business customers, other public agencies and associations.

About 96% (2016: 94%) 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	31 Dec. 2017	31 Dec. 2016
Minimum lease payments	2,282,231	2,148,044
Unearned finance income	-359,933	-231,244
Net present value of minimum lease payments	**1,922,298**	**1,916,800**
Unguaranteed residual value	199,244	155,027
Net investment	**2,121,542**	**2,071,827**

8.4 ANALYSIS OF ASSETS AND LIABILITIES BY IAS 39 MEASUREMENT CATEGORY

31 Dec. 2017, EUR '000	Loans and receivables (LAR)	Liabilities measured at amortised cost (LAC)	Assets held for trading (HFT)	Designated as at fair value through profit or loss (FVTPL)	Available-for-sale (AFS) assets	Fair value hedges	Financial assets/ liabilities at cost (amortised cost)	Total
Cash and balances at central banks	-	-	-	-	-	-	456,197	456,197
Loans and advances to banks	860,821	-	-	-	-	-	-	860,821
Loans and advances to customers	10,230,232	-	-	-	-	-	-	10,230,232
Risk provisions	-75,270	-	-	-	-	-	-	-75,270
Assets held for trading	-	-	476,252	-	-	-	-	476,252
Positive fair value of hedges	-	-	-	-	-	405,229	-	405,229
Available-for-sale financial assets	-	-	-	-	1,593,005	-	-	1,593,005
Financial assets designated as at fair value through profit or loss	-	-	-	19,474	-	-	-	19,474
Investments accounted for using the equity method	-	-	-	-	-	-	26,238	26,238
Investment property	-	-	-	-	-	-	41,382	41,382
Other financial assets1	217,809	-	-	-	-	-	-	217,809
Total financial assets	**11,233,592**	**-**	**476,252**	**19,474**	**1,593,005**	**405,229**	**523,817**	**14,251,369**
Deposits from banks	-	1,365,168	-	-	-	-	-	1,365,168
Deposits from customers	-	4,049,846	-	-	-	-	-	4,049,846
Debts evidenced by certificates	-	6,893,636	-	-	-	-	-	6,893,636
Liabilities held for trading	-	-	432,716	-	-	-	-	432,716
Negative fair value of hedges	-	-	-	-	-	705,616	-	705,616
Subordinated capital	-	1,453	-	-	-	-	-	1,453
Other financial liabilities1	-	115,353	-	-	-	-	-	115,353
Total financial liabilities	**-**	**12,425,456**	**432,716**	**-**	**-**	**705,616**	**-**	**13,563,788**

31 Dec. 2016, EUR '000	Loans and receivables (LAR)	Liabilities measured at amortised cost (LAC)	Assets held for trading (HFT)	Designated as at fair value through profit or loss (FVTPL)	Available-for-sale (AFS) assets	Fair value hedges	Financial assets/ liabilities at cost (amortised cost)	Total
Cash and balances at central banks	-	-	-	-	-	-	164,587	164,587
Loans and advances to banks	998,347	-	-	-	-	-	-	998,347
Loans and advances to customers	10,854,932	-	-	-	-	-	-	10,854,932
Risk provisions	-97,462	-	-	-	-	-	-	-97,462
Assets held for trading	-	-	555,293	-	-	-	-	555,293
Positive fair value of hedges	-	-	-	-	-	483,215	-	483,215
Available-for-sale financial assets	-	-	-	-	1,967,148	-	-	1,967,148
Financial assets designated as at fair value through profit or loss	-	-	-	20,340	-	-	-	20,340
Investments accounted for using the equity method	-	-	-	-	-	-	29,922	29,922
Investment property	-	-	-	-	-	-	54,117	54,117
Other financial assets1	260,061	-	-	-	-	-	-	260,061
Total financial assets	**12,015,878**	**-**	**555,293**	**20,340**	**1,967,148**	**483,215**	**248,626**	**15,290,500**
Deposits from banks	-	1,462,298	-	-	-	-	-	1,462,298
Deposits from customers	-	3,847,855	-	-	-	-	-	3,847,855
Debts evidenced by certificates	-	7,698,831	-	-	-	-	-	7,698,831
Liabilities held for trading	-	-	502,954	-	-	-	-	502,954
Negative fair value of hedges	-	-	-	-	-	793,697	-	793,697
Subordinated capital	-	202,381	-	-	-	-	-	202,381
Other financial liabilities1	-	101,874	-	-	-	-	-	101,874
Total financial liabilities	**-**	**13,313,239**	**502,954**	**-**	**-**	**793,697**	**-**	**14,609,890**

1Shown under other assets or other liabilities in the statement of financial position

8.5 DISCLOSURES ON RELATED-PARTY RELATIONSHIPS

31 Dec. 2017, EUR '000	Investors with influence over the Group's parent	Non-con-solidated subsidiaries (greater than 50%)	Associates accounted for using the equity method	Joint ventures in which the Company is a joint venturer	Other related parties	Key manage-ment*
Loans and advances to customers	2,794,713	114,909	352,925	516	7,770	2,277
of which lease receivables	*2,060,485*	-	-	-	-	-
Equity instruments (shareholdings, etc.)	-	106	25,299	940	485	-
Positive fair value of derivatives	90,301	-	-	-	-	-
Other assets	102,378	-	-	3	-	-
Deposits from banks	-	-	-	1,563	-	-
Deposits from customers	41,839	362	42,243	78	9,588	2,624
Other liabilities	-	-	56	242	-	-
Interest income	19,895	470	11,928	1	35	6
Interest on debt capital	-	-	-18	-1	-12	-8
Dividend income	-	-	566	297	-	-
Fee and commission income	-	2	202	-	7	1
Fee and commission expense	-	-	-	-	-2	-42
Other income and expenses	1,133	82	609	21	49	-
Increase or decrease in impairment losses and provisions for impaired debt instruments, defaulted guarantees and defaulted obligations during the reporting period	0	0	0	0	0	-9
Guarantees provided by the Group	-	-	-	-	-	-
Other obligations incl. unused credit lines	434,575	40,900	14,605	7,284	9,319	83
Guarantees received by the Group	2,610,241	-	-	-	-	-
Credit risk provisions, individual and collective impairment allowances	-	1	94	-	1	12

31 Dec. 2016, EUR '000	Investors with influence over the Group's parent	Non-con-solidated subsidiaries (greater than 50%)	Associates accounted for using the equity method	Joint ventures in which the Company is a joint venturer	Other related parties	Key manage-ment*
Loans and advances to customers	2,852,241	111,291	241,699	25,096	9,267	5,395
of which lease receivables	*2,011,442*	-	-	-	-	-
Equity instruments (shareholdings, etc.)	-	106	25,683	2,917	502	-
Positive fair value of derivatives	92,517	-	-	-	-	-
Other assets	174,367	-	-	-	-	-
Deposits from banks	-	-	-	291	-	-
Deposits from customers	49,954	445	38,467	771	7,039	6,591
Other liabilities	-	-	6	501	-	-
Interest income	18,724	458	5,127	436	61	22
Interest on debt capital	-	-	-42	-1	-12	-5
Dividend income	-	-	591	271	10	-
Fee and commission income	-	2	218	1	4	24
Fee and commission expense	-	-	-	-	-	-11
Other income and expenses	1,133	-	-	-	-	-
Increase or decrease in impairment losses and provisions for impaired debt instruments, defaulted guarantees and defaulted obligations during the reporting period	-	-	1	-	-	12
Guarantees provided by the Group	-	-	2,675	-	-	7
Other obligations incl. unused credit lines	458,158	44,729	27,674	24,813	10,457	86
Guarantees received by the Group	2,812,970	-	-	-	-	-
Credit risk provisions, individual and collective impairment allowances	-	-	21	13	-	21

*of which loans, advances and guarantees extended to the Management Board of EUR 37thsd (31 Dec 2016: EUR 2,682thsd) and those of EUR 68thsd extended to the Supervisory Board (31 Dec 2016: EUR 86thsd); the loans, advances and guarantees concluded in the previous reporting period were on arm's length terms.

During the period under review, EUR 9thsd was recognised in respect of bad or doubtful debts due from related parties (2016: EUR 13thsd).

The transfer prices between the HYPO NOE Group and related parties were arm's length prices. 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 an interest of 70.49% in HYPO NOE Landesbank für Niederösterreich und Wien AG via NÖ Landes-Beteiligungsholding GmbH, and an indirect interest of 29.51% via NÖ BET GmbH. On account of its holdings, the Lower Austrian state government exercises influence over the Group's parent, as shown in the table above.

The state government's guarantees of loans and advances extended to third parties by HYPO NOE Landesbank für Niederösterreich und Wien AG (see table above) were all concluded on arm's length terms. Use is made of the exemption from disclosure requirements under paragraphs 25 and 18 IAS 24.

Relationships with non-consolidated subsidiaries and associates (>20%)

The Chairman of the Management Board, Peter Harold, is deputy chairman of the supervisory board of NÖ Kulturwirtschaft GesmbH, St. Pölten.

A member of the Supervisory Board is a member of the supervisory board of NÖ Kulturwirtschaft GesmbH, St. Pölten.

Management Board member Wolfgang Viehauser is a member of the supervisory board of VIA DOMINORUM Grundstückverwertungs Gesellschaft m.b.H.

Relationships with entities accounted for using the equity method

Niederösterreichische Vorsorgekasse AG

The Chairman of the Management Board, Peter Harold, has been chairman of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten, since 1 January 2017.

One member of the Supervisory Board is deputy chairman of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

A member of key management has been a member of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten, since 1 January 2017.

A member of key management is a member of the management board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft and its subsidiaries:

One member of key management is chairman of the management board of EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft, St. Pölten; another member of key management is a member of the company's supervisory board.

Management Board member Wolfgang Viehauser is deputy chairman of the supervisory boards of EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft, St. Pölten, as well as Gemeinnützige Wohnungsgesellschaft "Austria" Aktiengesellschaft, "Wohnungseigentümer" Gemeinnützige Wohnbaugesellschaft m.b.H and GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H (all domiciled in St. Pölten).

A member of key management is a member of the supervisory boards of Gemeinnützige Wohnungsgesellschaft "Austria" Aktiengesellschaft, "Wohnungseigentümer" Gemeinnützige Wohnbaugesellschaft m.b.H and GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H, all domiciled in St. Pölten.

NOE Immobilien Development AG

Management Board Chairman Peter Harold was deputy chairman of the supervisory board of NOE Immobilien Development AG, St. Pölten, until 25 January 2017; since then he has been a supervisory board member.

A member of key management was appointed deputy chairman of the supervisory board of NOE Immobilien Development AG, St. Pölten, on 25 January 2017.

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.

Key management in the HYPO NOE Group comprises "identified staff". This includes those individuals who are directly or indirectly responsible for planning, managing and supervising the Group's activities. The members of the Management and Supervisory Boards are also classified as key management. The list of key management including their names, functions and the group companies of which they are employees is updated at the end of each reporting period.

8.6 RISK MANAGEMENT

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 of individual subsidiaries.

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

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

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

Risk management system

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

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

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

In principle, all quantifiable risks throughout the HYPO NOE Group are subject to the Group-wide, uniform limit system, which is 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 risk management report, which provides an aggregated summary of all risks and their capital coverage, the Management and Supervisory Boards receive separate, regular risk reports for each risk category. These provide comprehensive information on current risk-related developments.

