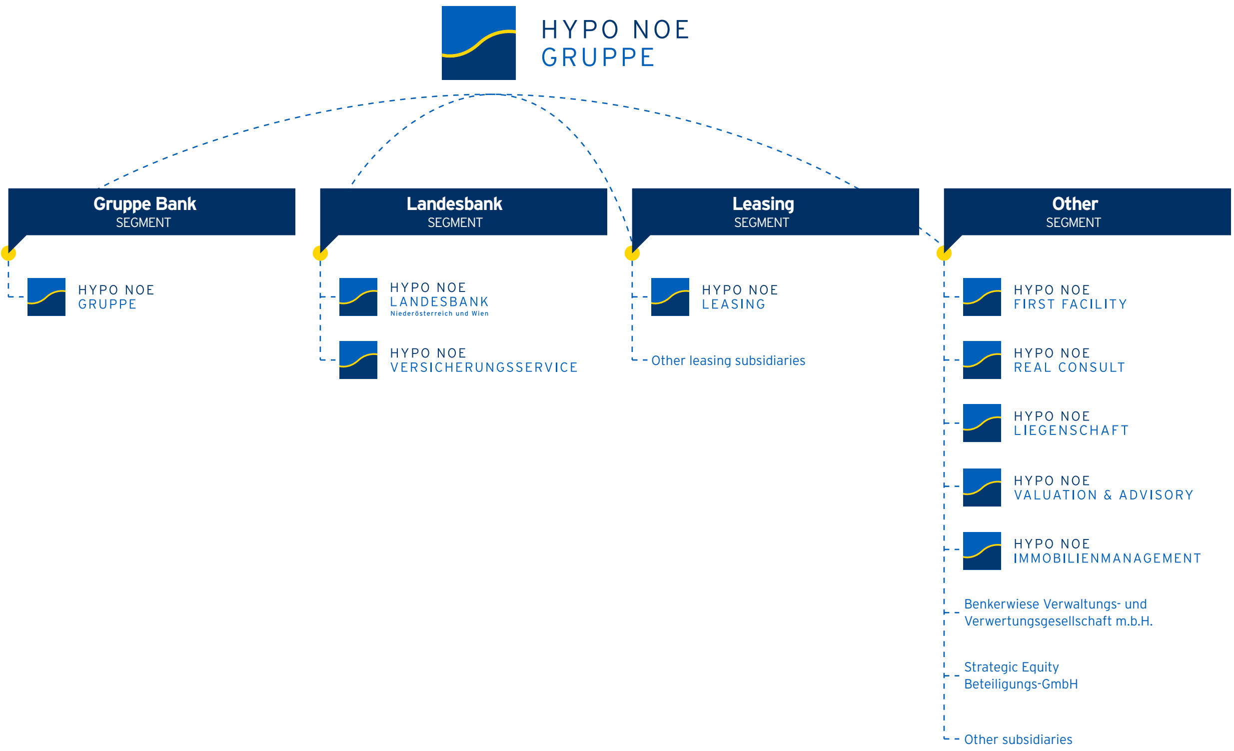
# SEMI-ANNUAL FINANCIAL REPORT 2013

125 years of quality

HYPO NOE GRUPPE

## Group structure
(business segments)




## Current rating

Standard & Poor's: A/negative/A-1

## Group financial highlights

| EUR '000 | 30 Jun. 2013 | 30 Jun. 2012 | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|---|---|
| **Total assets** | **14,120,448** | **14,107,918** | **14,861,697** | **13,233,058** |
| Core capital ratio | 12.85% | 12.54% | 12.33% | 13.25% |
| Cost/income ratio (CIR) | 76.0% | 72.7% | 67.6% | 40.4% |
| Return on equity (ROE) after tax | 5.8% | 3.5% | 4.9% | 22.0% |

# SEMI-ANNUAL FINANCIAL REPORT

## AS AT 30 JUNE 2013

HYPO NOE GRUPPE BANK AG

HYPO NOE
GRUPPE

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# OUR FORMULA FOR SUCCESS – 125 YEARS OF EXPERIENCE AND CONTINUOUS IMPROVEMENT

2013 marks the 125th anniversary of the HYPO NOE Group's foundation. These long traditions and experience, and our determination to benefit customers by living up to our core "reliability and excellence" values, will remain central to our approach.

The Group's business performance in the first half of its jubilee year has again demonstrated the wisdom of its long-term strategy.

IFRS profit attributable to owners of the parent was EUR 14.5 million (m) – a significant increase on the comparative period. Total assets were 5% down on year-end 2012, at EUR 14.1 billion (bn). The Group's capitalisation improved slightly, and is well in excess of the Basel III requirements. The core capital ratio rose to 12.9%, and the equity ratio to 17.0%.

On the risk management front, we will continue to invest heavily in IT infrastructure, as well as process, methodology and staff development, in order to ensure that our risk control systems continue to be fit for purpose in terms of the authorised levels of risk tolerance and our business objectives.

This year we are concentrating on deepening existing customer relationships, delivering services along the entire real-estate value chain, and driving growth in our service business. In line with these objectives, during the spring we formed a new subsidiary, HYPO NOE Immobilienmanagement GmbH, which will specialise in the purchase, sale and letting of properties, adding another link to the Group's real-estate service chain.

Peter Harold
Chairman of the Management Board

Nikolai de Arnoldi
Member of the Management Board

The HYPO NOE Group has long been one of Austria's leading issuers of covered bonds. Already well known as an issuer in this segment, during the first half of 2013 the Group successfully launched its debut senior unsecured bond issue, which was assigned an A/negative rating by Standard & Poor's. The EUR 500m benchmark issue, which marked the first return to the senior unsecured market by a member of the Austrian mortgage banking sector, met with strong demand.

Following a good first six months the HYPO NOE Group is going into the second half with positive expectations, and an unchanged focus on its established customer groups and core geographical markets. We currently anticipate solid, on-target full-year performance from all the Group's business lines.

**Peter Harold**
Chairman of the Management Board

**Nikolai de Arnoldi**
Member of the Management Board

# SEMI-ANNUAL OPERATIONAL AND FINANCIAL REVIEW

## AS AT 30 JUNE 2013



HYPO NOE GRUPPE

# ECONOMIC CLIMATE

## Global, European and domestic trends

During the first half of 2013 the world economy was somewhat weaker than had been anticipated at the start of the year. The USA and Japan were bright spots, while Europe was still mired in stagnation, and growth in the emerging world slowed. In the USA there are gathering signs that the legacy of the past few years of crisis has now largely been overcome. As a result, towards the end of the reporting period the Federal Reserve raised the possibility of an early pull-back from its unconventional monetary policies. While the Fed is close to tapering its highly expansionary policies, at the start of the year Japan sprung a surprise by launching a further, massive loosening of its monetary policies and a stimulus package to support recovery.

The picture in Europe was different. Against a backdrop of continued uncertainty, the pick-up in economic sentiment was tentative, so the announcement that, according to the latest statistics, the long recession ended in the second quarter of 2013 prompted amazement in some quarters. The European Central Bank (ECB) attempted to bolster growth by cutting its key rate by 0.25% to 0.50% in May. The credibility of the ECB's outright monetary transactions (OMT) programme – a government bond-buying scheme – had a positive impact. Its effect on confidence kept the risk premiums on peripheral bonds within tolerable limits. It is also encouraging that the imbalances in the euro area have narrowed, at least as regards the balance of payments accounts. The peripheral countries have made considerable progress in this respect, and by the end of the reporting period their payments were either almost in balance or actually in surplus. The EU's austerity policies were eased by extending the deadlines for member states with budget problems to meet the agreed deficit targets by up to three years.

To a large extent because of slower-than-expected global economic growth, inflation has fallen in many countries. In April it reached cyclical lows of 1.1% in the USA and 1.2% in the euro area. Besides familiar factors such as industrial overcapacity and subdued global demand, collapsing commodity prices were largely responsible for the decline in inflation. In the euro area, base effects related to the fading inflationary impact of increases in taxes and government charges in the peripherals also played a part. Inflation is likely to remain low for some months.

The major central banks maintained highly permissive monetary policies throughout the reporting period, and will probably do so for some time, although the Fed has raised the prospect that it will taper its Treasury bond buying programme over the next few months.

## Austria

A look at Austria shows that the eurozone crisis is increasingly weighing on the economy. Growth was slow in the first half of 2013, and the economy has effectively stagnated since the second quarter of 2012. Compared with the euro area as a whole, this is still a good performance, but the consumer and industrial sentiment indicators are still pointing downwards, although there has been a modest improvement of late. The growth forecasts have been downgraded over the past few months. The WIFO (Austrian Institute of Economic Research) sees gross domestic product (GDP) growing by 0.4% in 2013. This is on the assumption of a pick-up in the second half.

# Danube region

According to the HYPO NOE Group's strategic definition, its Danube region comprises its core Austrian and German markets, as well as Bulgaria, the Czech Republic, Poland, Romania and Slovakia. Hungary does not entirely fit the definition as we are not currently planning to expand our operations there. A comparison of the region's economic performance with that of the euro area shows that it has historically enjoyed higher growth rates than the latter. This is due partly to the continuing economic divide between the region and Western Europe, and related efforts to achieve convergence, and partly to the strength of Germany and Austria, both of which are core eurozone countries and are economically stable.

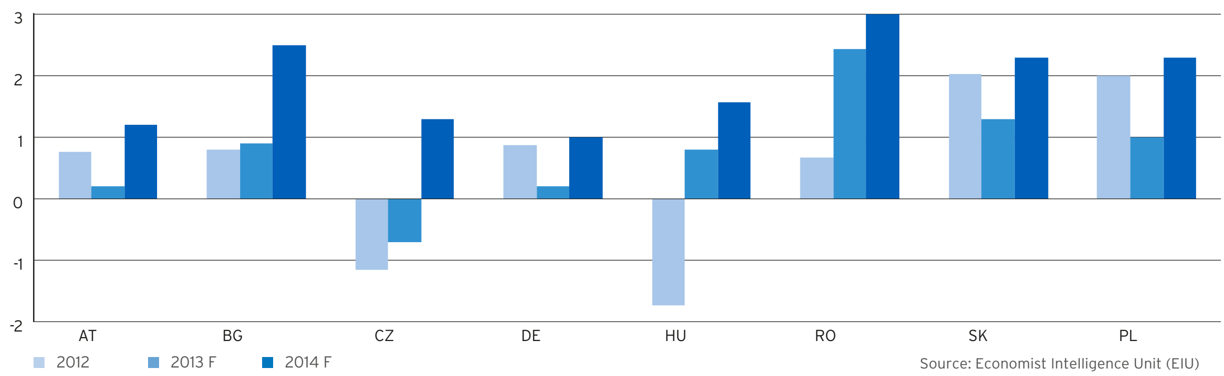
The growth performance of the various countries in the Danube region is expected to diverge more widely over the next few years. According to recent forecasts Romania and Slovakia will be at the top end of the range, while Germany and Austria are set for slow growth. As the main export market for numerous European countries, Germany is a key engine of growth for the EU-27 as a whole, and the Danube region in particular. For many of its trading partners, Germany's muted growth is an obstacle to sustained expansion.

The predicted growth rates are reflected in the industrial confidence indicators across the region. While the industrial sectors of the Central and Eastern European (CEE) countries and Germany are upbeat, Austrian industry is considerably less optimistic. The position with consumer confidence is different – sentiment remains positive in Germany and Austria, while CEE consumers are predominantly pessimistic due to higher unemployment and the constant squeeze on wages.

At present the bond markets are generally well disposed to CEE issuers, and still more so to those in Germany and Austria. Due to low interest rates and risk premiums, market refinancing is not a significant burden for companies from these countries. This is in turn helping to stabilise the regional economy, and laying sound foundations for future investments and investor confidence.

The key trends in the CEE region in recent years have been improved competitiveness, the opening up of local economies and resultant export growth. Poland and Slovakia have led the way, and their exports now represent 46.1% and 96% of GDP respectively.

**Economic growth, 2012–2014**




Source: Economist Intelligence Unit (EIU)

# Banking sector trends in the eurozone and CEE

The main issue facing the European banking sector at present is a renewed increase in credit risk. The weakness of the real economy and persistently high unemployment are a steady drain on the quality of loan portfolios. At the same time maturity transformation – which is the bread and butter of banking – is becoming less and less profitable due to low interest rates. Interest margins are narrowing, and profits falling. Banks operating in high-growth markets and in countries with relatively high interest rates are to some extent insulated from this trend. These factors apply to the CEE banks, which are continuing to post solid performance.

Besides the woes of the real economy, the banking sector is confronted with a constant source of uncertainty in the shape of financial market volatility. Despite adequate liquidity, and the fact that many banks have returned funds borrowed from central banks, market fears can lead directly to wider spreads. Some banking sectors remain highly vulnerable to such developments and this is forcing the central banks to take additional action.

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

- Capitalisation: the banks are constantly striving to increase their equity ratios, and this is leading in turn to more restrictive lending and dividend policies. As a result it is hard for the banks to fulfil their role as financial intermediaries, and this is having a negative impact on the business sectors of the euro peripherals and some CEE countries.
- EU-wide bail-in moves: the EU plans to help save troubled banks by bailing in investors and savers with deposits of over EUR 100,000. Bail-in programmes involving investors have already been implemented in Denmark in the wake of the financial crisis. There have not yet been any direct effects on banks' ratings.

The harsh environment in many European countries is likely to prompt further consolidation in the financial sector over the next few years.

# Financial markets

During the reporting period, market developments were heavily influenced by the central banks. At the start of the year the prospect of an expansionary stimulus from the Bank of Japan had a significant impact on virtually all asset classes, and only the commodity markets failed to benefit. The Fed's decision to expand its quantitative easing (QE) programme, taken towards the end of 2012, was also supportive. Interest rate reductions in a number of countries gave markets an additional lift, and stock and bond prices rose sharply despite poor economic data. This trend was only temporarily interrupted by the lengthy coalition talks in Italy and the negotiations on the rescue package for Cyprus. The bail-in and the immediate resolution of the largest Cypriot commercial bank touched off a brief period of market turmoil. Implementing the rescue involved the introduction of capital controls – an unprecedented event in the history of the euro.

Towards the end of the reporting period there were heavy falls in stock and bond prices. These were triggered by a number of factors. The most important were the announcement by the chairman of the US Federal Reserve of the impending end to the Fed's easy money policy and worrying developments in China. Chinese economic growth figures have been below expectations for some time. On top of this there have been reports of liquidity problems in the Chinese shadow banking system, which have been manifested in a massive increase in money market rates, among other effects.

# FINANCIAL REVIEW

## Key developments in the first half of 2013

### EARNINGS (IFRS)

Profit for the period attributable to owners of the parent rose sharply year on year, to EUR 14.5 million (m) (H1 2012: EUR 7.7m). One of the main reasons for this was the fact that no material cost of risk was reported in the Bank's lending business in the first six months of 2013. The Gruppe Bank segment made the largest contribution to profits, while the Landesbank, Leasing and Other segments also delivered substantial profits for the period.

Owing to a restructuring programme, HYPO NOE First Facility GmbH (First Facility), included in consolidation since the third quarter of 2012, contributed a loss before tax of EUR 0.1m to the result of the Other segment.

Group net interest income was EUR 5.9m down on the like period of 2012, at EUR 63.7m (H1 2012: EUR 69.6m).

In the absence of any significant cost of risk in the lending business, reversals of credit provisions thanks to effective workout management led to a net gain of EUR 1.1m, following net expenses of EUR 8.5m in the first half of 2012.

Net fee and commission income edged up to EUR 6.3m (H1 2012: EUR 6.0m).

The Bank made a net trading profit of EUR 1.5m which arose from the fair value measurement of derivatives used for economic hedges.

General administrative expenses were up by 16.7% year on year to EUR 58.5m. The consolidation of First Facility in the second half of 2012 played a significant part in the increase, and it accounted for EUR 4.7m of the total in the reporting period. The consolidation of First Facility was also reflected in the 24.2% increase in staff costs to EUR 33.9m (First Facility: EUR 4.0m), the 3.9% rise in other administrative expenses to EUR 21.7m (First Facility: EUR 0.6m), and the EUR 47.6% jump in depreciation, amortisation and impairment to EUR 2.9m (First Facility: EUR 0.1m). The statutory financial stability contribution ("bank tax") reported under other administrative expenses was EUR 3.2m (H1 2012: EUR 3.2m).

Net gains or losses on financial assets were negative due to losses on the sale of bonds to mitigate risk by reducing exposure to PIIGS countries*, Cyprus and Hungary (H1 2012: net gain of EUR 6.5m).

There were net losses of EUR 10.4m on hedges. OIS discounting, which has replaced Euribor discounting as the market standard for pricing collateralised OTC derivatives, played a significant part in these losses.

Net gains of EUR 4.5m on other financial investments were largely generated by the Bank's success in negotiating the part-redemption of Hungarian local authority bonds.

Net other operating income was positive by EUR 11.2m (H1 2012: EUR 2.0m), of which EUR 4.2m was attributable to First Facility.

Profit before tax was EUR 19.5m – an improvement of EUR 9.2m year on year (H1 2012: EUR 10.3m).

* Portugal, Ireland, Italy, Greece and Spain

The earnings trend is reflected in the following financial ratios:

| | | H1 2013 | H1 2012 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| Return on equity before tax* | Profit before tax/ave. equity | 7.8% | 4.7% | 6.5% | 29.2% | 1.9% |
| Return on equity after tax* | Profit for the period/ave. equity | 5.8% | 3.5% | 4.9% | 22.0% | 1.8% |
| Cost/income ratio | Operating expenses/ operating income | 76.0% | 72.7% | 67.6% | 40.4% | 76.4% |
| Risk/earnings ratio | Credit provisions/net interest income | -1.7% | 12.3% | 15.6% | 14.5% | 13.1% |

* Intrayear indicators annualised on a daily basis

The marked year-on-year improvement in the key indicators is largely explained by the absence of any significant cost of risk in the lending business during the reporting period. The rise in the cost/income ratio compared with the like period of 2012 was primarily due to the consolidation of First Facility in the third quarter of last year.

## ASSETS AND LIABILITIES (IFRS)

The HYPO NOE Group's total assets stood at EUR 14.1 billion (bn) as at 30 June 2013 – a fall of EUR 0.7bn or 5.0% on year-end 2012. The decrease was chiefly driven by a EUR 0.4bn drop in loans and advances to customers, which resulted from Austrian and Hungarian bond redemptions in the Public Finance Department (Gruppe Bank segment).

On the equity and liabilities side of the balance sheet there was a reduction of EUR 0.9bn in deposits from banks. There was a net increase of EUR 0.4m in debts evidenced by certificates due to the successful EUR 661.6m senior unsecured bond issue.

## EQUITY (IFRS)

IFRS consolidated equity including non-controlling interests was EUR 511.4m – up by EUR 13.8m on year-end 2012. The main reasons for the growth in equity were the profit for the period and the rise in the available-for-sale reserve for remeasurement of financial assets to fair value.

## REGULATORY CAPITAL (AUSTRIAN BANKING ACT)

Consolidated eligible capital as defined by the Austrian Banking Act was EUR 668.4m as at 30 June 2013 (31 Dec. 2012: EUR 668.5m). Surplus capital was EUR 330.8m (31 Dec. 2012: EUR 317.4m), compared to a capital requirement of EUR 337.7m (31 Dec. 2012: EUR 351.1m). The core capital ratio was 12.9% (31 Dec. 2012: 12.3%), and the equity ratio was 17.0% (31 Dec. 2012: 16.3%).

# OPERATIONAL REVIEW

## Gruppe Bank segment

The Group's parent, HYPO NOE Gruppe Bank AG, can now build on 125 years' experience of working to maximise customer benefits, in line with its creed of "reliability and excellence". The Bank is one of the main financial institutions in Lower Austria, and again showed itself to be a solid and reliable source of public, business, project and real estate finance, as well as treasury services for customers in Austria and the Danube region. The Group takes a selective approach to operations outside Austria, focusing on the real estate and public finance business lines, and is active in Bulgaria, the Czech Republic, Germany, Hungary, Poland, Romania and Slovakia. Staff at the representative offices in Budapest and Prague, and in St Pölten and Vienna who are native speakers of the relevant languages follow developments in these markets and build relationships there. They are supported by experts in specialist units in St Pölten and Vienna who ensure that solutions are structured and documented to the highest professional standards. This bespoke customer service facilitates the transfer of special financing models from Austria to the Group's wider home market, the CEE region. In the first half of 2013 loans were again extended to new and existing customers with good credit ratings, taking a conservative approach. We will continue to attach great importance to detailed analysis of the market environment, as well as the significance of the projects in question for economic development in the regions concerned. Our approach to stability and shareholder value is vindicated by our single-A rating from Standard & Poor's (S&P). Due to the continuing strains in the euro area, in December 2012 HYPO NOE Gruppe Bank AG and all the peers reviewed by S&P were given a single-A rating with a negative outlook (previously stable).

### PUBLIC FINANCE

Our Public Finance Department partners local and regional authorities, public agencies and infrastructure companies. In the first half of 2013 the department focused on growing its business in eastern Austria, and with enterprises linked to the federal and state governments. The Group has established end-to-end processes for public construction projects, allowing it to serve as a one-stop shop for this sector in the domestic market. Across the entire design-finance-build-operate cycle, our services are aimed at creating enduring assets and sustainable long-term returns for public-sector clients. Due to the budgetary constraints faced by state governments and local authorities, public-private partnerships (PPPs) and innovative financing solutions are in growing demand. An example of this is the kindergarten in Korneuburg, funded by a bespoke finance solution, which is nearing completion and is due to open during the third quarter of 2013. Another strategic priority is closer cooperation with development banks, including the European Investment Bank (EIB) and the Kreditanstalt für Wiederaufbau (KfW), which offer tailored loans that bring many benefits for our customers. We are working with the EIB on developing a global loan for investments in infrastructure by public sector clients. This will enable us to fund public agencies devoted to environmental protection, sustainable development, health care, and economic and social cohesion.

Following the floods in the spring we launched the "HYPO NOE reconstruction package", which facilitates the rapid and straightforward extension of bridging loans to fund the repair of local government infrastructure.

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

## REAL ESTATE FINANCE

The Real Estate Finance Department specialises in real estate project finance. Its key strengths are the wide range of products it can offer and its ability to structure bespoke finance solutions

In the first half of 2013 the earnings contribution from this line of business improved – especially from the foreign operations – as a result of the withdrawal of a number of large German banks from the real estate finance market. During the period under review the uncertain economic situation gave a big boost to demand for some real estate categories such as rental apartment blocks. The German commercial property market attracted still greater interest from foreign investors.

The department's operations continued to focus on our core real estate markets – Austria, Germany and the other countries singled out under our Danube region strategy. It tightened its focus on this strategy during the first half of 2013. In the department's target markets it will continue to keep a close watch on the macroeconomic impact of the current sovereign debt crisis, as well as regional real estate trends.

The volume of transactions relating to commercial buildings is expected to hold at last year's levels during the second half of 2013.

Real Estate Finance is again working to build up a sustainably profitable lending portfolio, and will be selectively pitching for new business from institutional investors, funds and property developers. The department's business model is still based on the office, shopping centre, retail park, logistics facility and city hotel asset classes, and on conservative lending terms. As regards risk allocation, it is continuing to restrict itself to cooperating with tried-and-trusted partners on real estate projects with prime locations and particularly good prospects of stable long-term returns.

## CORPORATE & PROJECT FINANCE

The Corporate & Project Finance Department provides tailored finance solutions for a wide range of investments in the corporate and infrastructure sectors, both in Austria and the Danube region. Due to persistently low interest rates and the attractive terms offered by the Bank, there was no let-up in the increased demand for finance and short-term investments during the reporting period.

Direct contact with borrowers brought the department new customers and deepened its relationships with existing clients. This solid performance was not restricted to lending – investment services and cross-selling also generated new business.

The Bank's excellent external rating and the fact that it is wholly owned by the Lower Austrian state government give our customers peace of mind, and are playing an increasingly important role in their investment decisions.

Alongside transactions involving both hard and social infrastructure, the Bank aims to partner leading Lower Austrian companies that make a major contribution to the development of the regional economy. We have also been building on our relationships with church institutions and interest groups in order to appeal to wider customer segments. These marketing efforts are already bearing fruit, and resulting in increased demand for the services of the Group as a whole.

The frequent changes to the European renewable energy policy framework highlight the importance of forging close relationships with customers in this sector and of carefully aligning our project partners' interests. In Austria as elsewhere, building long-term customer relationships founded on trust remains the central objective.

During the reporting period we processed and agreed lucrative loans to fund selected projects outside Austria that match our Danube region strategy. Strict criteria are applied when assessing risk in such projects, and we prefer to offer finance in partnership with leading local banks and/or international financial institutions. The business opportunities in the pipeline point to growth in leading volume and earnings.

## TREASURY & FUNDING

During the first half of 2013 Group Treasury succeeded in further diversifying its investor base and product portfolio.

An extensive roadshow tour in Austria, Denmark, Finland and Germany helped us to exploit the favourable market climate and find takers for a EUR 500m senior unsecured benchmark five-year bond issue Thanks to the strong demand it was possible to close the order book early and achieve an attractive spread.

We responded to the strong investor interest in our name by launching further private placements, mainly in the long-term segment.

Treasury took advantage of the favourable market situation at the start of the year to make investments for the liquidity portfolio, and was rewarded with excellent spreads. The main focus was on meeting the Basel III regulatory requirements.

## FOREIGN BRANCHES, REPRESENTATIVE OFFICES AND BRANCHES

HYPO NOE Gruppe Bank AG had no foreign branches in the first half of 2013, but operated representative offices in Budapest and Prague. Preparations are under way to open a third representative office in Bulgaria.

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

# Landesbank segment

## HYPO NOE LANDESBANK AG

HYPO NOE Landesbank AG is the Group's retail subsidiary. With HYPO NOE Gruppe Bank as its parent and the Lower Austrian state government as its owner, the bank is well placed to nurture stable long-term customer relationships. Highly experienced and motivated staff put together tailor-made solutions designed to meet customers' highest expectations. Sustainability, reliability and a customer-driven approach are central to the bank's philosophy.

One of the main challenges confronting HYPO NOE Landesbank AG at present is the difficult situation on the retail banking market. Throughout the first half of 2013 the international money and bond markets remained at historic lows, and this squeezed the margins in our bread-and-butter retail and SME banking businesses. Meanwhile, credit demand remained very subdued, as did the demand for conventional forms of saving.

A slight improvement in the business climate and moderate growth in credit demand are probable in the second half of this year.

One upside of the current situation in the industry is the position with regard to provisioning for credit risks. At the same time the decline in new allocations to provisions continued, and proactive workout management resulted in the reversal of individual impairment allowances.

Action has been taken to address the challenges described above. High priority is being given to attracting new customers and positioning Landesbank as a branch-based, multi-channel bank. The 29 branches act as local hubs, and mobile services are steadily being added to the portfolio, enabling the bank to respond more flexibly to customer needs.

Rapid, needs-based customer advice and support is crucial – especially in emergencies like the widespread flooding that hit large parts of our state or threatened to do so in the spring of 2013. The Lower Austrian state government set up an account with HYPO NOE Landesbank for donations to the victims. For its part, the bank earmarked funds for emergency aid in the form of loans to flood victims in Lower Austria and Vienna. No processing fees were charged for the loans. They were interest-free for one year and had one-year grace periods, and the fixed-interest loans were at very favourable rates.

# Leasing segment

## HYPO NOE LEASING GMBH

HYPO NOE Leasing GmbH is the Group's product subsidiary for special-purpose finance solutions, and in particular for leasing. The company sets out to be a specialist provider of leasing solutions for the public sector in Lower Austria and Vienna. Its main areas of activity are real-estate and medical equipment leasing, and equipment leasing for local authorities.

During the first half of 2013 HYPO NOE Leasing extended its lead in the market for lease finance for regional and local authorities. Its main focus is on leases for the health care sector. A highlight of the reporting period was a lease written for a care home in Hollabrunn.

# Other segment

## HYPO NOE REAL CONSULT GMBH

HYPO NOE Real Consult concentrates on project development, project management and property management. The company has continued to perform well in all of its business segments this year, and is actively seeking new business – albeit in a very testing trading environment.

Work proceeded, on budget, on high-end residential construction projects initiated in 2012 at attractive Vienna locations, and on a high-profile project on the main square in Korneuburg, which is being implemented in partnership with ARE Development. The project development department is also looking for new internal Group business. The outlook for the rest of 2013 is good, with a number of projects at the appraisal stage. All are housing projects in Vienna, and contracts for the projects are expected to be signed during the third quarter of this year. HYPO NOE Real Consult is also responsible for the strategic management of all of the properties owned by the Group.

On the project management front, during the first half of 2013 the company made good progress with some major construction projects, including the IST Austria science laboratories in Klosterneuburg and the Karl Landsteiner University. A major project in Berlin has given HYPO NOE Real Consult its first opportunity to gain experience of working abroad. Thanks to its quality-driven project management methods the company achieved the usual high levels of client satisfaction during the reporting period.

A customer acquisition drive is also under way in the property management business. In addition, efforts are being made to enhance customer focus and service by introducing new software tools, some of them web-based.

During the first quarter HYPO NOE Real Consult's estate agency services were transferred to fellow Group company HYPO NOE Immobilienmanagement GmbH.

All three business segments hit their targets for the first half of 2013, giving HYPO NOE Real Consult a strong platform for good full-year performance.

## HYPO NOE FIRST FACILITY GMBH

HYPO NOE First Facility GmbH is one of the leading full-line providers of facility management (FM) services in Austria and CEE. Besides conventional FM and technical services, its portfolio includes facility and energy management consultancy.

Its core competency is low-cost, high-availability, sustainable building operation. At the heart of its processes are a highly skilled workforce, a knowledge base that has been built up over many years, and powerful facility management software.

During the first half of 2013 the company focused on implementing this software and refining its organisational structure. Also high on its agenda were efforts to set itself apart from the competition by adding to its knowledge of technology-driven improvements to energy efficiency, and by developing methods for increasing plant availability as well as prioritised maintenance strategies.

In the course of the reporting period HYPO NOE First Facility won further tenders in Lower Austria, Vienna and CEE. For instance, one of its facility managers will provide support services for the Sportwelt Niederösterreich sports centre. The company also won the FM contracts for the Sky Tower office building in Bucharest, as well as the new Litex Tower and the headquarters of a major international bank in central Sofia.

Like the entire property sector, the facility management industry faces difficult market conditions at present. However, with increasing deal activity fuelling the demand for consultancy – especially technical due diligence services – the company is expected to put in a good overall performance this year.

HYPO NOE First Facility is strongly committed to creating mobile technical services units so as to provide affordable, rapid-response services for small and medium-sized properties.

# RISK REPORT

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

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

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

## 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, monitor and actively manage all types of banking risks.

Our organisational structure provides for a clear separation of the front and back office functions (four-eye principle) at every level up to the Management Board. The front office functions originate business and give initial clearance to transactions, while the back office functions cast a second vote (second opinion) that confers final approval. The unanimous approval of the front and back office functions is required for lending decisions going beyond the limits and collaterals established by staff members' decision-making authorities. There is also a structured process for the approval of exposures requiring resolutions of the Group Supervisory Board.

In principle, all quantifiable risks throughout the HYPO NOE Group are subject to the Group-wide, uniform limit system, which is constantly monitored. No risk may be assumed unless a corresponding limit is in place.

The Group-wide risk reporting system ensures that reporting of all risks is regular, timely and comprehensive. In addition to the monthly ICAAP report, which provides an aggregated summary of all risks and their capital coverage, the Management and Supervisory boards receive separate, regular risk reports for each risk category. These provide comprehensive information on current risk developments.

The disclosures required by sections 26 and 26a Austrian Banking Act in conjunction with the OffV (FMA Disclosure Order) are on a consolidated basis for the HYPO NOE Group, in a separate document posted on our website.

# Aggregate risk management and risk bearing capacity (ICAAP)

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

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

1. The economic capital management control loop, which is dedicated to creditor protection from a liquidation perspective. Here, 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, which 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.