The disclosures required by Part 8 of the CRR are made on a consolidated basis for the HYPO NOE Group, and are published in a timely manner, in a separate document posted on the corporate website (www.hyponoe.at).

The rules and procedures for introducing new areas of business or products, and for 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 regulated and authorised in the Group's risk documentation. The Group in principle 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.

The HYPO NOE Group identifies, quantifies, monitors and manages risks in accordance with the applicable statutory and commercial requirements. In spite of the risk management methods and control processes in use, the Group may be exposed to unknown and unexpected risks. The risk management techniques and strategies cannot be expected to be wholly effective in every market environment and against all types of risks.

Aggregate risk management and risk-bearing capacity (ICAAP)

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

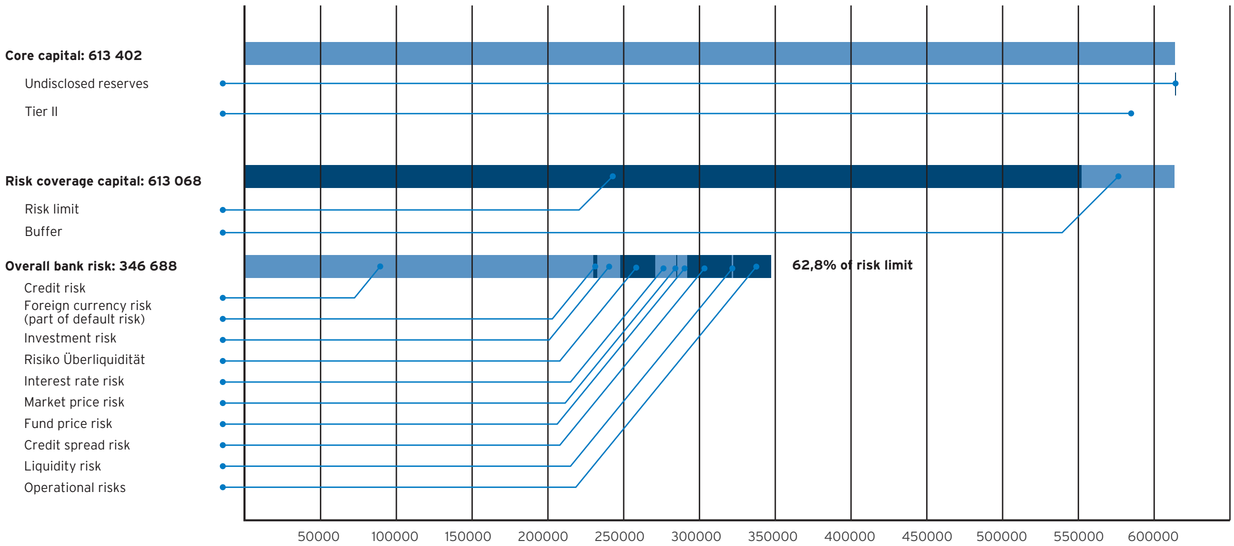
The HYPO NOE Group identifies, quantifies, monitors and manages risks in accordance with the applicable statutory and commercial requirements. The minimum capital requirement is calculated using the standardised approach (Pillar 1, Basel III regulations). All material risks (interest rate risk on the banking book, liquidity risk, credit spread risk, fund price risk, credit risk, foreign exchange risk as an element of customer default risk, and investment risk) are actively managed as part of the Group's internal risk management process (Pillar 2, internal capital adequacy assessment process [ICAAP] regulations) and in compliance with the disclosure requirements (Pillar 3, Basel III 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 using two control mechanisms:

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

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

The HYPO NOE Group's risks and risk limits (including buffers) for the purposes of the economic control loop as at 31 December 2017 are shown below:



As at 31 December 2017 the Group utilised 62.8% of the aggregate risk limit (including an adequate buffer), which was slightly lower than at 31 December 2016 (64.1%).

Capital management of internal risk coverage capital

Aggregate banking risk management for the consolidated Group for the purposes of the CRR uses IFRS accounting principles in the calculation of own funds. Satisfying the capital requirements is also an essential factor in the process of ensuring the Bank's survival as a going concern. The figures from the Common Reporting Framework (COREP) for own funds are thus taken over as potential economic risk coverage capital. Hidden economic reserves and potential liabilities from securities and investments are also included in the risk coverage aggregates. Changes in the total are the results of the volatility of hidden reserves and potential liabilities, and of decisions taken by the Annual General Meeting with respect to distributions, allocations to reserves and any capital increases.

The principal components of the HYPO NOE Group's potential economic risk coverage capital are as follows:
- Tier 1 capital
- Hidden economic reserves and potential liabilities from securities and investments

For moderate stress situations, and to cover unquantified risks such as reputation, legal, country, settlement and other risks, the Group sets aside a general buffer of 10% of the risk coverage capital, which is not split between the individual, quantified risk categories. This means that 90% of the risk coverage capital is available for capital allocation. The more sophisticated and accurate risk measurement processes can be, the smaller the capital buffer. In addition, appropriate Tier 2 capital is used – where available – to cover certain defined stress situations (the HYPO NOE Group had no Tier 2 capital as at 31 December 2017).

The following components are currently not included in the Group's economic coverage capital:
- Subordinated and supplementary capital (except for certain defined stress situations)
- Interim profits and losses for the current financial year

The exclusion of subordinated and supplementary capital from risk coverage capital serves to protect the Group's creditors: in the event of liquidation, the interests of subordinated creditors are protected, which represents prudent banking practice.

Recovery plan

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

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

The HYPO NOE Group has defined a comprehensive catalogue of actions that can be taken to secure or restore financial stability in the event of a severe crisis. These options are intended to make it possible to deal with market-wide stress, idiosyncratic stress and combined stress scenarios.

Detailed impact and implementation analyses have been carried out for each option to provide a basis for selecting suitable courses of action in a situation where there is an actual threat. In addition to identifying the internal and external effects of implementation, and where applicable obstacles to implementation, the analyses included a general evaluation of applicability and the prospects of successful results in certain crisis situations. The time required for implementation was also assessed.

The annual review of the recovery plan for the Group pursuant to the Federal Act on the Recovery and Resolution of Banks was completed on schedule.

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

Bank-wide stress test

As part of the internal Bank-wide stress testing process, a comprehensive economic study compiled every year provides the basis for the annual analysis of scenarios relevant to the HYPO NOE Group's business model (e.g. weak economic growth, the phasing out of unconventional monetary policies, or possible effects of new regulations). The impact of the scenarios on credit, investment, interest rate and liquidity risk at subsidiary and Group level are simulated, in terms of both regulatory and economic risk-bearing capacity. The results are presented to management, and suitable countermeasures are devised. The results of the stress test and the possible countermeasures identified are discussed by the Management Board and presented to the Supervisory Board.

Basel III/IV

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

Supervisory Review and Evaluation Process (SREP)

During the third quarter of 2017 the Group received the FMA notice determining the Supervisory Review and Evaluation Process (SREP) ratio, which was based on the SREP questionnaire completed and submitted on schedule by the Group. The Bank's capitalisation is sufficient to meet the new minimum capital requirements in Pillar II.

The additional capital requirement was taken into account when adapting the thresholds for the equity-based recovery indicators, and in the internal calculation of risk-bearing capacity used to quantify the risk-coverage capital for the going concern management control loop.

Upgrading risk management systems

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

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 types, depending on the products involved: loans involve classic credit risk, for derivatives there is counterparty risk, and for securities issuer risk. There is also investment risk, customer foreign exchange risk, endowment loan risk and country risk, for all of which the corresponding limits are monitored.

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

The HYPO NOE Group's credit risk strategy is based on the following risk policy principles:
- Identifying and regularly evaluating credit risks
- Identifying and regularly reviewing the suitability of models and processes for measuring credit risks
- Quantifying credit risks on the basis of the processes established
- Identifying and complying with statutory regulations and environmental conditions
- Establishing Management's risk tolerance and appetite
- Limiting and monitoring credit risks on the basis of the risk tolerance established
- Appropriate reporting
- Determining processes and procedures for risk-related allocation of credit costs

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

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

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

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

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

Credit risk exposures

The following carrying amounts most closely represent the maximum default exposures. The credit risks under contingent liabilities include unutilised credit facilities. The credit risk exposures consist of the totals of the following items from the statement of financial position (net of risk provisions):

	31 Dec. 2017	31 Dec. 2016	Change
Cash and balances at central banks	456,197	164,587	291,610
Loans and advances to banks	860,821	998,347	-137,526
Loans and advances to customers	10,230,232	10,854,932	-624,700
Risk provisions	-75,270	-97,462	22,192
Assets held for trading	476,252	555,293	-79,041
Positive fair value of hedges (hedge accounting)	405,229	483,215	-77,986
Available-for-sale financial assets	1,593,005	1,967,148	-374,143
Financial assets designated as at fair value through profit or loss	19,474	20,340	-866
Investments accounted for using the equity method	26,095	29,922	-3,827
Investment property	41,382	54,117	-12,735
Contingent liabilities			
Acceptances and endorsements	-	109	-109
Liabilities arising from guarantees and provision of collateral	122,428	114,884	7,544
Credit risk	1,105,894	1,235,099	-129,205
Total	**15,261,739**	**16,380,531**	**-1,118,792**

Credit risk analysis

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

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

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

In addition, the operational credit risk management unit monitors early warning indicators (principally generated by Credit Services) in order to identify potential problem customers as early as possible, so as to be able to initiate countermeasures in good time. The appearance of certain early warning indicators (payment arrears, warnings from the rating system, deterioration in the quality of information provided, etc.) means that the loan is designated a watch loan, with intensified customer service and monitoring. As at 31 December 2017 the volume of designated watch loans stood at EUR 76.7m (31 Dec. 2016: EUR 215m).

Primary responsibility for loans subject to intensified service (i.e. on the watch list) lies with the respective market unit and corresponding operational credit risk unit. The Group's Workout Management Unit can provide support in individual cases, for example by putting together action plans and participating in meetings with the customer. The objective of intensified service is to eliminate uncertainty regarding the risk situation and to reach a decision on whether the loan can be returned to normal service or needs to be transferred to workout management due to elevated risk.

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

All customers on watch-loan status are assessed at least quarterly by the Watch Loan Committee, and decisions are taken with regard to strategy.

The Workout Management Department is responsible for the management of non-performing loans and provisioning (recognition of individual impairment allowances). A provision is not recognised until management of the loan is transferred to Workout Management.

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

The HYPO NOE Group applies rigorous standards as to what constitutes default; these are defined in internal guidelines (e.g. the Problem Loans Guideline) and in work instructions based on the guidelines. All customers meeting at least one of the following criteria are immediately allocated to a default rating class:

- Substantial loan more than 90 days overdue (regulatory definition)
- 30 days in arrears when subject to a forbearance arrangement
- Recognition of an individual impairment allowance
- Insufficient expected cash flow (unlikely to pay)
- Credit rating-related restructuring
- New forbearance arrangement required
- Insolvency, composition or bankruptcy
- Loan write-downs or write-offs

Country analysis

Country risks (transfer and conversion risk) are operational banking risks that arise in respect of cross-border lending as a result of restrictions imposed by a foreign government or the inability of a country to make payments. Inability to pay occurs when economic developments in a country make repayment or interest payments impossible. Country risk is mitigated by means of country limits. The defined country limit applies to all business conducted with counterparties in the respective country.