Despite the adverse market environment and refinements to the methodology for quantifying total bank risk made in the first half of 2013, as at 30 June 2013 Group utilisation of the risk limit was only 86.0% (including an adequate buffer) – a moderate increase as compared to 31 December 2012 (78.4%).

# Significant risk related developments in the first half of 2013

## EXPOSURE TO THE EURO PERIPHERALS AND HUNGARY

Due to the crisis in the euro peripherals (Cyprus, Greece, Ireland, Italy, Portugal and Spain) and Hungary, we are continuing to watch developments in these countries very closely.

The first half of 2013 witnessed a payment of EUR 62.4m in part-redemption of the outstanding Hungarian local authority bonds, meaning that the Group's exposure to Hungary was reduced by that amount without loss.

There are still no plans to increase our existing exposures to the PIIGS* countries, Cyprus and Hungary.

## CREDIT RISK

Refining our credit risk management system is seen as a long-term strategic growth driver for the HYPO NOE Group.

## BANK-WIDE STRESS TESTING

The annual internal bank-wide stress test, carried out in consultation with the risk management and portfolio management functions in the first half of 2013, began with a wide-ranging economic analysis, and went on to map out scenarios relevant to the Group's business model (e.g. a worsening EU sovereign debt crisis), and to simulate their impact on credit, investment, interest rate and liquidity risk at subsidiary and Group level, in terms of regulatory and economic risk bearing capacity. The results were presented to management and suitable responses formulated.

* Portugal, Ireland, Italy, Greece and Spain

# Outlook for 2013

The Group's business performance in the first half of 2013 has again demonstrated the wisdom of its long-term strategic focus. The approach to new exposures will continue to be highly selective and attuned to the Group's risk bearing capacity.

## BASEL III

Most of the Basel III regulations will come into force on 1 January 2014. We are focusing on complying with the regulatory requirements established by the CRD IV, CRR I, the Austrian Banking Act and EMIR (the regulation dealing with OTC derivatives), and other draft European financial legislation. We are also evaluating the planned liquidity ratios and capital buffers.

## CREDIT RISK

One of the central issues over the next few months will be the worsening probability of default trend. Both higher risk provisions (increase in expected losses) and a rise in credit value at risk (unexpected losses) are likely. We addressed these threats during last year's planning process, and a conservative approach will be taken to any negative deviations that show up in the ICAAP reports.

## RISK MANAGEMENT SYSTEMS

In 2013 we will again be investing large amounts in IT infrastructure, as well as process, methodology and staff development, in order to ensure that our risk control systems continue to be consonant with the authorised levels of risk tolerance and our business objectives.

# Credit risk

Credit risk is the danger of a deterioration in creditworthiness, and ultimately the risk of default by a counterparty.

The HYPO NOE Group calculates regulatory capital for credit risks using the standardised approach required by section 22a Banking Act, and the "simple" credit risk mitigation method.

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

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

The Group mainly uses use Österreichische Volksbanken AG (VBAG) ratings procedures under a service agreement for internal credit ratings of customers in the retail, single entry and double entry accounting, real estate finance and project finance categories. There is a separate rating procedure for banks. A dedicated rating tool has been developed for Austrian local authorities and is currently being rolled out.

Internal ratings are generally used for credit risks and investment risks. There are relatively few unrated customers, and they are constantly monitored. Unrated loans are generally assigned a conservative 4A rating.

## CREDIT RISK ANALYSIS

Lending is one of the HYPO NOE Group's core businesses, and assuming and managing credit risks, and keeping them within limits is thus one of the Bank's core competencies. Lending activities, the valuation and classification of collateral, and credit ratings are all governed by strict organisational and substantive rules, the 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 units are responsible for the full range of activities related to the assessment, monitoring and management of all risks associated with on and off-balance sheet lending at the individual customer level. The main emphasis is on checking both the form and content of loan applications and providing the second opinions. The departments also have sole responsibility for the rating assessments (apart from those in the low-volume retail lending business).

In addition, the operational credit risk management departments are responsible for monitoring early warning indicators (principally generated by the Credit Services Department) in order to identify potential problem customers as early as possible so as to initiate countermeasures in good time.

Below a given rating level, exposures are classified as "watch loans", or transferred for intensive care by the Workout Management Department. The HYPO NOE Group applies rigorous standards as to what constitutes default.

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

## RISK PROVISIONS

Individual or collective impairment allowances 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 current valuations of collaterals, the repayment structure, and the projected cash flows and maturities.

Collective impairment allowances are recognised for reductions in the value of the Group lending portfolio (losses incurred but not reported) as at the end of the reporting period.

## CREDIT RISK MONITORING AND PORTFOLIO MANAGEMENT

The Strategic Risk Management Department is responsible for monitoring credit risk at portfolio level.

Management is kept up to date with changes in credit risks by 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). There are also regular reports to management on the ten largest exposures in each strategic business. 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).

## CURRENT RISK SITUATION

The Group's portfolio of loans and investments largely consists of low-risk loans to public sector borrowers such as sovereigns, the Austrian federal government, state governments and local authorities (and their associated enterprises), as well as loans to banks with good external ratings (predominantly own investments, derivatives and money market investments) and – generally well collateralised – loans to housing construction companies (both large housing associations and private sector builders). Within these low-risk areas there are nevertheless significant risk concentrations (unsecured lending per individual borrower) in the loan portfolio.

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

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

The credit portfolio exhibits no other notable concentrations of risk from a Group perspective. Most of the Bank's operations relate to lending to the Austrian public sector.

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

Group Strategic Risk Management regularly checks the non-performing asset (NPA) ratios and NPA coverage of individual members of the Group. The non-performing loan (NPL) ratio, defined as total exposure on default customers (5A-5E rated) divided by total loans and advances to customers, is calculated at Group level. As at 30 June 2013 this was 2.21% (31 Dec. 2012: 2.35%).

# Interest rate risk

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

## RISK MANAGEMENT

Fixed and non-linear interest rate risks are by and large eliminated by the use of hedges. Only IAS-compliant hedges (fair value or cash flow hedges) are employed. Strategic, long-term, interest-rate-sensitive positions in the banking book are discussed by the Asset Liability Management Committee, and implementation is subject to approval by the Management Board. Equity is invested and reported in the form of a rolling fixed income portfolio.

Monitoring and quantification of interest rate risk is the responsibility of a back office department, Group Strategic Risk Management, which performs interest rate gap and sensitivity analyses. Positions with unspecified fixed interest rates are modelled and regularly assessed on the basis of statistical methods and/or expert evaluations.

The present value of interest rate risk is limited by means of an absolute limit to be applied in internal risk measurement, which is imposed during the annual risk budgeting process on the basis of the Bank's total risk-bearing capacity and risk tolerance, and in line with the limit requirements set out in the Oesterreichische Nationalbank (OeNB) interest rate risk statistics.

## CURRENT RISK SITUATION

The Oesterreichische Nationalbank statistics indicate that as of 30 June 2013 interest rate risk was moderate relative to the regulatory limit (20% of eligible capital), at 2.16% (31 Dec. 2012: 2.45%). Other derivative interest rate risks or open on-balance-sheet interest rate risk positions are only assumed within strictly defined internal limits and following a rigorous assessment. As a result, the level of such risks is very limited.

# Market risk

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

## RISK MANAGEMENT

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

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

## CURRENT RISK SITUATION

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

Spread risks are particularly important in connection with the Group's own investments, and these risks are managed on an ongoing basis in accordance with the risk management guidelines for investments.

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

Only a limited degree of volatility risk exists, and the Group does not face any equity risk.

Due to the new market standard for pricing collateralised OTC derivatives basis risk is reported at present value, under net gains or losses on hedges.

# Liquidity risk

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

## LIQUIDITY RISK MANAGEMENT

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

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

Liquidity management measures are derived from the medium-term funding and issuance programme, which is drawn in the course of the annual rolling budgeting process on the basis of liquidity maturity profiles, including forecast new business. The programme requires the approval of the Management Board. Any decisions regarding issuance that deviate significantly from this framework are taken on a case-by-case basis by the Management Board.

The Group refines its liquidity risk management system on an ongoing basis.

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

In helping to manage, plan and monitor the Group's daily liquidity requirements, the Group Strategic Risk Management Department prepares weekly reports on daily liquidity gaps in existing business for the next 30 days, broken down by currency. Group Treasury forecasts liquidity requirements for the following days by applying assumptions on rolling and new business, and manages liquidity by means of funding from the European Central Bank as well as collateralised and uncollateralised money market refinancing.

### Tactical liquidity risk (up to one year)

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

### Structural liquidity risk (beyond one year)

To support strategic liquidity management and structural analysis of the liquidity risk position, the HYPO NOE Group analyses the expected capital flows over the entire maturities of all on and off-balance sheet transactions. Group Strategic Risk Management monitors periodic and cumulative excess capital inflows and outflows, and reports on them to the relevant organisational units on a fortnightly basis, and to the Asset Liability Committee on a monthly basis. These reports also play a part in the budgeting process, and serve as the basis for the medium-term funding and issuance programme. A monitoring system is in place to identify deviations and take corrective measures as required.

## CONTINGENCY PLAN

The liquidity contingency plan is aimed at maintaining efficient liquidity management even in a crisis-hit market environment. The Group has a liquidity contingency plan that governs the lines of responsibility in an emergency, the composition of the crisis teams, the internal and external communication channels, and the action to be taken if necessary. A crisis team would take control of liquidity management in an emergency, and in some cases would also decide on the action to be taken.

## CURRENT RISK SITUATION

The liquidity situation of the HYPO NOE Group remains comfortable. The Group has sufficient access to short and long-term refinancing mechanisms. as well as sufficient assets eligible as collateral for ECB tenders and a broad funding portfolio in the event that markets freeze up again – further proof that the current liquidity position on a 12-month horizon is satisfactory. Recourse to long-term sources of finance is also possible despite the challenging market environment. Action to secure medium to long-term liquidity in the current climate has gone ahead as planned.

# Operational risk

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

In the HYPO NOE Group operational risks are kept under control by regularly adapting and improving internal guidelines, and by means of contingency plans, the four-eye principle, staff training and development, and insurance of various risks.

As operational risk is harder to measure than market or credit risk, and there is insufficient statistical data (a small number of high-loss events and a large number of low-loss events) mitigation calls for a high level of awareness from all levels of management at the Bank.

# Reputational risk

The HYPO NOE Group attaches great importance to the avoidance of 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.

# Other risks

"Other risks" consist largely of business risk (the danger of loss as a result of a deterioration in the economic environment and the Bank's business relationships) and strategic risks (the danger of losses arising from decisions concerning the Bank's strategic focus and business development).

Sufficient risk capital is maintained to cover unquantifiable risks.

# 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.

No provisions for latent legal risk were recognised in 2013. The proceedings initiated in 2011 in the Administrative Court of Appeal contesting the interest penalty imposed by notice by the Austrian Financial Market Authority (FMA) in connection with Augustus Funding Limited are still pending. Payment of the penalty has already been made.

# GROUP OUTLOOK FOR 2013

Following a strong operating performance in the first half of 2013 the HYPO NOE Group can look forward to the rest of the year with optimism. As things stand, the HYPO NOE Group is seen posting solid performance across all its business segments, in line with its earnings targets. We will maintain a tight focus on our target customer groups and core geographical markets. There are still no plans to increase our existing exposures in countries which are at the centre of market attention as a result of the sovereign debt crisis. For information on the Group's lines of business, readers are referred to the segment reports and the comments on risk management in the risk report.

This year we are focusing on accelerating the integration of our sales networks, increasing efficiency and winning new customers. Another high priority is compliance with the rapidly changing body of regulatory requirements to which we are now subject, including those of Basel III, EMIR, BIRG (Bank Intervention and Restructuring Act), and FATCA. We are also pressing ahead with activities aimed at diversifying our sources of funding.

The Group's wide-ranging human resources programmes are intended to underpin long-term customer satisfaction and the sustainability of our business model.

## Market outlook

In the opinion of the HYPO NOE Group the divergent trends affecting the world economy and the Fed's announcement that it will start to wind down its unconventional monetary policies are indicators of a period of increased volatility on financial markets. While the US and Japanese economies are likely to continue their recoveries, the outlook for the euro area and the emerging markets is gloomy. Although the eurozone economy expanded in the second quarter for the first time after six successive quarters of negative growth, there are still no signs that it is gaining momentum. Despite the easing of the recession in the euro periphery the situation remains challenging. We see good prospects for continued stabilisation of the euro area provided that the ECB keeps the OMT programme in place. The problems of the emerging world are structural, and in the case of China they are also due to the loose monetary and fiscal policies of the past few years. Because of this, emerging-market governments are unlikely to resort to stimulus measures again in response to the current slowdown. While the euro area will need the ECB to hold interest rates at low levels for a long time to come, increases – temporary or otherwise – are looming in the USA and Japan. It remains to be seen whether commodity prices will continue to fall, as many analysts are predicting, or bounce back. Crude oil prices have advanced strongly of late. Our baseline scenario sees the mild recovery in the eurozone persisting, and market interest rates and share prices edging up. Tail risks, which include political trouble spots, could cause at least temporary market turbulence, and are kept under constant observation.

# EVENTS AFTER THE REPORTING PERIOD

In December 2009 the HYPO NOE Group agreed to finance the construction of a retail park to the south-west of Budapest. During the first half of 2013 the Supervisory Board empowered the Management Board to take part in the auction of the property provided that this was an appropriate course of action in the light of the risks, and advantages and disadvantages for the Bank.

To prepare for the auction, the following companies were formed in July 2013:
- SRE Ungarn Holding 1 GmbH, Austria
- SRE Sziget Center Kft., Hungary

St Pölten, 26 August 2013

The Management Board

**Peter Harold**
Chairman of the Management Board

**Nikolai de Arnoldi**
Member of the Management Board

# SEMI-ANNUAL FINANCIAL STATEMENTS

## AS AT 30 JUNE 2013



HYPO NOE
GRUPPE

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| Income statement (EUR '000) | (Notes) | H1 2013 | H1 2012 |
|---|---|---|---|
| Interest and similar income | (3.1) | 287,528 | 263,192 |
| *thereof: income from investments accounted for using the equity method* | | *1,575* | *1,432* |
| Interest and similar expense | (3.2) | -223,852 | -193,627 |
| **Net interest income** | | **63,675** | **69,565** |
| Credit provisions | (3.4) | 1,059 | -8,522 |
| **Net interest income after risk provisions** | | **64,734** | **61,043** |
| Fee and commission income | | 7,617 | 8,130 |
| Fee and commission expense | | -1,349 | -2,134 |
| **Net fee and commission income** | **(3.5)** | **6,268** | **5,996** |
| Net trading income | (3.6) | 1,527 | -1,267 |
| General administrative expenses | (3.7) | -58,482 | -50,121 |
| Net other operating income | (3.8) | 11,168 | 2,008 |
| Gains or losses on disposal of consolidated subsidiaries | (3.9) | 150 | - |
| Net gains or losses on available-for-sale financial assets | (3.10) | 45 | -6,311 |
| Net gains or losses on financial assets designated as at fair value through profit or loss | (3.11) | -73 | -226 |
| Net gains or losses on hedges | (3.12) | -10,353 | -876 |
| Net gains or losses on other financial investments | (3.14) | 4,494 | 24 |
| **Profit before tax** | | **19,478** | **10,270** |
| Income tax expense | (3.15) | -4,935 | -2,600 |
| **Profit for the period** | | **14,543** | **7,670** |
| Non-controlling interests | (3.16) | -61 | -18 |
| **Profit attributable to owners of the parent** | | **14,482** | **7,652** |

| Other comprehensive income (EUR '000) | H1 2013 | H1 2012 |
|---|---|---|
| **Profit attributable to owners of the parent** | **14,482** | **7,652** |
| **Items that will not be reclassified to profit or loss** | | |
| **Items that may be reclassified subsequently to profit or loss** | | |
| *Change in available-for-sale financial instruments (before tax)* | *13,525* | *25,487* |
| *Change in cash flow hedge (before tax)* | *-536* | *-1,286* |
| *Exchange differences on translating foreign operations accounted for using the equity method (before tax)* | *-1* | *-* |
| *Change in deferred tax* | *-3,247* | *-6,050* |
| **Total other comprehensive income** | **9,741** | **18,150** |
| **Total comprehensive income attributable to owners of the parent** | **24,223** | **25,802** |