Tensions on the capital markets have eased in recent months. However, a number of fundamental challenges remain. These include the sovereign debt crisis in Europe, which is yet to be fully resolved, as well as uncertainty surrounding the Brexit agreement between the EU and the UK, and the only partially resolved problem of non-performing loans in some countries (notably Italy, where the banking sector required urgent recapitalisation).

As a result the Bank is continuing to closely watch economic and political developments in Greece, the United Kingdom, Italy, Ireland, Croatia, Poland, Hungary and Spain. The Group's exposures in these countries are closely monitored. Exposures in the UK were reduced in the course of 2017.

The analysis by region – Austria, Central and Eastern Europe (CEE) and the rest of the world (ROW) – is shown in the detailed tables in notes 6.3 Loans and advances to banks and 6.4 Loans and advances to customers.

Risk provisions

Individual impairment allowances, collective impairment allowances incurred but not reported (IBNR) and general provisions are recognised for identifiable lending risks. The methods used for individual items are described in Note 3.12 Risk provisions. The analysis of risk provisions and provisions broken down by customer, region and term is shown in notes 6.5 Risk provisions and credit risk provisions, 6.5.2 Risk provisions by regions and 6.5.1 Risk provisions and credit provisions by customer groups.

Forbearance

Forborne exposures are loans for which concessions have been made to debtors who are in danger of being unable to fulfil their payment obligations on account of financial difficulties. Forborne exposures are those that satisfy both of the following conditions:

- Amendment of the agreement or refinancing results in concessions to a debtor
- Payment difficulties exist

Forbearance concessions may be granted on loans in performing rating grades (1A to 4E) and in non-performing grades (5A-5E). A debtor continues to be rated as performing provided the forbearance concessions do not result in re-classification as non-performing and the loan was not non-performing at the time of the concessions. Forbearance exists when for example:

- The amended agreement was already non-performing, or would have become so even without the amendment
- The amendment results in a write-down of the receivable in whole or in part
- The Bank agrees to an embedded forbearance clause, where the loan is non-performing or threatens to become so

For forbearance status to be cancelled, all of the following conditions must be satisfied:

- Analysis of the debtor's financial position supports the assessment that the debtor can meet their financial liabilities
- The loan is classified as performing
- The probation period of at least two years has been completed
- The debtor has materially fulfilled their payment obligations regularly over at least half of the probation period
- None of the debtor's exposures during and at the end of the probation period are overdue by more than 30 days

The HYPO NOE Group has applied the regulations and definitions of the European Banking Association's (EBA) Implementing Technical Standard on forbearance.

The principal forbearance measures in 2017 were reschedulings, term extensions and refinancing measures.

Forborne exposures not yet classified as non-performing are subject to a regular review process and are also monitored in the early warning and event system. In addition, such business is more closely monitored where accounts are more than 30 days in arrears.

These monitoring measures ensure that forborne exposures are classified as non-performing as soon as:

- The desired outcome of forbearance (renewed compliance with terms and conditions) is not achieved or can no longer be expected to be achieved
- The customer is more than 30 days in arrears
- An additional forbearance measure is required during the probation period
- The customer meets another of the defined criteria for non-performance

The exposure is also classified as non-performing if an impairment in the meaning of IAS 39 is identified in the course of the regular review process. An individual impairment allowance for the expected default is recognised in expense, under risk provisions.

Independently of the impairment test, an assessment must be made as to whether a financial instrument must be derecognised as a result of modifications to the contract. Financial assets are derecognised if the terms of the contract have changed to the extent that the modified financial instrument is substantially different from the instrument before the change (e.g. change of currency, change of debtor/counterparty), or if the newly calculated present value is significantly different to the present value before the terms of contract were modified. In this case, the financial instrument recognised up to that point must be derecognised and a new financial instrument recognised. The difference between the value of the significantly modified financial instrument and the existing carrying amount is recognised in profit or loss and subsequently reversed over the remaining term of the new instrument. In the course of assessing whether derecognition is necessary, there were no cases where changes exceeded the threshold for significance, with the result that no material derecognitions were carried out in 2017 (as in 2016).

Where forborne exposures are already classified as non-performing, they are monitored on an ongoing basis as part of the strategy for restructuring cases.

As a general rule, collective impairment allowances are recognised for all forborne exposures not yet classified as non-performing, based on their current risk ratings. Individual impairment allowances for the expected defaults are recognised for non-performing forborne exposures.

Details of forborne exposures are shown in Note 6.5.4 Forborne exposures.

Credit risk monitoring

For individual customers, risk monitoring is the responsibility of the operational credit risk management unit concerned, which checks credit ratings, monitors blacklists drawn up by Credit Services and processes loan applications that potentially entail significant risks. In addition, relationship managers are required to prepare comprehensive reviews when necessary, and in any event at least once a year and irrespective of the amount of the exposures and the credit ratings. The reviews are submitted to the managers with the requisite decision-making authority. Customers who give cause for concern (where significant risk is involved) are monitored by the operational credit risk management unit. Where there is a significant deterioration in the risk situation, the exposures are transferred to the specialists in 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. Such facilities are principally requested for sovereigns and Austrian and foreign banks with good external ratings.

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

Risk concentration

Risk concentrations in the HYPO NOE Group are identified and monitored using country and industry limits, and by means of regulatory capital for name concentrations, as well as securities, derivatives and money market activities. There is also a limit for customers associated with the Group. The concentration in the Public Sector segment reflects the HYPO NOE Group's strategic focus on Austria, and Lower Austria in particular. The public finance portfolio is essentially granular; the largest exposure is represented by financing for the State of Lower Austria, and the portfolio mainly comprises loans to sovereigns, state governments and local authorities, with finance for social infrastructure and for – largely secured – subsidised home loans playing the most prominent role. See also Note 6.4 Loans and advances to customers.

Credit risk management

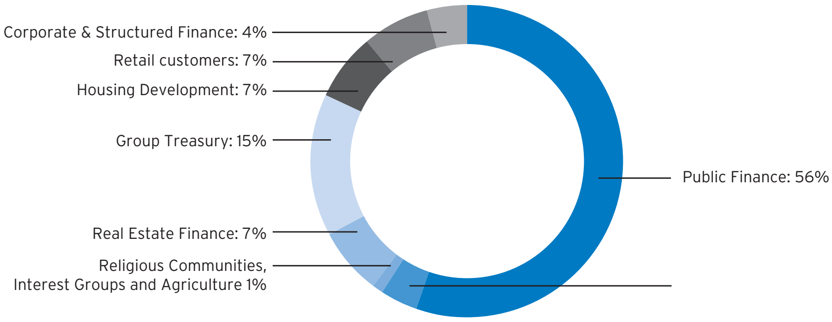
The difference between exposures in the credit risk management system and the exposure volume broken down by item on the statement of financial position is mainly attributable to the following factors:

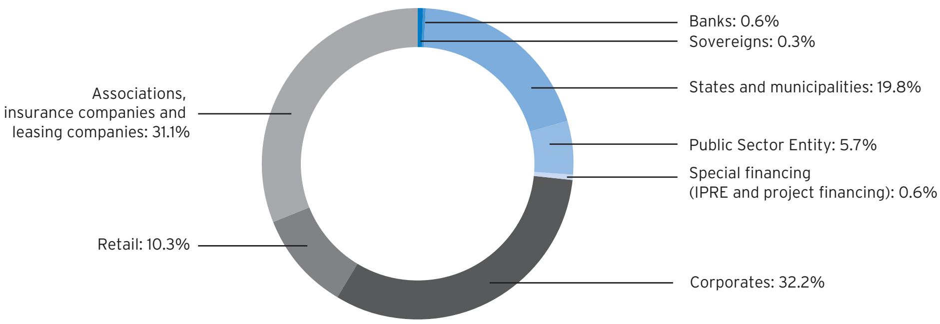
- Contingent liabilities are given a weighting of 50% in the calculation of credit risk exposure;
- Assets held for trading and the positive fair value of hedges (hedge accounting) are not taken into account, as these items are included in the internal presentation of risk after netting;
- Investments accounted for using the equity method and investment property are not taken into consideration, as these items are recognised under investment risk in the internal risk measurement process;
- Cash and balances at central banks do not give rise to credit risk and are therefore not taken into account.

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

	Exposure, EUR '000[1]	
Control unit	**31 Dec. 2017**	**31 Dec. 2016**
Public Finance	7,333,808	8,118,050
Corporate & Structured Finance	481,329	755,023
Religious Communities, Interest Groups and Agriculture	166,593	161,460
Real Estate Finance	853,247	1,014,843
Treasury/Capital Market	1,937,222	2,151,399
Housing Development	901,398	875,334
Retail customers	933,393	955,106
Corporate customers	516,329	398,565
Total	**13,123,319**	**14,429,780**

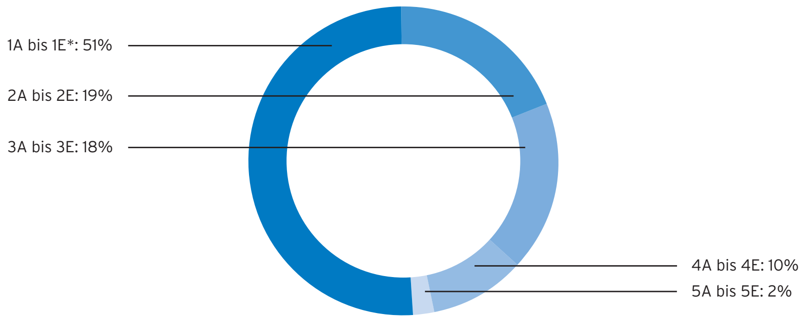
Public Finance's business is broken down into segments as follows:





Credit risk management is based on credit ratings, as follows:

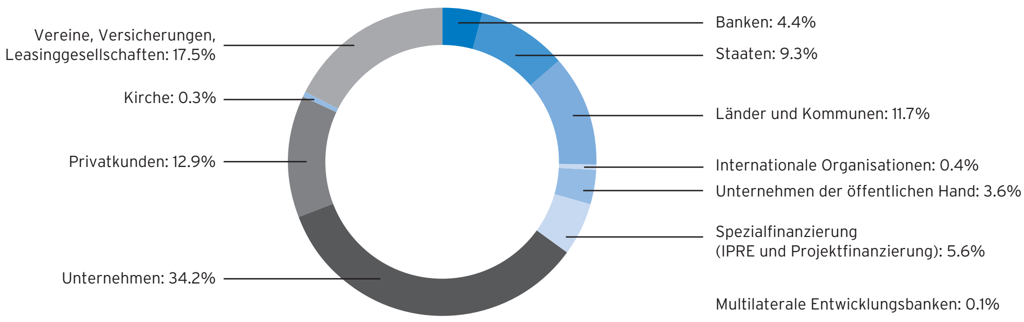
Rating category	Exposure, EUR '000[1] 31 Dec. 2017	31 Dec. 2016
1A-1E*	6,688,997	7,265,656
2A-2E	2,521,666	3,212,160
3A-3E	2,331,760	2,142,194
4A-4E	1,354,675	1,553,763
5A-5E	226,222	256,007
Total	**13,123,319**	**14,429,780**
*of which 1A (PD=0.01%) EUR 4,612,112thsd (2016: EUR 5,031,886thsd)		
Investment grade	1A-2E	
Default	5A-5E	



The credit risk management system is also applied via the portfolio segments shown below.