Other comprehensive income is attributable to owners of the parent.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| Assets (EUR '000) | (Notes) | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|---|
| Cash and balances at central banks | (4.1) | 90,352 | 71,644 |
| Loans and advances to banks | (4.2) | 818,137 | 894,317 |
| Loans and advances to customers | (4.3) | 10,299,445 | 10,735,077 |
| Risk provisions | (4.4) | -109,970 | -112,899 |
| Assets held for trading | (4.5) | 502,107 | 607,414 |
| Positive fair value of hedges (hedge accounting) | (4.6) | 425,102 | 617,935 |
| Available-for-sale financial assets | (4.7) | 1,884,933 | 1,825,600 |
| Financial assets designated as at fair value through profit or loss | (4.8) | 4,704 | 4,662 |
| Financial assets held to maturity | (4.9) | - | 10,009 |
| Investments accounted for using the equity method | (4.10) | 53,575 | 53,514 |
| Investment property | (4.11) | 50,567 | 52,256 |
| Intangible assets | (4.12) | 2,044 | 2,194 |
| Property, plant and equipment | (4.12) | 66,195 | 67,507 |
| Deferred tax assets | (4.13) | 4,380 | 5,342 |
| Other assets | (4.14) | 28,877 | 27,125 |
| **Total assets** | | **14,120,448** | **14,861,697** |

| Equity and liabilities (EUR '000) | | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|---|
| Deposits from banks | (4.15) | 1,862,927 | 2,717,286 |
| Deposits from customers | (4.16) | 2,188,033 | 2,254,455 |
| Debts evidenced by certificates | (4.17) | 8,282,689 | 7,911,349 |
| Liabilities held for trading | (4.18) | 422,962 | 525,043 |
| Negative fair value of hedges (hedge accounting) | (4.19) | 481,859 | 593,630 |
| Provisions | (4.20) | 47,702 | 47,748 |
| Current tax liabilities | (4.21) | 20,548 | 17,006 |
| Deferred tax liabilities | (4.21) | 19,552 | 16,962 |
| Other liabilities | (4.22) | 79,277 | 78,241 |
| Subordinated capital | (4.23) | 203,512 | 202,435 |
| Equity (including non-controlling interests)* | (4.24) | 511,387 | 497,542 |
| Equity attributable to owners of the parent | | 510,199 | 496,977 |
| Non-controlling interests | | 1,188 | 565 |
| **Total equity and liabilities** | | **14,120,448** | **14,861,697** |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| 30 Jun. 2013 EUR '000 | Balance at 1 Jan. 2013 | Profit/ loss for the year | Dividends paid | Changes in scope of consolidation | Other comprehensive income | Balance at 30 Jun. 2013 |
|---|---|---|---|---|---|---|
| Share capital | 51,981 | - | - | - | - | 51,981 |
| Capital reserves | 191,824 | - | - | - | - | 191,824 |
| Retained earnings | 286,762 | 14,482 | -11,000 | - | - | 290,244 |
| IAS 19 reserve | -5,498 | - | - | - | - | -5,498 |
| Available-for-sale reserve | -29,964 | - | - | - | 10,144 | -19,820 |
| Cash flow hedge reserve | 1,875 | - | - | - | -402 | 1,473 |
| Currency translation reserve | -3 | - | - | - | -1 | -4 |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** | **496,977** | **14,482** | **-11,000** | **-** | **9,741** | **510,199** |
| Non-controlling interests | 565 | 61 | - | 563 | - | 1,188 |
| **TOTAL EQUITY** | **497,542** | **14,543** | **-11,000** | **563** | **9,741** | **511,387** |

| 30 Jun. 2012 EUR '000 | Balance at 1 Jan. 2012 | Profit/ loss for the year | Dividends paid | Changes in scope of consolidation | Other comprehensive income | Balance at 30 Jun. 2012 |
|---|---|---|---|---|---|---|
| Share capital | 51,981 | - | - | - | - | 51,981 |
| Capital reserves | 191,824 | - | - | - | - | 191,824 |
| Retained earnings | 275,891 | 7,652 | -11,900 | - | - | 271,643 |
| IAS 19 reserve | -3,439 | - | - | - | - | -3,439 |
| Available-for-sale reserve | -88,240 | - | - | - | 19,115 | -69,125 |
| Cash flow hedge reserve | 2,592 | - | - | - | -965 | 1,627 |
| Currency translation reserve | - | - | - | - | - | - |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** | **430,608** | **7,652** | **-11,900** | **-** | **18,150** | **444,510** |
| Non-controlling interests | 528 | 18 | - | - | - | 546 |
| **TOTAL EQUITY** | **431,135** | **7,670** | **-11,900** | **-** | **18,150** | **445,056** |

Additional information is given in Note 4.24 Equity.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| **Cash and cash equivalents at end of previous period** | **71,644** | **78,739** |
| Cash flows from operating activities | 19,233 | 33,214 |
| Cash flows from investing activities | 9,650 | -28,600 |
| Cash flows from financing activities | -9,923 | -11,709 |
| Effects of exchange rate changes on cash and cash equivalents | -252 | - |
| **Cash and cash equivalents at end of period** | **90,352** | **71,644** |

# NOTES

## TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2013



HYPO NOE GRUPPE

# 1. ACCOUNTING AND MEASUREMENT POLICIES

The interim financial statements of the HYPO NOE Gruppe Bank AG Group (hereafter "Hypo NOE Group") as at 30 June 2013 were drawn up in accordance with 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 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, and applicable to the business activities of the HYPO NOE Group.

IAS 34 was applied to preparation of this interim report. The same accounting policies were applied to the interim report of the HYPO NOE Group as on 31 December 2012. The interim financial statements comply with IFRS 13 Fair Value Measurement, which came into effect on 1 January 2013. IFRS 13 provides a single definition of fair value, which was previously governed by a variety of standards. The focus is on the measurement of fair value. Due to the fact that an improved methodology has become standard practice, since 30 June 2013 the Group has been using OIS discounting in place of Euribor discounting to value collateralised OTC derivatives. The derivatives measured at fair value are all part of economically hedged positions. However, where a different discounting method is applied to the underlyings this results in temporary fluctuations in income that fully reverse by the time that the transactions mature. The unlisted investments classified as available-for-sale financial assets are mostly carried at cost, but fair value measurement methods complying with IFRS 13 are currently being developed and will be implemented in the second half of 2013. This new standard has resulted in the unification of the disclosures made in the notes, and in the provision of additional information. In conformity with IAS 34, the requirement to make additional disclosures in the notes imposed by IFRS 13 and IFRS 7 has been met, and this has resulted in an increased administrative workload.

The interim financial statements do not contain all of the information required for full annual financial statements, and should therefore be read in conjunction with the consolidated annual financial statements as at 31 December 2012.

# 2. CHANGES IN THE SCOPE OF CONSOLIDATION AS AT 30 JUNE 2013

## Formations

The following new company formations are included in the 2013 interim financial statements as at 30 June 2013.

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

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

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

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

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

## Acquisitions

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

## Disposals

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

Further information on this disposal is given under Note 3.9 Gains or losses on disposal of consolidated subsidiaries.

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

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

## Changes of name

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

## DETAILED DISCLOSURES ON ACQUISITIONS

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

The reasons for the acquisition of Hauptplatz 18 were the need to meet the requirements for return on investment, and the wish to provide a further demonstration of the Group's real-estate expertise by undertaking an innovative municipal property development project. The company owns a property in central Korneuburg that was home to the regional court until 2012 and is now to be devoted to other uses (retail and residential). A comprehensive refurbishment project paying due attention to the property's listed-building status is currently being developed.

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

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

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

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

# 3. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

## 3.1 Interest and similar income

Income from investments accounted for using the equity method includes a gain of EUR 337thsd on the disposal of V2 FM GmbH (see disposals under Note 2 Changes in the scope of consolidation as at 30 June 2013), as well as EUR 156thsd in impairments (see Note 3.3 Impairment losses (summary table)) recognised in respect of the equity-method holding in HYPO NOE First Facility GmbH, most of which arises from the impairment loss on first facility Ingatlankezelö Kft.

### 3.1.A INTEREST AND SIMILAR INCOME

| EUR '000 | H1 2013 | H1 2012 |
|---|---|---|
| **Interest income from:** | | |
| Cash and balances at central banks | 35 | 54 |
| Loans and advances to banks | 5,029 | 3,897 |
| Loans and advances to customers | 114,699 | 131,740 |
| Bonds, public debt certificates and other fixed-income securities | 23,999 | 32,332 |
| Hedges (hedge accounting) | 85,010 | 60,907 |
| Other interest income | 52,199 | 23,412 |
| *thereof: income from investments accounted for using the equity method* | *1,575* | *1,432* |
| *thereof: income from investment property:* | *652* | *891* |
| *rental income* | *1,260* | *1,596* |
| *depreciation* | *-608* | *-705* |
| **Current income from:** | | |
| Leases | 6,549 | 9,917 |
| Shares and other variable income securities | - | 933 |
| Other investments | 8 | - |
| **Total** | **287,528** | **263,192** |

### 3.1.B INTEREST AND SIMILAR INCOME BY IAS 39 MEASUREMENT CATEGORIES

| EUR '000 | H1 2013 | H1 2012 |
|---|---|---|
| **Interest and similar income from:** | | |
| Loans and receivables (LAR) | 120,077 | 137,960 |
| Available-for-sale (AFS) assets | 23,853 | 33,037 |
| Assets held to maturity (HTM) | 39 | 113 |
| Assets measured at fair value through profit or loss (FVTPL) | 115 | 116 |
| Assets held for trading (HFT) | 48,214 | 17,657 |
| Impaired loans and advances (unwinding) | 246 | 96 |
| Hedges (hedge accounting) | 85,010 | 60,907 |
| Interest income attributable to other periods | 74 | 75 |
| Income from investments accounted for using the equity method | 1,575 | 1,432 |
| Income from investment property: | 652 | 891 |
| *rental income* | *1,260* | *1,596* |
| *depreciation* | *-608* | *-705* |
| Current lease income | 6,549 | 9,917 |
| Current origination and commitment fees (IAS 18) | 1,124 | 991 |
| **Total** | **287,528** | **263,192** |

## 3.2 Interest and similar expense

### 3.2.A INTEREST AND SIMILAR EXPENSE

| EUR '000 | H1 2013 | H1 2012 |
|---|---|---|
| **Interest expense on:** | | |
| Liabilities to central banks | -488 | -2,142 |
| Deposits from banks | -6,116 | -11,729 |
| Deposits from customers | -16,537 | -24,297 |
| Debts evidenced by certificates | -98,766 | -97,444 |
| Subordinated capital | -1,542 | -2,121 |
| Hedges (hedge accounting) | -52,556 | -37,433 |
| Other interest expense | -47,847 | -18,461 |
| **Total** | **-223,852** | **-193,627** |

### 3.2.B INTEREST AND SIMILAR EXPENSE BY IAS 39 MEASUREMENT CATEGORIES

| EUR '000 | H1 2013 | H1 2012 |
|---|---|---|
| **Interest expense on:** | | |
| Financial liabilities measured at amortised cost (LAC) | -123,448 | -138,665 |
| Financial liabilities held for trading (HFT) | -47,848 | -17,529 |
| Hedges (hedge accounting) | -52,556 | -37,433 |
| **Total** | **-223,852** | **-193,627** |

## 3.3 Impairment losses (summary table)

| H1 2013 EUR '000 | | (-) | (+) | Total recognised in reporting period |
|---|---|---|---|---|
| **Impairment losses on financial assets not measured at fair value through profit or loss (FVTPL):** | | **-7,944** | **8,991** | **1,047** |
| Available-for-sale (AFS) financial assets | (3.10) | -15 | 273 | 258 |
| Loans and receivables (LAR) (inc. finance leases) measured at amortised cost | (3.4) | -7,929 | 8,718 | 789 |
| **Impairments according to IAS 36:** | | **-156** | **-** | **-156** |
| Investments accounted for using the equity method | (3.1) | -156 | - | -156 |
| **TOTAL** | | **-8,100** | **8,991** | **891** |

| H1 2012 EUR '000 | | (-) | (+) | Total recognised in reporting period |
|---|---|---|---|---|
| **Impairment losses on financial assets not measured at fair value through profit or loss (FVTPL):** | | **-17,617** | **6,736** | **-10,881** |
| Available-for-sale (AFS) financial assets | (3.10) | -2,249 | 421 | -1,828 |
| Loans and receivables (LAR) (inc. finance leases) measured at amortised cost | (3.4) | -15,368 | 6,315 | -9,053 |
| **Impairments according to IAS 36:** | | **-** | **-** | **-** |
| Investments accounted for using the equity method | | - | - | - |
| **TOTAL** | | **-17,617** | **6,736** | **-10,881** |

## 3.4 Credit provisions

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

| EUR '000 | | H1 2013 | H1 2012 |
|---|---|---|---|
| **Allocations to:** | | **-7,909** | **-15,236** |
| Individual impairment allowances | (3.3) | -5,172 | -14,077 |
| Collective impairment allowances | (3.3) | -2,732 | -1,142 |
| Other credit provisions | | -5 | -17 |
| **Reversals of:** | | **8,534** | **6,426** |
| Individual impairment allowances | (3.3) | 6,559 | 5,017 |
| Collective impairment allowances | (3.3) | 1,701 | 860 |
| Other credit provisions | | 274 | 549 |
| **Receipts from impaired assets** | (3.3) | **458** | **438** |
| **Direct write-offs** | (3.3) | **-25** | **-149** |
| **Total** | | **1,059** | **-8,522** |

## 3.5 Net fee and commission income

| EUR '000 | H1 2013 | H1 2012 |
|---|---|---|
| **Fee and commission income from:** | **7,617** | **8,130** |
| Loans and advances | 806 | 770 |
| Securities and custody account business | 1,749 | 2,387 |
| Payment transactions | 2,658 | 2,938 |
| Foreign exchange, foreign notes and coins, and precious metals | 301 | 143 |
| Other services | 1,717 | 1,611 |
| Diversification | 273 | 259 |
| Other fee and commission income | 113 | 22 |
| **Fee and commission expense on:** | **-1,349** | **-2,134** |
| Loans and advances | -32 | -27 |
| Securities and custody account business | -587 | -1,312 |
| Payment transactions | -545 | -618 |
| Other services | -13 | -8 |
| Diversification | -172 | -169 |
| **Total** | **6,268** | **5,996** |

## 3.6 Net trading income

| EUR '000 | H1 2013 | H1 2012 |
|---|---|---|
| Interest rate transactions | 2,005 | -2,007 |
| Foreign exchange transactions | -605 | 951 |
| Other transactions | 127 | -211 |
| **Total** | **1,527** | **-1,267** |

The change in net trading income reflects the early closure of swap positions and the shift in the interest rate curve due to the adoption of a new market standard for asset valuation.

## 3.7 General administrative expenses

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

| EUR '000 | H1 2013 | H1 2012 |
|---|---|---|
| Staff costs | -33,941 | -27,327 |
| Other administrative expenses | -21,670 | -20,849 |
| Depreciation, amortisation and impairment | -2,871 | -1,945 |
| **Total** | **-58,482** | **-50,121** |

Due to the large number of sub-items there are rounding differences in the detailed disclosures on general administrative expenses.

## 3.7.1 STAFF COSTS

| EUR '000 | H1 2013 | H1 2012 |
|---|---|---|
| Wages and salaries | -26,095 | -20,470 |
| *thereof phantom-share-based cash incentives* | *-282* | - |
| Social security costs | -5,374 | -4,349 |
| Cost of voluntary employee benefits | -641 | -610 |
| Retirement benefit costs | -893 | -1,094 |
| Termination benefit costs | -938 | -804 |
| *thereof expenses for provident fund* | *-257* | *-191* |
| **Total** | **-33,941** | **-27,327** |

| | H1 2013 | H1 2012 |
|---|---|---|
| Average number of employees (inc. staff on parental leave) | 891 | 691 |

The year-on-year increase in staff costs is largely explained by the acquisition of HYPO NOE First Facility GmbH on 2 July 2012, which was responsible for EUR 4,010thsd of the change. The acquisition raised the average number of employees by 155.