Segment	Exposure, EUR '000[1] 31 Dec. 2017	31 Dec. 2016
Banks	574,307	901,554
Sovereigns	1,224,280	1,025,621
State governments and local authorities	1,537,505	1,632,072
Multilateral development banks	19,473	24,388
International organisations	46,207	56,194
Public sector enterprises	478,759	545,898
Special purpose finance (IPRE and project finance)	732,207	882,590
Corporates	4,487,608	4,792,693
Retail customers	1,689,290	1,742,946
Religious communities	34,943	37,734
Associations, insurance companies and leasing companies	2,298,740	2,788,092
Total	**13,123,319**	**14,429,780**

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



Credit risk mitigation

Collaterals and the borrower's creditworthiness (expressed as a risk weighting or probability of default) are the decisive factors in assessing credit risk, and therefore also provide the basis for the regulatory capital required. Before credit risk mitigation measures can be applied, the minimum requirements specified in the Group collateral manual must be observed. These refer to the type of collateral as well as internal processes.

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 current 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 unit checks the information, assumptions and underlying parameters.

All permissible forms of collateral in the HYPO NOE Group are shown in the collateral list. The principal categories of collateral admissible for Basel III 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 Group's total lending relates to the purchase of subsidised home loans from the Lower Austrian state government, which are fully secured by a guarantee from the State of Lower Austria. The credit risk on these exposures is therefore low.

Credit risk situation in 2017

CHF loans with customer CHF foreign exchange risk

The amounts of loans with customer CHF foreign exchange risk in thousands of euros and their rating grades are as follows:

	31 Dec. 2017	31 Dec. 2016
Investment grade	327,560	824,675
Non-investment grade	159,890	214,706
Default	13,911	16,561
Total	**501,361**	**1,055,942**

In the investment grade category, there is a significant concentration of lending to a leasing company with public sector business. The non-investment grade category consists predominantly of private housing finance. Restructuring led to a significant reduction in CHF credit risk exposures.

Other

The Group's loan and investment portfolio largely consists of low-risk loans to public sector borrowers such as sovereigns, the Austrian federal government, state governments and local authorities (and their associated enterprises) – mainly in Lower Austria – as well as loans to banks with good external ratings (predominantly own investments, derivatives and money market investments), and generally well collateralised loans to housing construction companies (both large housing associations and private sector builders).

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

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

The NPL ratios and NPL coverage of individual Group banks are checked regularly as part of Group credit risk management activities. The NPL ratio is defined as the total exposure on all default (5A-5E rated) customers divided by loans and advances to customers. At year end 2017, the HYPO NOE Group's NPL ratio was 1.67% (2016: 1.94%). NPL coverage is defined as risk provisions (individual impairment allowances) divided by total NPL exposure. Coverage for the Group as at 31 December 2017 was 82.0% (31 Dec. 2016: 78.5%).

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 Internal Capital Adequacy Assessment Process (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 rating migration of existing customers has been assumed. The Bank's risk bearing capacity has been calculated on the basis of these assumptions. The monthly risk management report and credit risk report analyse the changes in borrowers' credit ratings in the course of the year as a result of migration.

The further improvement of credit risk management includes improving organisational processes for the management of risk (watch list, continuous evaluation of provisions, forbearance), tighter monitoring, and active portfolio management (risk transfer and risk concentration, and the structure and concentration of securities).

Market risk

General

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

Bank-specific market risks include:
- Interest rate risk in the banking book
- Credit spread risk
- Fund price risk
- Foreign exchange risk
- Options risk (volatility risk)
- Trading book risk
- Basis risk in hedge accounting
- Credit valuation adjustment (CVA) risk
- Concentration risk as part of market risk
- Commodities risk
- Share price risk

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

The major market risks facing the HYPO NOE Group are interest rate risk on the banking book and credit spread risk (particularly on the nostro portfolio) arising in part as a result of ordinary banking activities such as fixed-interest lending and management of liquidity reserves. In 2016 the Group acquired an interest in an investment fund, with a view to broadening its investment horizon and improving the diversification of investment risk. The HYPO NOE Group has detailed monitoring and control processes for these risks. Business strategy considerations mean that foreign exchange risk and option risk (e.g. embedded upper and lower interest rate limits) are also managed. As a result of changes in the underlying environment in financial markets (such as multiple curve approaches and OIS discounting on collateralised derivatives) and in regulatory provisions (Basel III, IFRS 9, etc.), the management of basis risk in hedge accounting, and of CVA risk has assumed ever greater importance. The Bank also uses the small trading book for servicing the secondary market and trading on its own account.

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

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

- Identifying and evaluating all of the Bank's key market risks
- Taking into account key market risks in the calculation of the Bank's total risk-bearing capacity and in Bank-specific stress testing scenarios
- Optimising the allocation of risk capital and market risk positions with respect to risk and earnings expectations
- Taking earnings expectations and risk tolerance into consideration in planning processes
- Complying with statutory requirements

Based on these objectives, risk policy principles were defined as part of the process of determining the market risk strategy, and these strategic guidelines are implemented in the course of operational market risk management activities:

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

Interest rate risk in the banking book

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

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

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

Interest rate risk management

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

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

Banking book

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

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

Interest rate risk is assessed using gap analysis and interest rate sensitivity. The worst-case change in the present value of the entire banking book is calculated on the basis of the six Basel Committee on Banking Supervision (BCBS) interest rate risk in the banking book (IRRBB) scenarios (confidence level of 99.9% for the liquidation approach) and scaled up to 95% for the going concern approach. The calculation of VaR for 2016 was based on the average of the five worst outcomes from ten internally defined interest rate scenarios. Parallel shifts and twists in the yield curve (on money and capital markets) are also modelled in the interest rate scenarios.

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

Individual portfolios

In addition to monitoring and control of the banking book as a whole, limits are also set and monitored for the nostro portfolio and IFRS earnings or equity-related sub-portfolios as part of the control system, using a 1 bp parallel shift. For non-linear positions, appropriate limits depending on the risk profile and corresponding to a 1 bp parallel shift limit are imposed. The individual portfolios are as follows:

- Nostro portfolio
- AFS reserve
  - AFS securities portfolio
  - Cash flow hedges
  - Other AFS assets
- IFRS earnings portfolio (linear)
  - Fixed-income securities portfolio
  - Other fixed-income assets
  - Stand-alone derivatives
- IFRS earnings portfolio (non-linear)

Even with a perfectly selected fixed-interest position and the structural contribution from maturity mismatch, there are fluctuations in net interest income as a result of differences in the behaviour of the various variable reference rates or of the same reference rates due to different interest fixing dates.

To manage the net interest income risk, interest-sensitive positions with less than one year to maturity or repricing dates during the year are regularly extracted and analysed.

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

Interest rate risk in 2017

The Oesterreichische Nationalbank statistics indicate that interest rate risk remains low relative to the regulatory limit (20% of eligible capital). The following table shows the results of the OeNB regulatory interest rate risk statistics as at 31 December 2017 and 31 December 2016:

OeNB regulatory interest rate risk statistics	31 Dec. 2017	31 Dec. 2016
OeNB interest rate risk indicator	0.60%	1.80%

The following tables show the interest rate risk positions taken by the HYPO NOE Group as at 31 December 2017 (above) and 31 December 2016 (below):

Interest rate risk positions (assets-liabilities) 31 Dec. 2017, EUR '000	On-balance-sheet	Off-balance-sheet	Total
Up to 1 month	2,745,058	-568,288	2,176,769
1-3 months	1,063,318	-1,777,824	-714,506
3-6 months	334,217	-849,048	-514,830
6 months-1 year	-498,685	125,485	-373,200
1-2 years	-950,584	585,177	-365,407
2-3 years	-993,816	923,383	-70,433
3-4 years	-446,006	486,599	40,593
4-5 years	-421,156	499,648	78,492
5-7 years	-512,335	676,374	164,039
7-10 years	174,487	-84,693	89,794
10-15 years	-181,791	137,189	-44,602
15-20 years	184,789	-194,702	-9,913
Over 20 years	-12,305	10,895	-1,411

Interest rate risk positions (assets-liabilities) 31 Dec. 2016, EUR '000	On-balance-sheet	Off-balance-sheet	Total
Up to 1 month	3,418,566	-943,522	2,475,045
1-3 months	796,801	-2,089,363	-1,292,563
3-6 months	96,131	-862,213	-766,082
6 months-1 year	-1,575,408	1,273,943	-301,464
1-2 years	-638,789	455,811	-182,978
2-3 years	-425,656	576,869	151,213
3-4 years	-546,468	606,255	59,787
4-5 years	-404,892	480,898	76,005
5-7 years	-286,980	432,147	145,167
7-10 years	126,127	28,430	154,557
10-15 years	-285,528	202,661	-82,866
15-20 years	1,569	-41,434	-39,865
Over 20 years	150,629	-153,094	-2,466

As at 31 December 2017 risk utilisation was 31.4% of the total limit of EUR 43m (31 Dec. 2016: 18.2% of the total limit of EUR 43m). The table below shows the results of the various interest rate scenarios for the HYPO NOE Group, and how they are reflected in the internal limits, as at 31 December 2017 and 31 December 2016:

Interest rate scenario, total banking book as at 31 Dec. 2017, EUR '000	Change in present value	Scaled up to 99.9%
Scenario I: Parallel up	3,298	3,628
Scenario II: Parallel down	-3,298	-3,628
Scenario III: Steepener	-10,889	-11,978
Scenario IV: Flattener	11,785	12,963
Scenario V: Short rate up	12,589	13,848
Scenario VI: Short rate down	-12,255	-13,481
Internal risk**	-12,255	-13,481
Warning level (95% of limit)	-40,850	
Limit/utilisation (%)	**-43,000**	**31.35%**

Interest rate scenario, total banking book as at 31 Dec. 2016, EUR '000	Change in present value	Negative change in present value
Shift +100 bp	7,825	-
Shift -100 bp	-7,825	-7,825
Shift +200 bp*	15,649	-
Shift -200 bp	-15,649	-15,649
Twist CM +100 bp	5,618	-
Twist CM -100 bp	-5,618	-5,618
Twist MM +100 bp	5,367	-
Twist MM -100 bp	-5,367	-5,367
Twist 1d +100 bp 30y -250 bp	-4,648	-4,648
Twist 1d -100 bp 30y +250 bp	4,648	-
Internal risk***	-	-7,821
Warning level (95% of limit)	**-40,850**	
Limit/utilisation (%)	**-43,000**	**18.19%**

*Regulatory scenario
**Worst-case deterioration in net present value
***Average of five worst deteriorations in net present value

The following factors need to be borne in mind when using sensitivity analyses:

- 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 not modelled by them.

The deposit modelling and scenario approaches used in the internal measurement of the present value of interest rate risk were reviewed and adapted during the reporting period. The scenario approach was adapted in light of regulatory developments (revised principles for the management of IRRBB, BCBS 368, consultation paper, April 2016), and of internal validation findings. The new approach ensures greater compliance with regulatory requirements, as well as increased congruence with the selected confidence level in the calculation of risk-bearing capacity. Overall, the changes resulted in a slight decrease in risk at the time of the changeover, although the volatility of risk indicators will rise in future due to the new approach.