## 3.7.2 OTHER ADMINISTRATIVE EXPENSES

| EUR '000 | H1 2013 | H1 2012 |
|---|---|---|
| Premises | -3,282 | -3,968 |
| Office and communication expenses | -755 | -916 |
| IT expenses | -3,961 | -3,598 |
| Legal and consultancy costs | -3,176 | -2,377 |
| Advertising and entertainment costs | -3,181 | -2,985 |
| Cost of transfers of liability | -752 | -779 |
| Other administrative expenses | -6,563 | -6,226 |
| **Total** | **-21,670** | **-20,849** |

### 3.7.3 DEPRECIATION, AMORTISATION AND IMPAIRMENT

| EUR '000 | H1 2013 | H1 2012 |
|---|---|---|
| **Depreciation and amortisation:** | **-2,871** | **-1,945** |
| Intangible assets | -341 | -55 |
| Buildings used by Group companies | -748 | -144 |
| Equipment, fixtures and furnishings (including low value assets) | -1,782 | -1,746 |
| **Total** | **-2,871** | **-1,945** |

The increase in this item chiefly relates to the Group headquarters building in St Pölten.

## 3.8 Net other operating expenses/income

| EUR '000 | H1 2013 | H1 2012 |
|---|---|---|
| **Other rental income** | **244** | **130** |
| **Gains/losses on** | **161** | **1,192** |
| disposal of intangible assets, and property, plant and equipment | 161 | 1,192 |
| **Gains/losses on recognition and reversal of provisions** | **73** | **42** |
| **Sundry other operating expenses/income** | **10,690** | **644** |
| Sundry other operating income | 15,242 | 4,648 |
| Sundry other operating expenses | -4,552 | -4,004 |
| **Total** | **11,168** | **2,008** |

The high level of "Gains on disposal" in 2012 reflects the sale of a property in St Pölten used by the Bank.

The "Sundry other operating income" sub-item rose by EUR 8,302thsd and "Sundry other operating expenses" by EUR 4,517thsd as a result of the acquisition of HYPO NOE First Facility GmbH on 2 July 2012.

"Sundry other operating expenses/income" includes a net gain of EUR 1,067thsd (2012: EUR -1,554thsd) on currency translation (see Note 3.13 Net gains and losses on financial assets and liabilities).

This item also includes EUR 3,559thsd (2012: EUR 3,287thsd) in administrative and intermediation fees.

## 3.9 Gains or losses on disposal of consolidated subsidiaries

Orchisgasse 66 Liegenschaftserrichtungs- und -verwertungs GmbH has been divested and renamed as Hart & Haring Liegenschaftsentwicklungs GmbH. For additional information see Note 2 Changes in the scope of consolidation as at 30 June 2013.

| EUR '000 | H1 2013 | H1 2012 |
|---|---|---|
| Loans and advances to banks | 7 | - |
| Other assets | 4,007 | - |
| **Total assets** | **4,014** | **-** |
| Deposits from banks | 4,025 | - |
| Tax liabilities | 23 | - |
| Other liabilities | 81 | - |
| **Total liabilities** | **4,129** | **-** |
| Proceeds of disposal | 26 | - |
| + Fair value of remaining interest held by the Group | 9 | - |
| - Assets disposed of | -4,014 | - |
| + Liabilities disposed of | 4,129 | - |
| **Net gains/losses on disposal of consolidated subsidiaries** | **150** | **-** |
| **Net gains/losses recognised in profit or loss** | **150** | **-** |

| EUR '000 | H1 2013 | H1 2012 |
|---|---|---|
| Consideration received in cash and cash equivalents | 26 | - |
| **Cash inflows from the sale of subsidiaries** | **26** | **-** |

## 3.10 Net gains or losses on available-for-sale financial assets

| EUR '000 | | H1 2013 | H1 2012 |
|---|---|---|---|
| **Income from financial assets** | | **353** | **2,458** |
| Gains on disposal | (3.13) | 80 | 2,037 |
| Write-ups | (3.3) | 273 | 421 |
| **Expenses arising from financial assets** | | **-308** | **-8,768** |
| Losses on disposal | (3.13) | -293 | -6,519 |
| Impairment losses | (3.3) | -15 | -2,249 |
| **Total** | | **45** | **-6,311** |

The net gains or losses on disposal of financial assets reported in 2012 largely resulted from bond sales so as to mitigate risk by reducing exposure to PIIGS countries*, Cyprus and Hungary.

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

| EUR '000 | H1 2013 | H1 2012 |
|---|---|---|
| **Net gains/losses on financial assets** | **-73** | **-226** |
| Equity | – | -5 |
| Debt instruments | -73 | -221 |
| **Total** | **-73** | **-226** |

## 3.12 Net gains or losses on hedges

Gains or losses on the hedged items attributable to the hedged risk and to remeasurement of hedging instruments to fair value (hedge accounting) are recognised under this item. Derivative financial instruments used for economic hedges in connection with banking book management are shown under "Other derivative financial instruments".

| EUR '000 | H1 2013 | H1 2012 |
|---|---|---|
| **Hedge accounting** | **-10,136** | **-1,658** |
| Gains/losses on hedged items | 68,341 | 10,917 |
| Gains/losses on hedging instruments | -78,477 | -12,575 |
| **Other derivative financial instruments (economic hedges)** | **-217** | **782** |
| Foreign exchange transactions | -217 | 782 |
| **Total** | **-10,353** | **-876** |

OIS discounting, which has replaced Euribor discounting as the market standard for valuing collateralised OTC derivatives, had a significant influence on this item.

* Portugal, Ireland, Italy, Greece and Spain

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

| EUR '000 | | H1 2013 | H1 2012 |
|---|---|---|---|
| **Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss, net** | | **4,315** | **-4,388** |
| Available-for-sale financial assets | (3.10) | -213 | -4,482 |
| Loans and receivables (inc. finance leases) | (3.14) | 3,621 | 94 |
| Other | | 907 | - |
| **Gains/losses on financial assets and liabilities held for trading, net** | (3.6) | **1,527** | **-1,267** |
| Interest rate instruments and related derivatives | | 2,005 | -2,008 |
| Foreign exchange trading | | -605 | 951 |
| Other (including hybrid derivatives) | | 127 | -210 |
| **Gains/losses on financial assets and liabilities designated as at fair value through profit or loss** | (3.11) | **-73** | **-226** |
| **Gains/losses on hedge accounting, net** | (3.12) | **-10,353** | **-876** |
| **Gains on currency translation, net** | (3.8) | **1,067** | **-1,555** |
| **Total** | | **-3,517** | **-8,312** |

## 3.14 Net gains or losses on other financial investments

| EUR '000 | H1 2013 | H1 2012 |
|---|---|---|
| **Net gains/losses on receivables and promissory notes** | **3,621** | **94** |
| **Investment property** | **827** | **-141** |
| Proceeds of disposals | 3,655 | - |
| Carrying amounts of disposals | -2,747 | - |
| Let investment property | -73 | -138 |
| Vacant investment property | -8 | -3 |
| **Net gains/losses on other financial investments** | **46** | **71** |
| Other income from other financial assets | 46 | 71 |
| **Total** | **4,494** | **24** |

The gains on disposal principally concern the Bank's success in negotiating the part-redemption of outstanding Hungarian local authority bonds.

The proceeds of, and carrying amounts of disposals of investment property entirely relate to a Swiss office building.

## 3.15 Income tax expense

| EUR '000 | H1 2013 | H1 2012 |
|---|---|---|
| Current income tax | -4,608 | -1,743 |
| Deferred income tax | -327 | -857 |
| **Total** | **-4,935** | **-2,600** |

| Deferred tax recognised directly in equity, EUR '000 | H1 2013 | H1 2012 |
|---|---|---|
| Available-for-sale (AFS) financial instruments | -3,342 | -6,372 |
| Cash flow hedge (effective portion) | 134 | 322 |
| **Total** | **-3,208** | **-6,050** |

## 3.16 Non-controlling interests

| EUR '000 | H1 2013 | H1 2012 |
|---|---|---|
| VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H. | -46 | -42 |
| HOSPES-Grundstückverwaltungs Gesellschaft m.b.H. | -21 | 24 |
| Hauptplatz 18 Entwicklungs- und Verwertungs GmbH | 6 | - |
| **Total** | **-61** | **-18** |

See Note 2 Changes in the scope of consolidation as at 30 June 2013.

# 4. NOTES TO THE STATEMENT OF FINANCIAL POSITION

## 4.1 Cash and balances at central banks

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Cash on hand | 13,337 | 13,569 |
| Balances at central banks | 77,015 | 58,075 |
| **Total** | **90,352** | **71,644** |

## 4.2 Loans and advances to banks

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Domestic banks | 213,830 | 219,558 |
| Foreign banks | | |
| Central and Eastern Europe (CEE) | 46,907 | 56,622 |
| Rest of the world (ROW) | 557,400 | 618,137 |
| **Total** | **818,137** | **894,317** |

## 4.3 Loans and advances to customers

### 4.3.1 CUSTOMER GROUP ANALYSIS

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Public sector customers | 5,003,264 | 5,337,065 |
| Business customers | 1,763,088 | 1,761,748 |
| Housing developers | 1,480,087 | 1,506,006 |
| Retail customers | 1,972,788 | 2,039,003 |
| Professionals | 80,218 | 91,255 |
| **Total** | **10,299,445** | **10,735,077** |

### 4.3.2 GEOGRAPHICAL ANALYSIS

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Domestic customers | 8,774,466 | 9,134,166 |
| Foreign customers | | |
| Central and Eastern Europe (CEE) | 607,960 | 659,805 |
| Rest of the world (ROW) | 917,019 | 941,106 |
| **Total** | **10,299,445** | **10,735,077** |

## 4.4 Risk provisions and credit provisions

### 4.4.1 ANALYSIS OF RISK PROVISIONS AND CREDIT PROVISIONS BY CUSTOMER GROUPS

| EUR '000 | As at 1 Jan. 2013 | Change in scope of consolidation | Exchange differences | Allocations | Utilisation | Reversals | Unwinding | Other changes | As at 30 Jun. 2013 |
|---|---|---|---|---|---|---|---|---|---|
| **Risk provisions for customers: individual impairment allowances** | **-107,922** | **-** | **24** | **-5,172** | **2,303** | **6,559** | **246** | **-** | **-103,962** |
| Public sector customers | -7,357 | - | - | -83 | - | 207 | 6 | - | -7,227 |
| Business customers | -64,854 | - | 24 | -3,382 | 2,093 | 2,931 | 235 | 177 | -62,776 |
| Housing developers | -14 | - | - | - | - | - | - | 13 | - |
| Retail customers | -32,429 | - | - | -1,682 | 123 | 3,215 | - | -434 | -31,206 |
| Professionals | -3,269 | - | - | -25 | 86 | 206 | 5 | 244 | -2,753 |
| **Risk provisions for banks: individual impairment allowances** | - | - | - | - | - | - | - | - | - |
| **Risk provisions for customers: collective impairment allowances** | **-4,977** | **-** | **-** | **-2,732** | **-** | **1,701** | **-** | **-** | **-6,007** |
| **Subtotal: risk provisions for customers** | **-112,899** | **-** | **24** | **-7,904** | **2,303** | **8,260** | **246** | **-** | **-109,970** |
| Credit provisions | -6,535 | - | - | -5 | - | 274 | - | - | -6,265 |
| **Total** | **-119,433** | **-** | **24** | **-7,909** | **2,303** | **8,534** | **246** | **-** | **-116,235** |

| EUR '000 | As at 1 Jan. 2012 | Change in scope of consolidation | Exchange differences | Allocations | Utilisation | Reversals | Unwinding | Other changes | As at 30 Jun. 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **Risk provisions for customers: individual impairment allowances** | **-99,008** | **-** | **-10** | **-30,288** | **10,495** | **10,853** | **36** | **-** | **-107,922** |
| Public sector customers | -5,101 | - | - | -3,336 | - | 1,070 | 10 | - | -7,357 |
| Business customers | -55,608 | - | -10 | -19,372 | 5,672 | 4,542 | 18 | -96 | -64,854 |
| Housing developers | -14 | - | - | -7 | - | 4 | - | 4 | -14 |
| Retail customers | -34,079 | - | - | -6,723 | 3,918 | 4,202 | 8 | 245 | -32,429 |
| Professionals | -4,206 | - | - | -850 | 905 | 1,035 | - | -153 | -3,269 |
| **Risk provisions for customers: collective impairment allowances** | **-4,998** | **-33** | **-** | **-2,129** | **-** | **2,183** | **-** | **-** | **-4,977** |
| **Subtotal: risk provisions for customers** | **-104,006** | **-33** | **-10** | **-32,417** | **10,495** | **13,036** | **36** | **-** | **-112,899** |
| Credit provisions | -10,165 | - | -11 | -146 | 3,000 | 788 | - | - | -6,535 |
| **Total** | **-114,171** | **-33** | **-21** | **-32,563** | **13,495** | **13,824** | **36** | **-** | **-119,433** |

## 4.4.2 RISK PROVISIONS: GEOGRAPHICAL ANALYSIS

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Domestic | -93,420 | -97,155 |
| Foreign | | |
| Central and Eastern Europe (CEE) | -10,526 | -9,950 |
| Rest of the world (ROW) | -6,024 | -5,794 |
| **Total risk provisions** | **-109,970** | **-112,899** |

## 4.4.3 ANALYSIS OF RISK PROVISIONS ACCORDING TO REGULATORY REPORTING SEGMENTATION

| EUR '000 | As at 1 Jan. 2013 | Change in scope of consol-idation | Ex-change differ-ences | Alloca-tions | Utili-sation | Rever-sals | Un-winding | Other changes | As at 30 Jun. 2013 |
|---|---|---|---|---|---|---|---|---|---|
| **Risk provisions for customers: individual impairment allowances** | **-107,922** | **-** | **24** | **-5,172** | **2,303** | **6,559** | **246** | **-** | **-103,962** |
| Non credit institutions | -4,051 | - | - | -2 | - | 189 | - | - | -3,864 |
| Corporates | -63,512 | - | 24 | -3,457 | 288 | 2,343 | 241 | -464 | -64,537 |
| Retail | -40,359 | - | - | -1,712 | 2,014 | 4,027 | 5 | 464 | -35,561 |
| **Risk provisions for customers and credit institutions: collec-tive impairment allowances** | **-4,977** | **-** | **-** | **-2,732** | **-** | **1,701** | **-** | **-** | **-6,007** |
| **Total risk provisions** | **-112,899** | **-** | **24** | **-7,904** | **2,303** | **8,260** | **246** | **-** | **-109,970** |

| EUR '000 | As at 1 Jan. 2012 | Change in scope of consoli-dation | Ex-change differ-ences | Alloca-tions | Utili-sation | Rever-sals | Un-winding | Other changes | As at 30 Jun. 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **Risk provisions for customers: individual impairment allowances** | **-99,008** | **-** | **-10** | **-30,288** | **10,495** | **10,853** | **36** | **-** | **-107,922** |
| Non credit institutions | -4,909 | - | - | -53 | - | 912 | - | - | -4,051 |
| Corporates | -50,298 | - | -10 | -22,710 | 5,368 | 4,005 | 28 | 104 | -63,512 |
| Retail | -43,801 | - | - | -7,525 | 5,127 | 5,936 | 8 | -104 | -40,359 |
| **Risk provisions for customers and credit institutions: collective impairment allowances** | **-4,998** | **-33** | **-** | **-2,129** | **-** | **2,183** | **-** | **-** | **-4,977** |
| **Total risk provisions** | **-104,006** | **-33** | **-10** | **-32,417** | **10,495** | **13,036** | **36** | **-** | **-112,899** |