The following tables show the results of the internal interest sensitivity analysis for the Group's individual sub-portfolios as at 31 December 2017 and 31 December 2016:

Internal sub-portfolios for interest rate risk monitoring as at 31 Dec. 2017, EUR '000	Shift +1 bp	Limit	Utilisation (%)
Nostro portfolio	-128	-315	40.63%
AFS reserve	-128	-375	34.13%
IFRS earnings portfolio (linear)	-11	-50	22.00%
IFRS earnings portfolio (non-linear)	-	-25	0.00%

Internal sub-portfolios for interest rate risk monitoring as at 31 Dec. 2016, EUR '000	Shift +1 bp	Limit	Utilisation (%)
Nostro portfolio	-159	-315	50.44%
AFS reserve	-159	-375	42.37%
IFRS earnings portfolio (linear)	-18	-50	35.00%
IFRS earnings portfolio (non-linear)	-3	-25	10.80%

The remaining open CMS derivative positions expired in 2017. Consequently, there were no risks in the non-linear IFRS earnings portfolio as at 31 December 2017.

There is one USD/EUR FX basis spread risk position. Following the termination of the on-balance-sheet hedge, the changes in the present value of this position were recognised in the IFRS statement of financial position without an offsetting position. The risks associated with these positions are also regularly monitored on the basis of a 1 bp shift. The following table shows the results of the internal interest sensitivity analysis for these positions as at 31 December 2017 and 31 December 2016:

1 bp risk for derivative positions affecting the IFRS earnings portfolio, EUR '000	31 Dec. 2017	31 Dec. 2016
CMS	-	-3
FX basis spread risk, USD/EUR	-11	-18

Credit spread risk

Credit spread risks are particularly important in connection with the Group's own investments, and these risks are monitored and reported on in the monthly risk management report. The capital requirements resulting from credit spread risk are determined using a historical value-at-risk (VaR) model (historical assumptions regarding distribution) for the entire nostro portfolio in the banking book, and for the securities portfolio in the small trading book. VaR is calculated on the basis of historical credit spread scenarios, which are estimated using the IBoxx indices. The changes arrived at in this way are then aggregated, and this distribution of losses forms the basis for calculation of a loss quantile (99.9% and 95%). The historical simulation methodology uses a five-year rolling time frame. 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. The following table shows the results of the VaR analysis of credit spreads for the HYPO NOE Group as at 31 December 2017 and 31 December 2016, assuming a holding period of one year and with a confidence level of 99.9%:

Credit spreads, VaR (holding period of one year, confidence level of 99.9%), EUR '000	31 Dec. 2017	31 Dec. 2016
Nostro portfolio, total	-29,006	-13,039

The increase in 2017 was due primarily to adaptation of the approach to the calculation of credit spread risk. As opposed to using a variance/covariance matrix to determine volatility, which in turn is the starting point for calculating value at risk, since the fourth quarter of 2017 VaR has been determined by applying a historical simulation method (loss quantile derived from the distribution of losses).

Fund price risk

Volume limits (2017: EUR 80m; 2016: EUR 50m), earnings limits (2017: EUR 8m; 2016: EUR 5m) and corresponding escalation processes were set for fund investments. Fund price risk is also included in the calculation of the Bank's total risk-bearing capacity, using a VaR approach based on price changes over time. To determine VaR, potential future losses are calculated on the basis of changes in market prices over the two years prior to the measurement date. Time series feed into the analysis and are given an equal weighting (decay factor of 1). The square root of time formula is used to scale VaR to a holding period of one year. The table below shows the results of the VaR analysis for the HYPO NOE Group's fund investments as at 31 December 2017 and 31 December 2016, assuming a holding period of one year and with a confidence level of 99.9%.

VaR, market prices (holding period of one year, confidence level of 99.9%), EUR '000	31 Dec. 2017	31 Dec. 2016
Fund price risk exposure, total	-6,420	-9,910

The fund selection process and ongoing strategic monitoring are the responsibility of the Treasury/Capital Market Department. The Strategic Risk Management Department is responsible for monitoring risk limits.

Foreign exchange risk

The HYPO NOE Group's conservative risk policies are reflected in strict internal limits on open currency positions. The use of refinancing in the same currency and of FX derivatives means that foreign exchange risks for the Group are effectively eliminated. In accordance with the Capital Requirements Regulation, as at 31 December 2017 the Group was not subject to the own funds requirement for foreign exchange positions, as the total position for the Group as a whole was less than 2% of eligible capital. The internal limit for foreign exchange positions as a whole is below this figure.

The residual foreign exchange risk for all open currency positions is regularly measured and monitored using a value-at-risk approach based on foreign currency fluctuations over time. Correlations between the various currencies are taken into consideration (by using a variance/covariance approach). Weighted time series (daily exchange rate data for approximately three years prior to the reporting date) feed into the analysis (decay factor of 0.94). The following table shows the results of the VaR analysis for the HYPO NOE Group's currency positions as at 31 December 2017 and 31 December 2016, assuming a holding period of one year and with a confidence level of 99.9%:

Currency positions, VaR (holding period of one year, confidence level of 99.9%), EUR '000	31 Dec. 2017	31 Dec. 2016
Currency risk exposure, total	-60	-98

There were no significant changes in the methods used to measure and monitor foreign exchange risk during the reporting period.

Options risk

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

The Group had no open interest rate floor options on 31 December 2017. The only nominal, material derivative interest rate cap has a residual maturity of one year, but has no significant value owing to the high strike price and the current low interest rate.

Trading book risk

The Group does not engage in any business that requires it to maintain a large trading book as defined by the Capital Requirements Regulation. It maintains a small trading book in accordance with Article 94 CRR, and the volume of business is therefore limited in line with the provisions of that Article. Sensitivity limits and maximum loss limits (2017: EUR 650,000; 2016: EUR 650,000), including an early warning indicator (2017: EUR 300,000; 2016: EUR 300,000) that reduces the sensitivity limit by 50%, have been set. Daily monitoring is the responsibility of the Strategic Risk Management Department.

Basis risk in hedge accounting

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

The key risks for the Bank are:
- Basis risks arising from differing discount curves (credit support annex [CSA] swaps with OIS discounting vs. underlying with interbank offered rate [IBOR] discounting)
- FX basis risks

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

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

CVA/DVA risk

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

On-balance-sheet market risk: sensitivity analysis

The tables on the following page show a sensitivity analysis that illustrates the impacts of changes in key market parameters affecting the Group's profit and equity during the next financial year; these changes were considered possible as at the end of the reporting period. The effects on net interest income and net trading income were considered when calculating profit for the year. The methods and assumptions applied are briefly explained below – the assumed potential fluctuations in the market are based on realistic and expected changes, and do not represent stress or worst-case scenarios.

Interest rate risk: an immediate upward parallel shift of 1% in interest rate curves is assumed to determine the sensitivity of risk to changes in interest rates. In order to ensure the consistent presentation of interest rate risk for the various risk categories concerned, these interest rate shifts served as the basis for the following sensitivity analyses:

- Calculation of the effects of variable rate positions in the entire banking book on net interest income
- Calculation of the effects of fair value positions on net trading income (including options and positions from the small trading book)
- Calculation of the effects of available-for-sale positions on equity

Regarding the sensitivity analysis for net interest income, the effect on net interest income of a 1% upward shift in the interest rate curves applicable at 31 December 2017 is calculated.

For other interest rate risk sensitivities, the sensitivity effect of a 1 bp interest rate shift is scaled up on a linear basis to reflect a to 100 bp shift, which leads to a slight overestimation.

A 10 bp change in basis spreads was used to determine the impact of current USD/EUR FX basis spread risk positions on net trading income.

Credit spread risk: in order to calculate the sensitivity of credit spread risk, the value-at-risk model described above in the section on credit spread risk was applied, assuming a holding period of one year and a confidence level of 95% (i.e. 5% probability). All positions affecting profit for the year (fair value portfolio) or equity (available-for-sale portfolio) were included in the analysis.

Foreign exchange risk: in order to calculate the sensitivity of risk to exchange rate fluctuations, the VaR model described above in the section on foreign exchange risk was applied, assuming a holding period of one year and a confidence level of 95% (i.e. 5% probability). All relevant foreign exchange positions were included in the calculation.

Options risk: options are only recognised at fair value and changes in valuation are reported under net trading income. At present, the Group is not exposed to any material risks.

Risk arising from the small trading book: The following parameters were defined to measure the sensitivity of risk to changes in market parameters that affect the trading book: for interest rate risk, the defined interest rate shifts (see also the section on interest rate risk, above); for credit spread risk, a 50 bp increase in spreads; and for foreign exchange risk, a 20% change in exchange rates. The trading book is managed on a daily basis. Timely management combined with a limit of EUR 650,000 on year-to-date losses (including a 50% reduction in the sensitivity limit in the event of a loss of EUR 300,000 or more) places additional limits on potential losses. As at 31 December 2017 there were no positions in the small trading book.

CVA and DVA risk: To determine sensitivity to fluctuations in the CVA and DVA, the CVA for the unsecured derivative portfolio as at 31 December 2017 is recalculated on the basis of the interest rate at the end of the reporting period and an average one-notch downgrade in the internal rating, which would result in an average rise of around 20 bp (2016: approx. 26 bp) in credit spreads. The required CVA is then compared with the amount recognised.

A summary of the results of the sensitivity analysis for market risk as at 31 December 2017 and 31 December 2016 is provided in the tables below.

Effect of market risk on profit for the year: sensitivity analysis, EUR '000	31 Dec. 2017	31 Dec. 2016
Interest rate risk		
Effect of variable-rate positions on net interest income	11,800	7,200
Effect of linear fair value positions on net trading income	1,130	1,750
Effect of non-linear fair value positions on net trading income	-	41
Effect of changes in FX basis spreads on net trading income	-110	-180
Credit spread risk		
Foreign exchange risk		
Effect of open currency positions on net trading income	-32	-52
Options risk		
Effect of valuation of interest rate options	-	-182
Trading book risk		
Effect of valuation of interest rate options	-	-23
Effect of valuation of credit spread risk-bearing trading book portfolios	-	-135
CVA/DVA risks		
Effect of unsecured derivatives on net trading income	-2,983	-4,981

Effect of market risk arising from the available-for-sale portfolio on equity: sensitivity analysis, EUR '000	31 Dec. 2017	31 Dec. 2016
Interest rate risk	-12,748	-15,890
Credit spread risk	-19,276	-6,292

The method applied to determine the size of the shift in interest rates used as the basis for calculating interest rate risk was adapted during the reporting period. Previously, the internal budget scenarios were used; however, these can change significantly from year to year. In future, an interest rate shift of 1% across the entire interest rate curve will be employed in order to improve comparability and enhance the consistency of the sensitivity analyses for two reporting dates. As a result, net interest income risk will no longer be calculated on the basis of two budget scenarios, and will instead take into account the effects of an immediate 1% parallel shift in interest rate curves, as compared to the interest rate curves as at the end of the reporting period.

Liquidity risk

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

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

The following table shows a maturity analysis for the Group's non-derivative financial liabilities including existing financial guarantees, and for derivative financial liabilities and outstanding loan commitments as at 31 December 2017 and 31 December 2016. Presentation is subject to the following rules:

- Undiscounted contractual cash flows (including payments of principal and interest) are shown
- In the case of liabilities with variable cash flows, the future cash flows are calculated on the basis of forward rates
- Liabilities are reported at the earliest possible date they can be called in by the counterparty (sight deposits and savings deposits are therefore shown in the earliest maturity band, regardless of their actual maturities)
- Financial guarantees are allocated to the earliest maturity band, in line with the Bank's conservative approach
- Finance lease obligations are included at the expected time of payment
- Outstanding loan commitments are included at the earliest possible time of availment
- Liabilities arising from derivative transactions based on master agreements do not include any netting agreements
- Cash flows from interest rate derivatives are included on a net basis
- Repayments for obligations arising from foreign exchange derivatives and forwards are presented gross

Financial liabilities – maturity analysis as at 31 December 2017, EUR '000	0-1M	1-3M	3-12M	1-5Y
OeNB tender/GC Pooling repo	-	-	-	100,000
Fixed-term interbank deposits	19,245	501	248,801	-
Liabilities from collateral received for derivatives	82,065	-	-	-
Customer deposits	2,428,855	362,115	1,030,947	136,556
Unsecured own issues	3,682	30,961	611,486	950,099
Secured own issues	13,535	45,243	145,100	3,210,076
Financial guarantees	122,428	-	-	-
Finance lease obligations	14,105	25,500	94,395	374,000
Derivative liabilities	85,098	235	16,609	72,732
Loan commitments	1,105,894	-	-	-

Financial liabilities – maturity analysis as at 31 December 2016, EUR '000	0-1M	1-3M	3-12M	1-5Y
OeNB tender/GC Pooling repo	-	-	-	-
Fixed-term interbank deposits	20,851	20,940	204,438	3,167
Liabilities from collateral received for derivatives	95,970	-	-	-
Customer deposits	2,094,608	321,734	602,022	229,988
Unsecured own issues	67,340	351,461	2,470,688	1,236,367
Secured own issues	15,076	37,256	68,931	2,578,918
Financial guarantees	114,884	-	-	-
Finance lease obligations	16,278	33,835	159,024	374,498
Derivative liabilities	185,129	207,276	168,905	93,140
Loan commitments	1,235,099	-	-	-

The majority of derivative liabilities are collateralised with cash, or arise due to the inclusion of gross values for foreign exchange derivatives and forwards. As a result, actual net liquidity outflows will deviate from those shown in the maturity analysis presentation. In connection with derivatives with credit support annexes (CSAs), the general risk of remargining is taken into account in the calculation of the survival period, which is considered in the internal operational liquidity stress tests. This is based on the largest net change in the daily balance figures over the past two years, and an interest rate floor of 0% for the ten-year euro swap rate including a buffer. The worst-case liquidity outflow resulting from remargining of derivatives with CSAs for the year to 31 December 2017 and to 31 December 2016, expressed in EUR '000, is shown in the table below.

31 Dec. 2017	31 Dec. 2016
240,000	312,000

Loan commitments include unutilised credit lines and loan facilities as well as revolving credit lines (e.g. overdraft facilities and cash advances), where there is a strong likelihood that the unutilised credit lines/loans will be used within the contractually agreed period. Credit lines can be used at any time, meaning that a higher degree of uncertainty is associated with utilisation and the maturity date. Public sector customers with which close relationships exist account for a significant proportion of unused credit lines. On account of this close relationship, planned use of the credit line by the customer takes place in consultation with the Bank's relevant market units. This in turn facilitates forward planning of the Bank's refinancing requirements.

The Group's main sources of finance are secured and unsecured issues, and deposits from retail and institutional customers (including financial institutions). The interbank market, OeNB tenders and GC Pooling repos are the primary means of managing liquidity.

Given the nature of the segment, the concentration of deposits from individual retail customers is usually low in volume terms, so the Bank has no significant concentration risks. By contrast, customer-specific concentrations are possible with institutional customers, some of which are in a position to make large investments. The Bank offers tailored products to achieve a certain distribution between various longer-term maturity bands. Liquidity risk management takes account of the possibility that institutional customers will withdraw deposits on maturity using scenarios based on experience of past crises; these form parts of the internal operational liquidity stress tests used to calculate the survival period. The ten largest fixed-term deposits made by institutional customers for the year to 31 December 2017 and 31 December 2016 were as follows (EUR '000):

	31 Dec. 2017	31 Dec. 2016
1	242,000	193,000
2	125,000	95,000
3	79,000	75,000
4	78,000	75,000
5	73,400	71,112
6	65,000	44,000
7	60,000	40,151
8	50,800	34,000
9	50,000	30,000
10	47,370	27,890

In spite of market instability during times of crisis, the unsecured capital market will continue to form part of the refinancing mix in the future, helping the Bank to broaden its refinancing base. The Bank has completed a number of private placements despite turbulent market conditions, thanks to the extensive customer network it has built up across Europe and further afield over the past few years. That and the choice of longer maturities has helped to prevent the creation of large concentrations of risk.

A number of large, state-guaranteed issues matured in 2017. These had been successfully refinanced in advance in the intervening period, and redemption went smoothly.

In contrast, secured capital accounts for a significant portion of the Group's total refinancing, and will continue to do so in future; it is also more stable in times of crisis. Another important advantage is that available collateral in the cover pools can be converted into assets eligible as collateral for OeNB tenders and used to provide liquidity, for instance to cope with the effects of inactive markets in a crisis.

In addition to OeNB tenders and GC Pooling, the Group makes use of the interbank market to a limited extent to manage its short-term liquidity requirements. Conditioning is used to manage the volume of liquidity. No roll-overs are included in internal operational stress scenario assumptions (meaning 100% outflow at maturity is assumed), since the interbank market is usually not accessible during a crisis. The ten largest fixed-term interbank deposits at year-end 2017 and 2016 were as follows (EUR '000):

	31 Dec. 2017	31 Dec. 2016
1	134,000	134,000
2	50,000	41,615
3	40,000	15,000
4	20,000	15,000
5	10,000	10,000
6	8,250	8,750
7	5,000	500
8	250	-
9	-	-
10	-	-

The HYPO NOE Group's available liquidity reserve, cash reserves and overnight investments are the primary instruments for managing and covering short-term maturities. The Group makes a distinction between high-quality liquid assets (HQLA) and other ECB or GC Pooling repoable collateral. Strategic liquidity is mainly generated by means of OeNB tenders and GC Pooling repos. The breakdown of the available liquidity reserve as at 31 December 2017 and 31 December 2016 was as follows:

Available liquidity reserve as at 31 Dec. 2017, EUR m	TO	1M	3M	12M
HQLA	979	979	939	932
ECB tenders or GC Pooling – other repoable collateral*	966	926	905	750

Available liquidity reserve as at 31 Dec. 2016, EUR m	TO	1M	3M	12M
HQLA	1,160	1,160	1,139	1,002
ECB tenders or GC Pooling – other repoable collateral	1,633	1,576	1,501	1,325

The analysis of the available liquidity reserve does not include collateral utilised as at the end of the reporting period. This means that once the liabilities secured with such collateral (mainly OeNB tenders and GC Pooling) have matured, there could be an increase in the portfolios included in the maturity profile.

By definition, the focus of investments made from the liquidity reserve is restricted to HQLA, OeNB tenders or GC Pooling repoable collateral. As domestic investments are given priority, the concentration is mainly in low-risk Austrian government bonds.

If the refinancing options are not sufficient to cover financial liabilities, the Bank's emergency processes and measures are triggered. Based on the internal liquidity risk management processes, the necessary action takes place well before the occurrence of a situation that could pose a threat to the Group's continued operation.

The following information on the Group's liquidity risk management processes includes details of the individual components of the comprehensive liquidity risk management framework and how they work together. The framework takes into account all of the key aspects of liquidity risk management, including preparation and implementation of a refinancing and risk strategy adapted to the business model and the appetite for risk; use and regular monitoring of suitable methods and processes for determining, measuring, monitoring and managing liquidity risk; and implementation of effective escalation processes and contingency plans.

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.

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

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

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

- Identifying and regularly evaluating liquidity risks
- Identifying and regularly reviewing the suitability of models and processes for measuring liquidity risks
- Quantifying liquidity risk on the basis of the established processes
- Identifying and complying with statutory regulations and environmental conditions
- Establishing Management's risk appetite and tolerance
- Maintaining an appropriate liquidity buffer at all times
- Limiting and monitoring liquidity risks on the basis of the chosen risk tolerance
- Appropriate reporting

- Identifying potential emergency situations, preparing contingency plans and reviewing them regularly to ensure they are up to date
- Efficient and timely management of operational liquidity
- Implementing and monitoring the medium-to-long-term refinancing strategy
- Using processes and procedures for risk-related allocation of liquidity costs

Implementing intraday liquidity risk management processes

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

Implementation of liquidity risk management processes

The Strategic Risk Management Department prepares a detailed monthly liquidity risk report for the purposes of analysing and controlling operational and structural liquidity and monitoring compliance with the liquidity risk limits. Operational and structural liquidity risk are presented and analysed over a period of 12 months for a normal scenario, and in the case of operational risk, also for three stress scenarios (bank name crisis, market crisis and combined crisis). Since the first quarter of 2017 the Management Board and Group Management Board have received a monthly report containing an overview of, and key information on the current liquidity situation. The Management Board receives regular reports on the liquidity position and limit utilisation from the ALM Committee and RICO.

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

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

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

- For the **bank name crisis** scenario, a deterioration in the HYPO NOE Group's individual liquidity is simulated. Other market participants are not initially affected by the crisis, but react directly by withdrawing their deposits from the Group. At the same time, the Group's refinancing options in the money and capital markets are severely reduced or non-existent.
- In the **market crisis** scenario, a general deterioration in the liquidity of money and capital markets is assumed, and access to money and capital market refinancing is also taken to be very limited. In addition, the available liquidity reserve can be expected to fall in value as a result of declining market prices, as market participants' risk aversion increases. The effects on customer deposits are assumed to be smaller than in a bank name crisis and, as the Group is owned by the State of Lower Austria, may be seen as positive, given that in a general crisis customers' need for security is increased.
- The **combined crisis** links a bank name crisis with a market crisis. It should be noted that in such a crisis, the stress factors of the two components are not simply added: special parameters come into play. Refinancing in the money or capital markets is hardly possible at all, the liquidity buffer shrinks as market prices fall, and customer deposits are withdrawn in larger volumes, although not to the same extent as in a bank name crisis, since other market participants are also affected.
- A **normal scenario** is also simulated. This matches routine business developments, as well as customary fluctuations in deposits and withdrawals attributable to contingent liabilities, and is therefore also referred to as the volatility scenario.

With a limit of eight weeks (or 12 weeks in the case of an early warning), the HYPO NOE Group's survival period as at 31 December 2017 was a robust 26 weeks (31 Dec. 2016: 39 weeks). In addition to the survival period, the regulatory liquidity coverage ratio (LCR) is an important control metric for operational liquidity. The LCR is reported monthly and is integrated into operational liquidity management and planning processes. The LCR reported to the regulator was 186% as at 31 December 2017 (31 Dec. 2016: 190%). A regulatory limit of 100% and an internal limit of 120% are currently envisaged for 2018. Volume limits based on maturities are also in place, to control unsecured bank money market exposures. Daily monitoring and reporting is the responsibility of the Strategic Risk Management Department. The 30-day limit of EUR 500m, the 90-day limit of EUR 800m and the up to one year limit of EUR 1,000m were unchanged from the limits in 2016, and were observed throughout the period under review.

For structural liquidity risk, the period and cumulative liquidity gaps are presented in one-year maturity bands, including contractually fixed cash flows for all existing business. Modelled cash flows only play a minor role. Assumptions are also made regarding new business and prolongations.