## 4.4.4 RISK PROVISIONS FOR CUSTOMERS BY MATURITIES OF UNDERLYING TRANSACTIONS (REGULATORY REPORTING SEGMENTATION)

| 30 Jun. 2013 EUR '000 | Not past due | Less than 90 days overdue | 90 days or more overdue | Total |
|---|---|---|---|---|
| **Risk provisions for customers: individual impairment allowances** | **-25,324** | **-2,140** | **-76,499** | **-103,962** |
| Non credit institutions | -3,808 | - | -56 | -3,864 |
| Corporates | -16,150 | -1,089 | -47,298 | -64,537 |
| Retail | -5,366 | -1,051 | -29,145 | -35,561 |
| **Risk provisions for customers and credit institutions: collective impairment allowances** | **-5,884** | **-61** | **-62** | **-6,007** |
| **Total risk provisions** | **-31,208** | **-2,201** | **-76,561** | **-109,970** |

| 31 Dec. 2012 (EUR '000) | Not past due | Less than 90 days overdue | 90 days or more overdue | Total |
|---|---|---|---|---|
| **Risk provisions for customers: individual impairment allowances** | **-27,453** | **-4,340** | **-76,130** | **-107,922** |
| Non credit institutions | -3,997 | - | -54 | -4,051 |
| Corporates | -16,804 | -3,836 | -43,005 | -63,645 |
| Retail | -6,652 | -504 | -33,071 | -40,226 |
| **Risk provisions for customers and credit institutions: collective impairment allowances** | **-4,827** | **-88** | **-61** | **-4,977** |
| **Total risk provisions** | **-32,280** | **-4,428** | **-76,191** | **-112,899** |

## 4.4.5 DISCLOSURES OF MATURITIES AND COLLATERALS IN ACCORDANCE WITH IFRS 7

The table below shows the fair value of the collateral received as calculated for regulatory purposes.

| 30 Jun. 2013 EUR '000 | Gross carrying amount (not individually impaired) | Gross carrying amount (individually impaired) | Collective impairment allowances | Individual impairment allowances | Net carrying amount |
|---|---|---|---|---|---|
| Not past due | 10,917,748 | 69,784 | -5,884 | -25,323 | 10,956,324 |
| Less than 90 days overdue | 15,887 | 10,089 | -61 | -2,140 | 23,775 |
| 90 days or more overdue | 3,777 | 128,715 | -62 | -76,499 | 55,932 |
| **Total** | **10,937,412** | **208,589** | **-6,007** | **-103,962** | **11,036,032** |

| 30 Jun. 2013 EUR '000 | Gross carrying amount | Fair value of collateral received |
|---|---|---|
| Loans and advances to customers and banks, and debt instruments not past due or individually impaired | 10,917,748 | 5,097,867 |
| Loans and advances to customers and banks, and debt instruments overdue but not individually impaired | 19,665 | 20,698 |
| Loans and advances to customers and banks, and debt instruments individually impaired (overdue and not past due) | 208,589 | 49,201 |
| **Total** | **11,146,002** | **5,167,766** |

The gross carrying amount of the leasing sub-group's receivables totalled EUR 1,385,162thsd (2012: EUR 1,403,974thsd); in this case no collateral is shown.

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

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

# 4.5 Assets held for trading

This item comprises the positive fair value of derivative financial instruments measured at fair value.

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| **Positive fair value of derivatives held for trading (banking book)** | | |
| Interest rate derivatives | 490,006 | 593,506 |
| Foreign exchange derivatives | 7,465 | 8,557 |
| Other assets held for trading | 4,636 | 5,351 |
| **Total** | **502,107** | **607,414** |

# 4.6 Positive fair value of hedges (hedge accounting)

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

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

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| **Assets** | **5,970** | **3,782** |
| Loans and advances to customers | 1,719 | 315 |
| Financial assets | 4,251 | 3,467 |
| **Liabilities** | **419,132** | **614,153** |
| Deposits from banks | 2,985 | 1,805 |
| Deposits from customers | 67,282 | 98,381 |
| Debts evidenced by certificates | 348,865 | 513,967 |
| **Total** | **425,102** | **617,935** |

## 4.7 Available-for-sale financial assets

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Shares and other variable-income securities | 200 | 201 |
| Bonds, public debt certificates and other fixed-income securities | 1,880,738 | 1,821,156 |
| Interests in non-consolidated subsidiaries (over 50%) | 146 | 146 |
| Interests in associates (20-50%) | 522 | 522 |
| Other investments | 3,327 | 3,575 |
| **Total** | **1,884,933** | **1,825,600** |

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

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Bonds, public debt certificates and other fixed-income securities | 4,704 | 4,662 |
| **Total** | **4,704** | **4,662** |

## 4.9 Financial assets held to maturity

Bonds held to maturity are reported under this item.

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Bonds, public debt certificates and other fixed-income securities | - | 10,009 |
| **Total** | **-** | **10,009** |

The financial assets held to maturity were fully redeemed in the first half of 2013.

## 4.10 Investments accounted for using the equity method

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Banks | 2,975 | 2,946 |
| Non banks | 50,600 | 50,568 |
| **Total** | **53,575** | **53,514** |

## 4.11 Investment property

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Investment property | 50,567 | 52,256 |

Detailed disclosures regarding the changes in this item are made in Note 3.14 Net gains or losses on other financial investments.

## 4.12 Intangible assets, and property, plant and equipment

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Intangible assets | | |
| Software | 1,199 | 1,349 |
| Goodwill | 845 | 845 |
| **Total intangible assets** | **2,044** | **2,194** |
| Property, plant and equipment | | |
| Land and buildings | 52,559 | 53,565 |
| IT equipment | 922 | 688 |
| Equipment, fixtures and furnishings | 12,680 | 13,217 |
| Other property, plant and equipment | 34 | 37 |
| **Total property, plant and equipment** | **66,195** | **67,507** |

The carrying amount of the land was EUR 7,308thsd (2012: 7,308thsd) as at 30 June 2013.

# 4.13 Tax assets

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Deferred tax assets | 4,380 | 5,342 |
| **Total** | **4,380** | **5,342** |

No deferred tax assets were recognised in respect of EUR 15,241thsd (2012: EUR 15,241thsd) in tax loss carryforwards.

# 4.14 Other assets

The "Other assets" item chiefly relates to accruals and deferrals, other non-bank receivables (e.g. trade receivables and amounts due from the tax authorities in respect of other taxes), and derivatives used in connection with banking book management.

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

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Deferred items | 1,005 | 1,389 |
| Other receivables and assets: | 27,414 | 25,537 |
| *thereof: value added tax (VAT) and other tax credits (other than income tax)* | *4,253* | *5,951* |
| *property classified as inventory* | *1,176* | *4,935* |
| *trade receivables* | *13,263* | *10,108* |
| Positive fair value of derivatives | 458 | 199 |
| **Total** | **28,877** | **27,125** |

The decrease in "Property classified as inventory" is explained by the deconsolidation of the interest in Hart & Haring Liegenschaftsentwicklungs GmbH (see Note 2 Changes in the scope of consolidation as at 30 June 2013).

# 4.15 Deposits from banks

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Domestic banks | 270,042 | 1,123,774 |
| Foreign banks | | |
| Central and Eastern Europe (CEE) | 49,581 | 41,038 |
| Rest of the world (ROW) | 1,543,304 | 1,552,475 |
| **Total** | **1,862,927** | **2,717,286** |

The deposits from banks include repurchase agreements entered into by the Bank as a transferor.

## Repurchase agreements entered into as a transferor

The repurchase agreements were of the type described by AG51(a) IAS 39, in that the assets sold under them were loaned. The Bank, as the transferor, retained substantially all the risks and rewards of ownership.

These transactions were largely tri-party repos and collateralised loans from the ECB and the Oesterreichische Nationalbank (Austrian National Bank).

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Liabilities to banks under repo agreements | 230,000 | 800,000 |

# 4.16 Deposits from customers

## 4.16.1 CUSTOMER GROUP ANALYSIS

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| **Savings deposits** | **781,996** | **794,032** |
| **Demand and time deposits** | **1,406,037** | **1,460,423** |
| Public sector customers | 211,988 | 194,421 |
| Business customers | 908,884 | 978,570 |
| Housing developers | 15,590 | 42,540 |
| Retail customers | 241,536 | 214,214 |
| Professionals | 28,039 | 30,678 |
| **Total** | **2,188,033** | **2,254,455** |

### 4.16.2 GEOGRAPHICAL ANALYSIS

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Domestic customers | 1,454,444 | 1,457,469 |
| Foreign customers | | |
| Central and Eastern Europe (CEE) | 5,797 | 6,647 |
| Rest of the world (ROW) | 727,792 | 790,339 |
| **Total** | **2,188,033** | **2,254,455** |

## 4.17 Debts evidenced by certificates

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Covered and municipal bonds | 3,514,391 | 3,603,113 |
| Other bonds | 4,767,931 | 4,307,872 |
| Profit-sharing certificates | 367 | 364 |
| **Total** | **8,282,689** | **7,911,349** |

## 4.18 Liabilities held for trading

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| **Negative fair value of derivative financial instruments (banking book)** | | |
| Interest rate derivatives | 410,329 | 511,208 |
| Foreign exchange derivatives | 7,997 | 8,484 |
| Other liabilities held for trading | 4,636 | 5,351 |
| **Total** | **422,962** | **525,043** |

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

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

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

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| **Assets** | **452,419** | **590,079** |
| Loans and advances to customers | 369,507 | 487,478 |
| Available-for-sale financial assets | 82,912 | 102,601 |
| **Liabilities** | **29,440** | **3,550** |
| Deposits from banks | 265 | 233 |
| Deposits from customers | 171 | 617 |
| Debts evidenced by certificates | 29,004 | 2,700 |
| **Total** | **481,859** | **593,630** |

## 4.20 Provisions

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| **Employee benefit provisions** | **40,344** | **40,051** |
| Provisions for pensions | 25,141 | 25,527 |
| Provisions for termination benefits | 13,282 | 12,721 |
| Provisions for jubilee benefits | 1,921 | 1,803 |
| **Credit provisions** | **6,265** | **6,535** |
| **Other provisions** | **1,093** | **1,162** |
| **Total** | **47,702** | **47,748** |

# 4.21 Tax liabilities

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Current tax liabilities | 20,548 | 17,006 |
| Deferred tax liabilities | 19,552 | 16,962 |
| **Total** | **40,100** | **33,967** |

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

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

# 4.22 Other liabilities

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

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Deferred items | 9,299 | 8,781 |
| Sundry other liabilities | 69,132 | 69,089 |
| *thereof: trade payables* | *20,793* | *20,775* |
| *outstanding invoices* | *15,202* | *21,103* |
| *VAT and other tax liabilities (other than income tax)* | *3,156* | *6,235* |
| *legal and consultancy costs* | *727* | *1,161* |
| *phantom-share-based cash incentives* | *632* | *350* |
| Negative fair value of derivatives | 846 | 371 |
| **Total** | **79,277** | **78,241** |

# 4.23 Subordinated capital

Subordinated debt as defined by Austrian banking legislation is reported as subordinated capital.

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Subordinated capital | 203,512 | 202,435 |

# 4.24 Equity

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Share capital | 51,981 | 51,981 |
| Capital reserves | 191,824 | 191,824 |
| *thereof: appropriated reserve* | *94,624* | *94,624* |
| *unappropriated reserve* | *97,200* | *97,200* |
| Revaluation surplus | -23,846 | -33,587 |
| Retained earnings | 290,241 | 286,760 |
| **Parent shareholders' equity** | **510,199** | **496,977** |
| Non-controlling interests | 1,188 | 565 |
| **Total** | **511,387** | **497,542** |

# 4.25 Consolidated capital resources and regulatory capital adequacy requirements (Austrian Banking Act)

The capital resources of the HYPO NOE Group, calculated in accordance with the requirements of the Austrian Banking Act, are broken down as follows:

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Share capital | 51,981 | 51,981 |
| Reserves, differences and non-controlling interests | 456,649 | 456,649 |
| Intangible assets | -1,085 | -1,179 |
| **Core capital (tier 1 capital)** | **507,545** | **507,451** |
| Deductions pursuant to sections 23(13) and 29(1-2) Banking Act | -2,064 | -1,994 |
| **Eligible core capital** | **505,481** | **505,457** |
| Undisclosed reserves as defined by section 57(1) Banking Act | 5,000 | 5,000 |
| Eligible subordinated debt as defined by section 23(8) Banking Act | 160,000 | 160,000 |
| **Supplementary capital (tier 2 capital)** | **165,000** | **165,000** |
| Deductions pursuant to sections 23(13) and 29(1-2) Banking Act | -2,064 | -1,994 |
| **Eligible supplementary capital (after deductions)** | **162,936** | **163,006** |
| **Total eligible core capital** | **668,417** | **668,463** |
| **Capital requirement** | **337,664** | **351,082** |
| **Surplus capital** | **330,753** | **317,381** |
| | | |
| Coverage ratio | 197.95% | 190.40% |
| Core capital ratio | 12.85% | 12.33% |
| Equity ratio | 16.99% | 16.31% |

Movements in the risk-weighted assessment base as defined by the Banking Act and the resultant capital requirements were as follows:

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Risk-weighted assessment base as defined by section 22(2) Banking Act | 3,933,300 | 4,099,035 |
| *thereof: 8% minimum capital requirement* | 314,664 | 327,923 |
| Capital requirement for operational risk | 23,000 | 23,159 |
| **Total capital requirement** | **337,664** | **351,082** |

# 5. SEGMENT INFORMATION

The changes in the scope of consolidation are discussed in Note 2 Changes in the scope of consolidation as at 30 June 2013.

With the exception of the formation of VITALITAS Grundstückverwaltungs GmbH, which affects the Leasing segment, all the formations, acquisitions, disposals and name changes relate to the Other segment.

## 5.1 Business segment information

### 5.1.1 SEGMENT PROFIT OR LOSS

| H1 2013 EUR '000 | Gruppe Bank | Landesbank | Leasing | Other | Consolidation | Total |
|---|---|---|---|---|---|---|
| Interest and similar income | 260,182 | 31,309 | 7,105 | 1,624 | -12,692 | 287,528 |
| *thereof: income from investments accounted for using the equity method* | *572* | *101* | *-102* | *1,004* | - | *1,575* |
| Interest and similar expense | -217,267 | -12,560 | -5,560 | -736 | 12,272 | -223,852 |
| Credit provisions | -2,284 | 3,342 | - | - | - | 1,059 |
| **Net interest income after risk provisions** | **40,631** | **22,091** | **1,545** | **888** | **-420** | **64,734** |
| Net fee and commission income | 1,769 | 4,514 | -15 | - | - | 6,268 |
| Net trading income | 1,463 | 63 | - | - | 1 | 1,527 |
| General administrative expenses | -30,249 | -23,519 | -1,950 | -8,699 | 5,935 | -58,482 |
| Net other operating income | 5,875 | 884 | 2,005 | 8,260 | -5,857 | 11,168 |
| Gains/losses on disposal of consolidated subsidiaries | - | - | - | 150 | - | 150 |
| Net gains/losses on financial assets | -104 | 76 | - | - | - | -28 |
| Net gains/losses on hedges | -10,549 | 195 | - | - | 1 | -10,353 |
| Net gains/losses on other financial investments | 3,621 | - | - | 952 | -79 | 4,494 |
| **Profit before tax** | **12,457** | **4,304** | **1,585** | **1,551** | **-419** | **19,478** |
| Income tax expense | | | | | | -4,935 |
| **Profit for the period** | | | | | | **14,543** |
| Non-controlling interests | | | | | | -61 |
| **Profit attributable to owners of the parent** | | | | | | **14,482** |

### Gruppe Bank

During the first half of 2013 the Gruppe Bank segment recorded high net interest income, while the credit provisions were held down by low credit losses. One-time effects arising from OIS discounting, which has replaced Euribor discounting as the market standard for valuing collateralised OTC derivatives, led to a significant increase in hedging costs. However, this was largely offset by the income from the part-redemption of Hungarian local authority bonds.

## NOE Landesbank

The Landesbank segment's results for the first half of 2013 show a decline in the income streams generated by its core business (net interest income, and net fee and commission income) which was made up for by a reduction in the risk provisions, achieved by effective workout management.

## Leasing

The interest rate trend was the main reason for the Leasing segment's low profit for the period before tax, as interest rates affect the capital and interest components of the annuities. The final settlement of projects, i.e. the determination of the total investment cost, did not result in any exceptional effects in the first half of 2013.

## Other

The year-on-year change in this segment's profit reflects the addition of five project companies, the start-up of subsidiaries formed in 2012, and the consolidation of companies acquired in that year.

## Consolidation

The amounts in the column that reconciles the segment results with the consolidated profit arise from the elimination of intragroup expenses and revenue. The remaining portions, recognised in consolidated profit or loss, correspond to the consolidation of intragroup dividends.

| H1 2012 EUR '000 | Gruppe Bank | Landesbank | Leasing | Other | Consolidation | Total |
|---|---|---|---|---|---|---|
| Interest and similar income | 235,380 | 38,841 | 11,387 | 761 | -23,177 | 263,192 |
| *thereof: income from investments accounted for using the equity method* | *1,157* | *116* | *160* | - | - | *1,432* |
| Interest and similar expense | -185,668 | -18,646 | -8,832 | -587 | 20,105 | -193,627 |
| Credit provisions | -7,144 | -1,377 | - | - | - | -8,522 |
| **Net interest income after risk provisions** | **42,568** | **18,817** | **2,556** | **174** | **-3,072** | **61,043** |
| Net fee and commission income | 1,590 | 4,422 | -16 | - | - | 5,996 |
| Net trading income | -1,480 | 213 | - | - | - | -1,267 |
| General administrative expenses | -28,437 | -20,839 | -1,798 | -2,408 | 3,361 | -50,121 |
| Net other operating income | 478 | 865 | 1,854 | 2,082 | -3,271 | 2,008 |
| Net gains/losses on financial assets | -6,449 | -82 | 5 | - | -11 | -6,537 |
| Net gains/losses on hedges | -1,073 | 197 | - | - | - | -876 |
| Net gains/losses on other financial investments | 94 | - | - | 9 | -79 | 24 |
| **Profit before tax** | **7,291** | **3,593** | **2,601** | **-143** | **-3,072** | **10,270** |
| Income tax expense | | | | | | -2,600 |
| **Profit for the period** | | | | | | **7,670** |
| Non-controlling interests | | | | | | -18 |
| **Profit attributable to owners of the parent** | | | | | | **7,652** |

## 5.1.2 SEGMENT ASSETS AND LIABILITIES

Despite the profit and loss transfer agreement between HYPO NOE Landesbank and HYPO NOE Gruppe Bank AG, the deferred tax arising from temporary differences is attributed to the Landesbank segment.

| 30 Jun. 2013 EUR '000 | Gruppe Bank | Landesbank | Leasing | Other | Consolidation | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances at central banks | 62,239 | 28,108 | - | 5 | - | 90,352 |
| Loans and advances to banks | 1,314,649 | 54,881 | 62,468 | 11,822 | -625,683 | 818,137 |
| Loans and advances to customers | 8,421,897 | 1,906,822 | 1,385,162 | 652 | -1,415,088 | 10,299,445 |
| Risk provisions | -39,453 | -69,668 | -790 | -59 | - | -109,970 |
| Assets held for trading | 502,107 | 106 | - | - | -106 | 502,107 |
| Positive fair value of hedges (hedge accounting) | 414,843 | 29,691 | - | - | -19,432 | 425,102 |
| Available-for-sale financial assets | 1,975,332 | 332,736 | 6,221 | 227 | -429,583 | 1,884,933 |
| Financial assets designated as at fair value through profit or loss | 4,704 | - | - | - | - | 4,704 |
| Financial assets held to maturity | - | - | - | - | - | - |
| Investments accounted for using the equity method | 36,068 | 1,395 | 11,897 | 4,215 | - | 53,575 |
| Investment property | - | - | 9,993 | 40,574 | - | 50,567 |
| Intangible assets | 876 | 112 | 57 | 999 | - | 2,044 |
| Property, plant and equipment | 7,719 | 7,313 | 621 | 50,542 | - | 66,195 |
| Tax assets | - | 3,371 | 558 | 451 | - | 4,380 |
| Other assets | 13,170 | 6,067 | 44,607 | 6,964 | -41,931 | 28,877 |
| **Total assets** | **12,714,151** | **2,300,934** | **1,520,794** | **116,392** | **-2,531,823** | **14,120,448** |

| 30 Jun. 2013 EUR '000 | Gruppe Bank | Landesbank | Leasing | Other | Consolidation | Total |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Deposits from banks | 1,857,136 | 515,520 | 1,365,352 | 94,134 | -1,969,215 | 1,862,927 |
| Deposits from customers | 1,071,793 | 1,189,493 | 783 | - | -74,036 | 2,188,033 |
| Debts evidenced by certificates | 8,151,699 | 410,147 | 367 | - | -279,524 | 8,282,689 |
| Liabilities held for trading | 422,968 | 100 | - | - | -106 | 422,962 |
| Negative fair value of hedges (hedge accounting) | 495,449 | 5,844 | - | - | -19,434 | 481,859 |
| Provisions | 32,253 | 13,486 | 578 | 1,385 | - | 47,702 |
| Tax liabilities | 26,413 | - | 13,228 | 459 | - | 40,100 |
| Other liabilities | 27,769 | 19,125 | 22,636 | 9,173 | 574 | 79,277 |
| Subordinated capital | 191,675 | 51,884 | - | - | -40,047 | 203,512 |
| Equity (inc. non-controlling interests) | 436,996 | 95,335 | 117,850 | 11,241 | -150,035 | 511,387 |
| Equity attributable to owners of the parent | 436,996 | 95,335 | 117,219 | 10,684 | -150,035 | 510,199 |
| Non-controlling interests | - | - | 631 | 557 | - | 1,188 |
| **Total liabilities** | **12,714,151** | **2,300,934** | **1,520,794** | **116,392** | **-2,531,823** | **14,120,448** |

| 31 Dec. 2012 EUR '000 | Gruppe Bank | Landesbank | Leasing | Other | Consolidation | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances at central banks | 35,118 | 36,521 | - | 4 | - | 71,644 |
| Loans and advances to banks | 1,365,168 | 129,446 | 53,034 | 9,602 | -662,933 | 894,317 |
| Loans and advances to customers | 8,843,526 | 1,918,019 | 1,403,974 | 1,125 | -1,431,567 | 10,735,077 |
| Risk provisions | -37,230 | -74,819 | -791 | -59 | - | -112,899 |
| Assets held for trading | 607,414 | 205 | - | - | -205 | 607,414 |
| Positive fair value of hedges (hedge accounting) | 602,800 | 39,135 | - | - | -24,000 | 617,935 |
| Available-for-sale financial assets | 1,926,467 | 321,980 | 6,226 | 4,260 | -433,333 | 1,825,600 |
| Financial assets designated as at fair value through profit or loss | 4,662 | - | - | - | - | 4,662 |
| Financial assets held to maturity | 10,009 | - | - | - | - | 10,009 |
| Investments accounted for using the equity method | 35,926 | 1,385 | 12,000 | 4,203 | - | 53,514 |
| Investment property | - | - | 10,149 | 42,106 | - | 52,256 |
| Intangible assets | 1,009 | 85 | 85 | 1,014 | - | 2,194 |
| Property, plant and equipment | 8,071 | 7,750 | 659 | 51,027 | - | 67,507 |
| Tax assets | - | 4,384 | 580 | 378 | - | 5,342 |
| Other assets | 15,285 | 3,328 | 44,895 | 10,980 | -47,364 | 27,125 |
| **Total assets** | **13,418,226** | **2,387,420** | **1,530,811** | **124,640** | **-2,599,401** | **14,861,697** |

| 31 Dec. 2012 EUR '000 | Gruppe Bank | Landesbank | Leasing | Other | Consolidation | Total |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Deposits from banks | 2,707,239 | 570,533 | 1,372,798 | 100,747 | -2,034,030 | 2,717,286 |
| Deposits from customers | 1,102,732 | 1,213,511 | 273 | 22 | -62,082 | 2,254,455 |
| Debts evidenced by certificates | 7,770,234 | 424,066 | 364 | - | -283,314 | 7,911,349 |
| Liabilities held for trading | 525,048 | 200 | - | - | -205 | 525,043 |
| Negative fair value of hedges (hedge accounting) | 611,780 | 5,850 | - | - | -24,000 | 593,630 |
| Provisions | 32,656 | 13,143 | 548 | 1,401 | - | 47,748 |
| Tax liabilities | 20,041 | - | 13,166 | 760 | - | 33,968 |
| Other liabilities | 27,597 | 16,400 | 27,173 | 12,839 | -5,769 | 78,241 |
| Subordinated capital | 190,583 | 51,852 | - | - | -40,000 | 202,435 |
| Equity (inc. non-controlling interests) | 430,316 | 91,866 | 116,489 | 8,871 | -150,001 | 497,542 |
| Equity attributable to owners of the parent | 430,316 | 91,866 | 115,924 | 8,871 | -150,001 | 496,977 |
| Non-controlling interests | - | - | 565 | - | - | 565 |
| **Total liabilities** | **13,418,226** | **2,387,420** | **1,530,811** | **124,640** | **-2,599,401** | **14,861,697** |

## 5.2 Geographical information

The table below breaks the main balance sheet items down into domestic and foreign business.

| | 30 Jun. 2013 | | 31 Dec. 2012 | |
|---|---|---|---|---|
| EUR '000 | Domestic | Foreign | Domestic | Foreign |
| Loans and advances to banks | 213,830 | 604,307 | 219,558 | 674,759 |
| Loans and advances to customers | 8,774,466 | 1,524,979 | 9,134,166 | 1,600,911 |
| Available-for-sale financial assets | 776,636 | 1,108,298 | 809,808 | 1,015,793 |
| Financial assets designated as at fair value through profit or loss | 4,176 | 528 | 4,140 | 521 |
| Financial assets held to maturity | - | - | - | 10,009 |
| Deposits from banks | 270,042 | 1,592,885 | 1,123,774 | 1,593,513 |
| Deposits from customers | 1,454,444 | 733,589 | 1,457,469 | 796,986 |
| Debts evidenced by certificates | 3,247,877 | 5,034,812 | 2,873,359 | 5,037,990 |

The geographical presentation analyses the debts evidenced by certificates that relate to listed securities by the countries of issue.

# 6. SUPPLEMENTARY INFORMATION

## 6.1 Fair value disclosures in accordance with IFRS

All the obligations to pay principal and interest were met during the reporting period, and there were no indications of defaults as at the end of the reporting period.

### 6.1.1 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. Where market prices are available they are used to estimate fair value. In the absence of market prices, accepted, industry-standard valuation models are employed. The present value of derivatives (e.g. interest rate swaps, cross currency swaps, FX forwards and forward rate agreements) is calculated by discounting the replicating cash flows. OTC currency and interest rate options are measured using option pricing models such as the Black Scholes, Hull White or LIBOR market models.

| | 30 Jun. 2013 | | 31 Dec. 2012 | |
|---|---|---|---|---|
| **EUR '000** | **Fair value** | **Carrying amount** | **Fair value** | **Carrying amount** |
| **Assets** | | | | |
| Loans and advances to banks | 856,485 | 818,137 | 1,010,325 | 894,317 |
| Loans and advances to customers[1] | 10,136,983 | 10,195,483 | 10,519,730 | 10,627,155 |
| Assets held for trading | 502,107 | 502,107 | 607,414 | 607,414 |
| Positive fair value of hedges | 425,102 | 425,102 | 617,935 | 617,935 |
| Available-for-sale financial assets | 1,884,933 | 1,884,933 | 1,825,600 | 1,825,600 |
| Financial assets designated as at fair value through profit or loss | 4,704 | 4,704 | 4,662 | 4,662 |
| Financial assets held to maturity | - | - | 10,022 | 10,009 |
| Investments accounted for using the equity method | 53,575 | 53,575 | 53,514 | 53,514 |
| Investment property | 51,875 | 50,567 | 53,149 | 52,256 |
| Sundry other assets - positive fair value of derivatives | 458 | 458 | 199 | 199 |
| **Total assets** | **13,916,222** | **13,935,066** | **14,702,550** | **14,693,061** |
| **Liabilities** | | | | |
| Deposits from banks | 1,835,556 | 1,862,927 | 2,684,195 | 2,717,286 |
| Deposits from customers | 2,175,088 | 2,188,033 | 2,348,659 | 2,254,455 |
| Debts evidenced by certificates | 8,362,551 | 8,282,689 | 7,926,862 | 7,911,349 |
| Liabilities held for trading | 422,962 | 422,962 | 525,043 | 525,043 |
| Negative fair value of hedges | 481,859 | 481,859 | 593,630 | 593,630 |
| Other liabilities - negative fair value of derivatives | 846 | 846 | 371 | 371 |
| Subordinated capital | 208,391 | 203,512 | 204,150 | 202,435 |
| **Total liabilities** | **13,487,253** | **13,442,828** | **14,282,910** | **14,204,569** |

[1] Carrying value of loans and advances to customers (individually impaired)

## 6.1.2 FAIR VALUE HIERARCHY DISCLOSURES

IFRS 7 applies to the categories of financial instruments established by IAS 39, as well as those recognised in accordance with other standards, and unrecognised instruments. Under IFRS 7 these financial instruments must be grouped into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of the instruments concerned.

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

### Level 1: Quoted prices in active markets

These are quoted prices in active markets for identical assets or liabilities, and mainly apply to exchange-traded underlying instruments and derivatives.

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

Here, measurement is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This chiefly applies to OTC derivatives (assets and liabilities held for trading, and hedges) and unlisted securities.

### 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. This mainly applies to asset-backed securities and available-for-sale investments.

| 30 Jun. 2013 EUR '000 | Total fair value | Fair value measurement Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Assets held for trading | 502,107 | - | 14,364 | 487,743 |
| Positive fair value of hedges | 425,102 | - | 425,102 | - |
| Available-for-sale financial assets | 1,884,933 | 1,259,856 | 619,731 | 5,346 |
| Financial assets designated as at fair value through profit or loss | 4,704 | - | 4,704 | - |
| Sundry other assets – positive fair value of derivatives | 458 | - | 458 | - |
| **Total assets** | **2,817,304** | **1,259,856** | **1,064,359** | **493,089** |
| **Liabilities** | | | | |
| Liabilities held for trading | 422,962 | - | 418,323 | 4,638 |
| Negative fair value of hedges | 481,859 | - | 481,859 | - |
| Other liabilities – negative fair value of derivatives | 846 | - | 846 | - |
| Subordinated capital | - | - | - | - |
| **Total liabilities** | **905,666** | **-** | **901,028** | **4,638** |

Reclassifications from Level 2 to Level 1 in the first half of 2013 related to financial instruments for which it is now possible to directly derive the fair value from prices quoted on active liquid markets. The changes in the amounts at Level 1 and Level 2 largely relate to new and matured transactions, and disposals. Note 6.1.3 Fair value hierarchy: Level 3 disclosures contains detailed information on Level 3 of the fair value hierarchy.

| 31 Dec. 2012 (EUR '000) | Total fair value | Fair value measurement Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Assets held for trading | 607,414 | - | 17,926 | 589,488 |
| Positive fair value of hedges | 617,935 | - | 617,935 | - |
| Available-for-sale financial assets | 1,825,600 | 1,186,624 | 631,647 | 7,328 |
| Financial assets designated as at fair value through profit or loss | 4,662 | - | 4,662 | - |
| Sundry other assets – positive fair value of derivatives | 199 | - | 199 | - |
| **Total assets** | **3,055,810** | **1,186,624** | **1,272,369** | **596,816** |
| **Liabilities** | | | | |
| Liabilities held for trading | 525,043 | - | 519,610 | 5,433 |
| Negative fair value of hedges | 593,630 | - | 593,630 | - |
| Other liabilities – negative fair value of derivatives | 371 | - | 371 | - |
| **Total liabilities** | **1,119,043** | **-** | **1,113,611** | **5,433** |

## 6.1.3 FAIR VALUE HIERARCHY: LEVEL 3 DISCLOSURES

| EUR '000 | As at 1 Jan. 2013 | Gains or losses in profit or loss | Gains or losses in other comprehen-sive income | Pur-chases | Settle-ments | As at 30 Jun. 2013 | Gains/losses recog-nised in profit and loss on assets held as at 30 Jun. 2013 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Assets held for trading | 589,488 | -101,744 | - | - | - | 487,743 | -100,991 |
| Available-for-sale financial assets | 7,328 | 87 | -53 | - | -2,016 | 5,346 | -60 |
| **Total assets** | **596,816** | **-101,657** | **-53** | **-** | **-2,016** | **493,089** | **-101,051** |
| **Liabilities** | | | | | | | |
| Liabilities held for trading | 5,433 | -794 | - | - | - | 4,638 | 345 |
| **Total liabilities** | **5,433** | **-794** | **-** | **-** | **-** | **4,638** | **345** |

Both in 2012 and during the reporting period assets and liabilities held for trading included derivatives in the shape of customer swaps and put options. The "Available-for-sale financial assets" item included bonds in both periods.