The HYPO NOE Group uses economic capital as a major metric for structural liquidity risk. Economic capital represents the maximum possible net interest loss that can be absorbed. For liquidity risk it is calculated using higher costs, as a result of potentially higher refinancing spreads over a year. On the basis of historical funding costs, the maximum expected increase in refinancing costs over the period of a year is calculated with a given confidence level for each major funding instrument. Actual performance is then monitored. The economic capital for a limit of EUR 12m was EUR 7.9m as at 31 December 2017 (31 Dec. 2016: EUR 8.6m). In addition to the economic capital, there is a structural one-year gap limit of EUR 1bn (2016: EUR 1bn), as well as the structural funding gap (SFG), an indicator included in the recovery plan that has been applied since 30 September 2017. Limit utilisation for the SFG was 38% as at 31 December 2017 (31 Dec. 2016: no limit).

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

Contingency plan

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

Liquidity risk in 2017

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

The first half of 2017 started with a large number of issues on the international capital markets, including benchmark covered bond issues from Austrian issuers as early as mid-January. The HYPO NOE Group took advantage of favourable market conditions to conclude a five-year, CHF-denominated senior unsecured benchmark issue, which was increased to CHF 125m owing to extremely strong investor demand. A further CHF senior unsecured benchmark issue, valued at CHF 100m, was completed at the end of May. There was also a successful benchmark covered bond issue, in the shape of a six-year, EUR 500m covered bond from the public sector cover pool. The final order book value was around EUR 1.4bn. Issuance in the second half focused mainly on private placements.

These enabled the HYPO NOE Group to perform its entire budgeted capital market funding for 2017 on attractive terms, with the exception of a number of planned issues which were deferred owing to high levels of excess liquidity.

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

Throughout the period under review, the Basel III, LCR, NSFR and additional liquidity monitoring metrics (ALMM) regulatory indicators for limiting liquidity risk were calculated on the basis of the published standards and reported to the Austrian regulatory authorities. Where applicable, the minimum regulatory requirements were observed. Compliance with the statutory regulations in day-to-day operations will be underpinned by the integration of the requirements into the internal liquidity risk management and planning processes, together with strict internal guidelines and the operational control processes already in place.

The HYPO NOE Group refines its liquidity risk management system on an ongoing basis, principally by incorporating the results of model and parameter validations, stress tests and emergency simulations.

With regard to liquidity risk reporting (LCR, NSFR, ALMM, etc.), the focus was on process-related and technical refinements in producing reports.

Operational risk

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

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

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

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

Operational risk in 2017

Detailed information on operational risk events 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 be defined and implemented.

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

In consequence of the merger of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG, all the BCM plans were reviewed and consolidated to create a shared framework. The removal of a client significantly reduced the complexity of the BCM system in both organisational and technical terms. Common organisational processes and IT infrastructure will, among other things, make it easier to deal with emergencies. As in recent years, a large-scale emergency drill was again successfully carried out during the reporting period, in collaboration with Allgemeines Rechenzentrum (ARZ).

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

In 2017 outsourcing policies were consolidated in the form of new guidelines including an overview of related risk management tools (one-off risk assessment, continuous monitoring of key performance indicators and regular monitoring reports), in order to comply with the legal requirements on outsourcing that will come into force in 2018.

Reputational risk

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

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

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

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

Other risks

Other risks consist largely of business risks (the danger of loss as a result of a deterioration in the economic environment or in the HYPO NOE Group's business relationships), strategic risks (the danger of losses arising from decisions concerning the Group's strategic focus and business development) and risks from the HYPO cross-guarantee scheme (see Note 8.7 Supplementary disclosures).

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

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.

The criminal charges against current and former management bodies and employees of HYPO NOE Landesbank für Niederösterreich und Wien AG, relating to the OeNB audit in 2009, were dropped in 2017.

During the reporting period the Bank complied with the relevant rulings of the Austrian Supreme Court with regard to variable-interest consumer loans. The resulting claims of customers were met and the liability recognised as at 30 June 2017 for this purpose was settled. Provisions were recognised as at 31 December 2017 for outstanding claims and other potential claims.

As at 31 December 2017 there were provisions against legal risks from pending proceedings connected with derivatives.

Information on the provisions against legal risks arising from pending proceedings can be found in Note 6.25.1 Movements in provisions.

8.7 SUPPLEMENTARY DISCLOSURES

Joint and several liability for Pfandbriefbank (Österreich) AG issues

As a member bank of Pfandbriefstelle der österreichischen Landes-Hypothekenbanken, under section 2(1) Pfandbriefstelle-Gesetz (Pfandbriefstelle Act) HYPO NOE Landesbank für Niederösterreich und Wien AG is jointly and severally liable, together with the other members, for all the liabilities of the Pfandbriefstelle. This liability is the same for all the member banks listed in section 1(2) of the 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 Pfandbriefstelle's statutory audit report, the guarantors' liabilities as at 31 December 2017 were EUR 71,625thsd (2016: EUR 1,929,509thsd). This approximately corresponds to the total liabilities of Pfandbriefstelle as at 31 December 2017. Taking into account funds of EUR nil (31 Dec. 2016: EUR 375,254thsd) raised by Pfandbriefstelle and lent on to HYPO NOE Landesbank für Niederösterreich und Wien AG, the amount to be disclosed under section 237(8a) Austrian Business Code is EUR 71,625thsd (31 Dec. 2016: EUR 1,554,255thsd).

Contingent liability of the State of Lower Austria

Under section 1356 Austrian Civil Code, the State of Lower Austria is liable, as the deficiency guarantor, for all the liabilities incurred by HYPO NOE Landesbank für Niederösterreich und Wien 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 provided that their maturities do not 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 2017 state government guarantees of issues, deposits and other liabilities such as subordinated and supplementary capital were:

- EUR 163,469thsd in total for 2017 for the merged entity HYPO NOE Landesbank für Niederösterreich und Wien AG
- EUR 2,843,372thsd in total for 2016 for the former HYPO NOE Gruppe Bank AG
- EUR 164,478thsd in total for 2016 for the former HYPO NOE Landesbank AG
- EUR 163,469thsd (2016: EUR 3,007,850thsd) for the HYPO NOE Group

EUR '000	31 Dec. 2017	31 Dec. 2016
Securities admitted to trading (assets)		
no unlisted securities were held	Listed	Listed
Bonds and other fixed-income securities	535,274	794,503
Shares and other variable-income securities	-	4,077

EUR '000	31 Dec. 2017	31 Dec. 2016
Negotiable securities assigned to fixed assets		
Bonds and other fixed-income securities	402,093	814,089
Shares and other variable-income securities	-	4,077

EUR '000	31 Dec. 2017	31 Dec. 2016
Assets pledged as collateral		
Cover pool for covered bonds and public sector covered bonds (debts evidenced by certificates)	6,017,408	5,995,278
of which covering loans	*5,900,402*	*5,841,091*
of which securities	*117,006*	*152,688*
of which cash	*-*	*1,500*
Marketable collateral (securities) delivered to the collateral custody account with the OeNB (for deposits from banks)*	223,217	166,426
Non-marketable collateral (loans) transferred to the OeNB (for deposits from banks)*	326,392	473,581
**of which OeNB tenders*	*100,000*	*-*
Securities pledged to the EIB (for deposits from banks)	120,613	159,226
Collateral delivered (cash) (for derivatives)	775,738	849,693

	31 Dec. 2017	31 Dec. 2016
After-tax return on assets (ratio of profit for the year to total assets)	0.22%	0.45%

Supplementary disclosures pursuant to the Austrian Business Code

The HYPO NOE Group's rental and lease commitments amount to EUR 1,144thsd in 2018 (2017: EUR 1,130thsd) and EUR 5,608thsd in total for the 2018-2022 financial years.

Supplementary disclosures pursuant to the Austrian Banking Act

Foreign currency assets amounting to EUR 301,751thsd (2016: EUR 364,813thsd) and foreign currency liabilities amounting to EUR 696,472thsd (2016: EUR 1,065,797thsd) are included in the total assets of HYPO NOE Landesbank für Niederösterreich und Wien AG pursuant to the Austrian Banking Act. The figures for the previous year have been adjusted to reflect intercompany transactions.

Expenses arising from subordinated debt totalled EUR 725thsd (2016: EUR 1,682thsd), of which EUR 656thsd (2016: EUR 1,387) was attributable to HYPO NOE Landesbank für Niederösterreich und Wien AG.

Receivables falling due within one year from bonds and other fixed-income securities amounted to EUR 53,840thsd (2016: EUR 342,672thsd), and those from bonds issued to EUR 623,625thsd (2016: EUR 1,740,491thsd).

An atypical silent partnership is recognised in subordinated capital, with a minimum return independent of earnings of EUR 65thsd (2016: EUR 65thsd).

Securities intended to be a permanent part of business operations form part of financial assets.

For pension benefits, service cost is spread across the period from commencement of employment until the employee reaches the statutory retirement age, in the case of at least ten years of service up to the age of 60 (for women) or 65 (for men).

8.7.1 Analysis of assets by maturities

EUR '000	31 Dec. 2017	31 Dec. 2016
Loans and advances to banks		
Repayable on demand	776,424	815,520
Up to 3 months	-	50,064
3 months to 1 year	33,871	50,395
From 1 to 5 years	504	32,362
Over 5 years	50,022	50,006
Total	**860,821**	**998,347**

EUR '000	31 Dec. 2017	31 Dec. 2016
Loans and advances to customers		
Repayable on demand	142,949	160,984
Up to 3 months	446,876	581,431
3 months to 1 year	783,475	852,521
From 1 to 5 years	2,874,916	3,079,989
Over 5 years	5,982,016	6,180,007
Total	**10,230,232**	**10,854,932**
Assets held for trading		
Repayable on demand	-	-
Up to 3 months	235	650
3 months to 1 year	180	2,109
From 1 to 5 years	9,983	7,269
Over 5 years	465,854	545,265
Total	**476,252**	**555,293**
Financial assets designated as at fair value through profit or loss		
Repayable on demand or no fixed term	-	-
Up to 3 months	205	206
3 months to 1 year	616	617
From 1 to 5 years	18,653	19,517
Over 5 years	-	-
Total	**19,474**	**20,340**
Available-for-sale financial assets		
Repayable on demand or no fixed term	57,703	50,977
Up to 3 months	69,568	129,271
3 months to 1 year	128,281	369,523
From 1 to 5 years	652,372	620,686
Over 5 years	685,081	796,691
Total	**1,593,005**	**1,967,148**
Positive fair value of derivatives (hedge accounting)		
Repayable on demand or no fixed term	-	-
Up to 3 months	8,193	4,037
3 months to 1 year	1,920	39,296
From 1 to 5 years	151,308	122,136
Over 5 years	243,808	317,746
Total	**405,229**	**483,215**
Other assets		
Repayable on demand or no fixed term	6,401	5,554
Up to 3 months	12,040	9,790
3 months to 1 year	8,654	19,971
From 1 to 5 years	94,200	167,530
Over 5 years	105,532	58,548
Total	**226,827**	**261,393**