The EUR 60thsd loss on existing Level 3 assets (2012: EUR 482thsd) is shown in Note 3.10 Net gains and losses on available-for-sale financial assets. The loss of EUR 100,991thsd (2012: gain of EUR 139,075thsd) on assets held for trading and gain of EUR 345thsd (2012: EUR 4,550thsd) on liabilities held for trading are disclosed in Note 3.6 Net trading income.

| EUR '000 | As at 1 Jan. 2012 | Gains or losses in profit or loss | Gains or losses in other comprehen-sive income | Pur-chases | Settle-ments | As at 31 Dec. 2012 | Gains/losses recog-nised in profit and loss on assets held as at 31 Dec. 2012 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Assets held for trading | 454,883 | 134,605 | - | - | - | 589,488 | 139,075 |
| Available-for-sale financial assets | 11,859 | -633 | 34 | - | -3,932 | 7,328 | -482 |
| **Total assets** | **466,742** | **133,972** | **34** | **-** | **-3,932** | **596,816** | **138,593** |
| **Liabilities** | | | | | | | |
| Liabilities held for trading | 13,324 | -7,891 | - | - | - | 5,433 | 4,550 |
| **Total liabilities** | **13,324** | **-7,891** | **-** | **-** | **-** | **5,433** | **4,550** |

### 6.1.4 LEVEL 3 SENSITIVITY ANALYSIS

The table below shows the impact of changes in material unobservable inputs on the fair value of Level 3 financial instruments (change in present value in the event of a widening of 1bp in the credit spread).

| 30 Jun. 2013 EUR '000 | Positive changes in fair value | Negative changes in fair value |
|---|---|---|
| Derivatives | 46 | -266 |
| Financial instruments | - | -1 |
| **Total** | **46** | **-267** |

## 6.2 Derivatives

### DERIVATIVES: NOMINAL AND FAIR VALUE

| | 30 Jun. 2013 | | | 31 Dec. 2012 | | |
|---|---|---|---|---|---|---|
| | | Fair value | | | Fair value | |
| EUR '000 | Nominal value | Positive | Negative | Nominal value | Positive | Negative |
| **Interest rate risk** | | | | | | |
| Interest rate swaps | 16,197,569 | 869,001 | 882,212 | 15,339,806 | 1,138,030 | 1,090,640 |
| Basis swaps | 775,345 | 21,164 | 6,567 | 852,045 | 27,728 | 10,305 |
| Options on interest rate instruments | 548,150 | 4,969 | 5,306 | 550,089 | 6,072 | 6,067 |
| Other similar contracts | 20,000 | 10,620 | - | 20,000 | 12,976 | - |
| **Total** | **17,541,064** | **905,754** | **894,085** | **16,761,940** | **1,184,805** | **1,107,011** |
| **Currency risk** | | | | | | |
| Cross-currency (interest rate) swaps | 225,909 | 21,227 | 10,736 | 235,194 | 40,321 | 11,662 |
| Forward exchange operations | 165,341 | 458 | 846 | 137,238 | 199 | 371 |
| **Total** | **391,251** | **21,685** | **11,582** | **372,432** | **40,521** | **12,033** |
| **Share price and index-linked transactions** | | | | | | |
| Equity and other index-linked options | 2,001 | 228 | - | 2,001 | 223 | - |
| **Total** | **2,001** | **228** | **-** | **2,001** | **223** | **-** |

# 6.3 Analysis of assets and liabilities by IAS 39 measurement categories

| 30 Jun. 2013 EUR '000 | Loans and receivables (LAR) | Liabilities measured at amortised cost (LAC) | Held for trading (HFT) |
|---|---|---|---|
| Cash and balances at central banks | - | - | - |
| Loans and advances to banks | 818,137 | - | - |
| Loans and advances to customers | 10,299,445 | - | - |
| Risk provisions | -109,970 | - | - |
| Assets held for trading | - | - | 502,107 |
| Positive fair value of hedges | - | - | - |
| Available-for-sale financial assets | - | - | - |
| Financial assets designated as at fair value through profit or loss | - | - | - |
| Financial assets held to maturity | - | - | - |
| Investments accounted for using the equity method | - | - | - |
| Investment property | - | - | - |
| Positive fair value of banking book derivatives[1] | - | - | 458 |
| Other financial assets[1] | 27,414 | - | - |
| **Total financial assets** | **11,035,026** | **-** | **502,565** |
| Deposits from banks | - | 1,862,927 | - |
| Deposits from customers | - | 2,188,033 | - |
| Debts evidenced by certificates | - | 8,282,689 | - |
| Liabilities held for trading | - | - | 422,962 |
| Negative fair value of hedges | - | - | - |
| Subordinated capital | - | 203,512 | - |
| Hybrid capital | - | - | - |
| Negative fair value of banking book derivatives[1] | - | - | 846 |
| Other financial liabilities[1] | - | 69,132 | - |
| **Total financial liabilities** | **-** | **12,606,293** | **423,808** |

| Designated as at fair value through profit or loss (FVTPL) | Available for sale (AFS) | Held to maturity (HTM) | Fair value hedge | Cash flow hedge | Financial assets/ liabilities at cost (at amortised cost) | Total |
|---|---|---|---|---|---|---|
| - | - | - | - | - | 90,352 | 90,352 |
| - | - | - | - | - | - | 818,137 |
| - | - | - | - | - | - | 10,299,445 |
| - | - | - | - | - | - | -109,970 |
| - | - | - | - | - | - | 502,107 |
| - | - | - | 423,139 | 1,963 | - | 425,102 |
| - | 1,884,933 | - | - | - | - | 1,884,933 |
| 4,704 | - | - | - | - | - | 4,704 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | 53,575 | 53,575 |
| - | - | - | - | - | 50,567 | 50,567 |
| - | - | - | - | - | - | 458 |
| - | - | - | - | - | - | 27,414 |
| **4,704** | **1,884,933** | **-** | **423,139** | **1,963** | **194,494** | **14,046,825** |
| - | - | - | - | - | - | 1,862,927 |
| - | - | - | - | - | - | 2,188,033 |
| - | - | - | - | - | - | 8,282,689 |
| - | - | - | - | - | - | 422,962 |
| - | - | - | 481,859 | - | - | 481,859 |
| - | - | - | - | - | - | 203,512 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | 846 |
| - | - | - | - | - | - | 69,132 |
| **-** | **-** | **-** | **481,859** | **-** | **-** | **13,511,959** |

| 31 Dec. 2012 (EUR '000) | Loans and receivables (LAR) | Liabilities measured at amortised cost (LAC) | Held for trading (HFT) |
|---|---|---|---|
| Cash and balances at central banks | - | - | - |
| Loans and advances to banks | 894,317 | - | - |
| Loans and advances to customers | 10,735,077 | - | - |
| Risk provisions | -112,899 | - | - |
| Assets held for trading | - | - | 607,414 |
| Positive fair value of hedges | - | - | - |
| Available-for-sale financial assets | - | - | - |
| Financial assets designated as at fair value through profit or loss | - | - | - |
| Financial assets held to maturity | - | - | - |
| Investments accounted for using the equity method | - | - | - |
| Investment property | - | - | - |
| Positive fair value of banking book derivatives[1] | - | - | 199 |
| Other financial assets[1] | 25,537 | - | - |
| **Total financial assets** | **11,542,032** | **-** | **607,613** |
| Deposits from banks | - | 2,717,286 | - |
| Deposits from customers | - | 2,254,455 | - |
| Debts evidenced by certificates | - | 7,911,349 | - |
| Liabilities held for trading | - | - | 525,043 |
| Negative fair value of hedges | - | - | - |
| Subordinated capital | - | 202,435 | - |
| Negative fair value of banking book derivatives[1] | - | - | 371 |
| Other financial liabilities[1] | - | 69,089 | - |
| **Total financial liabilities** | **-** | **13,154,613** | **525,414** |

[1] Shown under "Other assets" or "Other liabilities" in the statement of financial position.

| Designated as at fair value through profit or loss (FVTPL) | Available for sale (AFS) | Held to maturity (HTM) | Fair value hedge | Cash flow hedge | Financial assets/ liabilities at cost (at amortised cost) | Total |
|---|---|---|---|---|---|---|
| - | - | - | - | - | 71,644 | 71,644 |
| - | - | - | - | - | - | 894,317 |
| - | - | - | - | - | - | 10,735,077 |
| - | - | - | - | - | - | -112,899 |
| - | - | - | - | - | - | 607,414 |
| - | - | - | 615,436 | 2,499 | - | 617,935 |
| - | 1,825,600 | - | - | - | - | 1,825,600 |
| 4,662 | - | - | - | - | - | 4,662 |
| - | - | 10,009 | - | - | - | 10,009 |
| - | - | - | - | - | 53,514 | 53,514 |
| - | - | - | - | - | 52,256 | 52,256 |
| - | - | - | - | - | - | 199 |
| - | - | - | - | - | - | 25,537 |
| **4,662** | **1,825,600** | **10,009** | **615,436** | **2,499** | **177,414** | **14,785,264** |
| - | - | - | - | - | - | 2,717,286 |
| - | - | - | - | - | - | 2,254,455 |
| - | - | - | - | - | - | 7,911,349 |
| - | - | - | - | - | - | 525,043 |
| - | - | - | 593,630 | - | - | 593,630 |
| - | - | - | - | - | - | 202,435 |
| - | - | - | - | - | - | 371 |
| - | - | - | - | - | - | 69,089 |
| **-** | **-** | **-** | **593,630** | **-** | **-** | **14,273,657** |

# 6.4 Disclosures on related-party relationships

| 30 Jun. 2013 EUR '000 | Non-consolidated subsidiaries (more than 50%) | Associates | Investments accounted for using the equity method | Key management personnel |
|---|---|---|---|---|
| Loans and advances to banks | - | - | 755 | - |
| Loans and advances to customers | 95,425 | 13,028 | 152,297 | 2,598 |
| Equity instruments (shareholdings, etc.) | 146 | 522 | 53,575 | - |
| Deposits from banks | - | - | 658 | - |
| Deposits from customers | 1,017 | 2,650 | 7,256 | 4,435 |
| Guarantees provided by the Group | - | - | - | 14 |
| Other obligations (to related parties) | 5,430 | 2,339 | 375,234 | - |
| Provisions for doubtful debts | - | - | -5 | -7 |

| 31 Dec. 2012 (EUR '000) | | | | |
|---|---|---|---|---|
| Loans and advances to banks | - | - | 750 | - |
| Loans and advances to customers | 102,049 | 12,754 | 152,336 | 2,165 |
| Equity instruments (shareholdings, etc.) | 146 | 539 | 53,514 | - |
| Deposits from banks | - | - | 295 | - |
| Deposits from customers | 1,225 | 1,504 | 5,251 | 5,356 |
| Guarantees provided by the Group | - | - | - | 14 |
| Other obligations (to related parties) | 4,182 | 2,750 | 376,473 | - |
| Provisions for doubtful debts | - | - | -5 | -7 |

During the period under review, EUR 12thsd was recognised as expenses in respect of bad or doubtful debts due from related parties.

The transfer prices charged to each other by HYPO NOE Gruppe AG and related parties are at arm's length levels.

The Lower Austrian state government holds a direct interest of 70.49% in HYPO NOE Gruppe Bank AG via NÖ Landes-Beteiligungsholding GmbH, and an indirect interest of 29.51% via NÖ BET GmbH.

As at 30 June 2013 loans to the state government of Lower Austria amounted to EUR 1,940,418thsd (including the present value of lease receivables totalling EUR 1,311,147thsd). Receivables from it arising from the positive fair value of derivatives (with a nominal value of EUR 445m) were EUR 57,439thsd, and unused credit lines were EUR 685,966thsd. Liabilities to the Lower Austrian state government were EUR 38,217thsd.

State government guarantees of loans and advances extended to third parties by HYPO NOE Gruppe Bank AG totalled EUR 3,213,858thsd as at 30 June 2013. All of these transactions were on arm's length terms. Use is made of the exemption from disclosure requirements under paragraphs 18 and 25 IAS 24.

Key management in the HYPO NOE Group comprises "identified staff" and "identified staff with less material impact".

## 6.5 Contingent liabilities, credit risk and latent legal risk

### 6.5.1 CONTINGENT LIABILITIES

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Acceptances and endorsements | 327 | 327 |
| Liabilities arising from guarantees and furnishing of collateral | 173,414 | 149,564 |

### 6.5.2 CREDIT RISK

| EUR '000 | 30 Jun. 2013 | 31 Dec. 2012 |
|---|---|---|
| Credit risk | 1,578,936 | 1,364,204 |

## 6.6 Events after the reporting period

In December 2009 the HYPO NOE Group agreed to finance the construction of a retail park to the south-west of Budapest. During the first half of 2013 the Supervisory Board empowered the Management Board to take part in the auction of the property provided that this was an appropriate course of action in light of the risks, and advantages and disadvantages for the Bank.

To prepare for the auction, the following companies were formed in July 2013:
- SRE Ungarn Holding 1 GmbH, Austria
- SRE Sziget Center Kft., Hungary

# GOVERNING BODIES OF HYPO NOE GRUPPE BANK AG

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

**Management Board**

Peter Harold, Chairman

Nikolai de Arnoldi, member

**Supervisory Board**

Burkhard Hofer, Chairman

Michael Lentsch, Deputy Chairman

Klaus Schneeberger

Karl Schlögl

Karl Sonnweber

Engelbert J. Dockner

Hubert Schultes

**Delegated by the Works Council**

Hermann Haitzer

Peter Böhm

Franz Gyöngyösi

Claudia Mikes

**State commissioners**

Hans Georg Kramer, CFP, Federal Ministry of Finance

Franz Ternyak, Federal Accounting Agency

**Supervisory commissioners**

Reinhard Meissl, office of the Lower Austrian state government

Helmut Frank, office of the Lower Austrian state government

St Pölten, 26 August 2013

The Management Board

**Peter Harold**
Chairman of the Management Board

**Nikolai de Arnoldi**
Member of the Management Board

# DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES

We hereby confirm that to the best of our knowledge the 2013 condensed semi-annual consolidated financial statements of HYPO NOE Gruppe Bank AG give a true and fair view of the Group's assets, liabilities, financial position and profit or loss as required by the applicable accounting standards, and that the Group interim operational and financial review gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed semi-annual consolidated financial statements, and of the principal risks and uncertainties to which the Group will be exposed during the remaining six months of the financial year.

IAS 34 was applied in the preparation of the 2013 condensed semi-annual consolidated financial statements. Substantially the same accounting policies were applied as to the financial statements as at 31 December 2012.

The 2013 semi-annual financial report was neither fully audited nor reviewed by independent auditors.

St Pölten, 26 August 2013

The Management Board

**Peter Harold**
Chairman of the Management Board
Responsible for:
Sales & Treasury, Participations & Public Services,
Group Organisation, IT & Facility Management,
Group Real Estate Business, Staff Unit Group ALM &
Strategic Planning, Staff Unit Group Rating & Investor Advisory,
Group Human Resources, General Secretariat &
Group Compliance, Group Communications and Audit

**Nikolai de Arnoldi**
Member of the Management Board
Responsible for:
Group Credit Risk Coordination,
Group Finance & Strategic Risk Management,
Staff Unit Group Tax Advisory, Group Credit Services,
Staff Unit Group Intensive Care Mgmt.,
Ombudsman, Group Treasury Services,
Group Payment Administration &
Custodian Bank Services, and Group Legal

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