8.7.2 Analysis of liabilities by maturities

EUR '000	31 Dec. 2017	31 Dec. 2016
Deposits from banks		
Repayable on demand or no fixed term	112,504	162,825
Up to 3 months	20,216	81,397
3 months to 1 year	303,167	716,590
From 1 to 5 years	233,930	26,942
Over 5 years	695,351	474,544
Total	**1,365,168**	**1,462,298**
Deposits from customers		
Repayable on demand or no fixed term	1,406,980	1,181,910
Up to 3 months	669,662	504,313
3 months to 1 year	1,375,198	1,517,190
From 1 to 5 years	455,325	506,663
Over 5 years	142,681	137,779
Total	**4,049,846**	**3,847,855**
Debts evidenced by certificates		
Repayable on demand or no fixed term	578	578
Up to 3 months	49,159	354,825
3 months to 1 year	629,749	1,276,985
From 1 to 5 years	3,724,960	3,332,626
Over 5 years	2,489,190	2,733,817
Total	**6,893,636**	**7,698,831**
Liabilities held for trading		
Repayable on demand	-	-
Up to 3 months	215	528
3 months to 1 year	154	1,660
From 1 to 5 years	12,868	4,686
Over 5 years	419,479	496,080
Total	**432,716**	**502,954**
Negative fair value of derivatives (hedge accounting)		
Repayable on demand	-	-
Up to 3 months	2,053	1,265
3 months to 1 year	1,024	5,548
From 1 to 5 years	55,559	41,534
Over 5 years	646,980	745,350
Total	**705,616**	**793,697**
Other liabilities		
Repayable on demand or no fixed term	3,626	18,870
Up to 3 months	22,306	9,641
3 months to 1 year	27,685	65,665
From 1 to 5 years	76,068	27,708
Over 5 years	10,159	7,545
Total	**139,844**	**129,429**

EUR '000	31 Dec. 2017	31 Dec. 2016
Subordinated capital		
Repayable on demand	-	-
Up to 3 months	-	-
3 months to 1 year	-	200,928
From 1 to 5 years	1,453	1,453
Over 5 years	-	-
Total	**1,453**	**202,381**

8.8 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. Commissions are reported in the statement of comprehensive income (Note 5.4 Net fee and commission income, under other fee and commission income and other fee and commission expense).

There were no trust transactions not reported in the financial statements as at 31 December 2017 or 31 December 2016.

8.9 CONTINGENT LIABILITIES AND CREDIT RISK

8.9.1 Contingent liabilities

EUR '000	31 Dec. 2017	31 Dec. 2016
Acceptances and endorsements	-	109
Liabilities arising from guarantees and provision of collateral	122,428	114,884

8.9.2 Credit risk

EUR '000	31 Dec. 2017	31 Dec. 2016
Unutilised facilities	1,105,894	1,235,099

Unutilised facilities include both unutilised loan facilities and revolving borrowing facilities (e.g. overdraft facilities), where there is a strong likelihood that the unutilised credit facilities will be used within the contractually agreed period. Credit lines can be used at any time, meaning that a higher degree of uncertainty is associated with utilisation and the maturity date. The amounts disclosed for unutilised facilities also include amounts forming part of disclosures in Note 8.5 Disclosures on related-party relationships.

Unutilised facilities are largely in the Public Sector segment. They also include the unpaid amount of the one-eighth obligation with respect to the Heta securities.

8.10 Mortgage banking in accordance with the Pfandbriefgesetz (Covered Bond Act)

31 Dec. 2017, EUR '000	Coverage required for debts evidenced by certificates	Coverage of: Loans	Coverage of: Securities	Surplus coverage
Covered bonds	1,131,982	1,582,951	25,000	475,969
Public sector covered bonds	3,516,266	4,317,451	92,006	893,191
Total	**4,648,248**	**5,900,402**	**117,006**	**1,369,160**

31 Dec. 2016, EUR '000	Coverage required for debts evidenced by certificates	Coverage of: Loans	Coverage of: Securities	Surplus coverage
Covered bonds	935,190	1,526,616	24,262	615,688
Public sector covered bonds	3,023,979	4,314,474	129,925	1,420,420
Total	**3,959,169**	**5,841,090**	**154,187**	**2,036,108**

8.11 EVENTS AFTER THE REPORTING PERIOD

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

8.12 GOVERNING BODIES OF HYPO NOE LANDESBANK FÜR NIEDERÖSTERREICH UND WIEN AG

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

Management Board

- Peter Harold, Chairman
- Udo Birkner
- Wolfgang Viehauser

Supervisory Board

- Günther Ofner, Chairman
- Michael Lentsch, Deputy Chairman
- Karl Fakler
- Gottfried Haber
- Ulrike Prommer
- Karl Schlögl
- Hubert Schultes
- Engelbert J. Dockner (until 16 Apr. 2017)
- Birgit Kuras (from 21 Sep. 2017)

Delegated by the Works Council

- Hermann Haitzer (until 31 Jan. 2018)
- Peter Böhm
- Franz Gyöngyösi
- Claudia Mikes

Federal commissioners

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

Supervisory commissioners

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

St. Pölten, 20 February 2018

The Management Board

Peter Harold
CEO
Chief Executive Officer

Udo Birkner
CFO/CRO
Chief Financial and Chief Risk Officer

Wolfgang Viehauser
CBO
Chief Business Officer

DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES

We hereby confirm that to the best of our knowledge the consolidated financial statements of HYPO NOE Landesbank für Niederösterreich und Wien AG give a true and fair view of the Group's assets, finances and earnings, in conformity with the relevant accounting standards; that the Group operational and financial review presents the course of the Group's business, and its results and financial condition in such a manner as to give a true and fair view of the Group's assets, finances and earnings; and that the Group operational and financial review describes the principal risks and uncertainties to which the Group is exposed.

St. Pölten, 20 February 2018

The Management Board

Peter Harold
CEO
Chief Executive Officer

Udo Birkner
CFO/CRO
Chief Financial and Chief Risk Officer

Wolfgang Viehauser
CBO
Chief Business Officer

AUDITORS' REPORT

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of HYPO NOE Landesbank für Niederösterreich und Wien AG, St. Pölten, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the consolidated financial position as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements under section 245a UGB and the Austrian Banking Act.

Basis for Opinion

We conducted our audit in accordance with Regulation (EU) No. 537/2014 and with the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

- Impairment of loans with increased risk criteria (the "Watch-loans")

Description and Issue

As of 31.12.2017 volume of loans to customers with increased risk criteria ("Watch Loans") was EUR 77m. Watch Loans are subject to intensified credit monitoring. Specific risk provisions on individual loans are only recognized, once the loan engagement has been transferred to the Workout Management Department. The Bank's internal guidelines include listing of exemplary criteria for the transfer of Watch Loans to the Workout Management Department. The decision-making process relating to transfer, and thus for assessing the need for specific risk provisions require a significant degree of subjective judgment.

We refer to the Notes to the consolidated financial statements/Risk management/Credit risk/Credit risk analyses.

Given the importance for the consolidated financial statement and the significant degree of judgment regarding the assessment of risk factors responsible for the transfer of Watch Loans to the Workout Management Department, the recoverability of the watch loans was identified by us as a key audit matter.

Our Response

We evaluated design, implementation and operating effectiveness of the key controls regarding the process for identifying and evaluating the risk factors for transfer of Watch Loans to the Workout Management Department. We critically challenged the requirements for potential specific risk provisions for a sample of Watch Loans.

Other Information

Management is responsible for the other information. The other information comprises all information in the consolidated non-financial statement, which we obtained prior to the date of this auditor's report, and the annual report (but does not include the consolidated financial statements, the consolidated management report and our auditor's report thereon), which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. With respect to the information in the consolidated management report beyond the consolidated non-financial statement we refer to the section "Report on the Audit of the Consolidated Management Report".

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the additional requirements under section 245a UGB and the Austrian Banking Act, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Regulation (EU) No 537/2014 and with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

The scope of the audit does not include assurance on the future viability of the Group or on the efficiency or effectiveness with which the management has conducted or will conduct the affairs of the Group.

As part of an audit in accordance with Regulation (EU) No 537/2014 and with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- In conducting our audit in accordance with the applicable auditing standards, we are taking into account the applicable legal and regulatory framework of the Group but we are not responsible for preventing or detecting non-compliance with laws and regulations. Because of the inherent limitations of an audit, the inevitable risk of not detecting a material misstatement in the financial statements, although the audit is planned and performed in accordance with the applicable auditing standards, is higher with respect to non-compliance with other laws and regulations. This is, amongst others, owed to the fact that there are many laws and regulations, relating principally to the operating aspects of a group, that are not captured by the group's information systems relevant to financial reporting, and that such non-compliance may involve conduct designed to conceal it.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that give a true and fair view.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON THE AUDIT OF THE CONSOLIDATED MANAGEMENT REPORT

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and whether it has been prepared in accordance with the applicable legal requirements. The consolidated non-financial statement included in the consolidated management report is not subject to our audit; our respective responsibilities are described in the section "Other Information".

Management is responsible for the preparation of the consolidated management report in accordance with the Austrian Commercial Code.

We conducted our audit in accordance with laws and regulations applicable with respect to the consolidated management report.

Opinion

In our opinion, the consolidated management report are prepared in accordance with the applicable legal requirements, includes appropriate disclosures according to section 243a UGB and is consistent with the consolidated financial statements.

Statement

In the light of the knowledge and understanding of the Group and its environment obtained in the course of our audit of the consolidate financial statements, we have not identified material misstatements in the consolidated management report.

OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS ACCORDING TO ARTICLE 10 OF REGULATION (EU) NO 537/2014

We were appointed by the annual general meeting on February 29, 2016 and commissioned by the supervisory board on March 1, 2016 to audit the consolidated financial statements for the financial year then ending December 31, 2017. We have been auditing the Group uninterrupted since the financial year ending December 31, 1992.

We confirm that our opinion expressed in the section "Report on the Audit of the Consolidated Financial Statements" is consistent with the additional report to the audit committee referred to in Article 11 of Regulation (EU) No 537/2014.

We declare that we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 and that we remained independent of the Group in conducting the audit.

ENGAGEMENT PARTNER

The engagement partner responsible for the audit is Mr. Thomas Becker.

Vienna, February 21, 2018

Deloitte Audit Wirtschaftsprüfungs GmbH

Thomas Becker m.p.
Certified public accountant

Wolfgang Wurm m.p.
Certified public accountant

The consolidated financial statements baring 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 version

REPORT OF THE SUPERVISORY BOARD

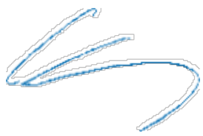
In 2017 the Supervisory Board discharged the duties incumbent upon it by virtue of the law and the articles of association, and was kept regularly informed by the Management Board on the course of business and the state of the Bank's and the Group's affairs.

The accounts and records, the **2017 annual financial statements, and the operational and financial review** of HYPO NOE Landesbank für Niederösterreich und Wien AG 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 2017, and the operational and financial review, including the dividend recommendation, submitted to it by the Management Board and hereby approves the 2017 annual financial statements in accordance with section 96(4) Aktiengesetz (Austrian Companies Act).

The auditors Deloitte Audit Wirtschaftsprüfungs GmbH audited the **2017 consolidated financial statements** for compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board, as adopted by 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 2017, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards as adopted in the EU, and the additional requirements of section 59a Banking Act. 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, 28 February 2018

The Supervisory Board



Günther Ofner
Chairman

LIST OF ABBREVIATIONS

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

IMPORTANT INFORMATION

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

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

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

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