FINANCIAL FACT SHEET FOR THE QUARTER ENDED **30 SEPTEMBER 2016**

The Group is under no legal obligation to publish interim reports. This report does not fully comply with, and was not drawn up in accordance with International Financial Reporting Standards (IFRSs).
In particular, paragraphs 8d (statement of cash flows) and 8e (disclosures) IAS 34 were not fully applied. This report should therefore be read in conjunction with the 2016 semi-annual financial report and the consolidated annual financial statements as at 31 December 2015.
This report was neither fully audited nor reviewed by independent auditors.

HYPO NOE GRUPPE

Group financial highlights

EUR '000	30 Sep. 2016	30 Sep. 2015	31 Dec. 2015
Total assets	**16,264,862**	**16,050,501**	**15,895,645**
Total eligible core capital in accordance with CRR/CRD IV	**576,113**	**590,040**	**597,675**
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	13.44%	13.21%	13.45%
Total capital ratio in accordance with Art. 92(2)(c) CRR	14.39%	15.19%	15.16%
Return on equity (ROE) before tax	8.5%	2.4%	2.0%
Operating ROE before tax	[2] 12.5%	6.5%	5.6%
ROE after tax	6.4%	1.8%	1.1%
Cost/income ratio (CIR)	[1] 68.6%	92.9%	92.5%
Operating CIR	[2] 55.9%	76.8%	77.3%

[1]CIR as at 30 September 2016 includes the entire costs of the contributions to the deposit insurance fund and resolution fund for 2016. On a pro forma basis, CIR would have amounted to 67.2% if the contributions had been reported by period.

[2]Change in calculation from 30 September 2016: operating CIR and operating ROE include the costs of contributions to the deposit insurance fund; the figures for the previous year have been adjusted.

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Economic climate

Global economic and financial market developments

The start of the third quarter was dominated by the result of the EU referendum in the United Kingdom. After the UK had gone against expectations on 23 June by voting to leave the EU, there was considerable uncertainty regarding the effects of the result – not only on the financial markets but also in the real economy. Initially, a number of key business confidence indicators pointed to possible negative consequences, but these signals have not been backed up by economic data published since the referendum. A few weeks after the Brexit vote, Turkey was rocked by an attempted coup, which was immediately thwarted. President Erdoğan then launched a wide-ranging crackdown on his political opponents. Turkey's political relations with its Western allies took a turn for the worse as a result of this development, in spite of the deal with the EU on refugees. In each of these cases, political drama was coupled with an element of surprise, but so far these events have had no discernible economic impact, either globally or at the European level. To this point, the effects have been manageable, thanks mainly to the actions of central banks around the world – their loose monetary policies have stabilised the financial markets and created conditions that support the real economy. In the US, the economy was subdued in the first six months of 2016, but data released since mid-year point to a significant upturn in growth in the second half. The labour market and the real estate sector are continuing to perform well. In combination with the rise in inflation which is expected at the turn of the year, an interest rate increase in the US is looking more and more likely.

Financial markets

At the beginning of the period under review, higher-risk asset classes such as equities were hit hard by the Brexit vote and developments in Turkey. On the bond market, the resulting risk-averse attitude among investors pushed yields down to all-time lows, a situation that was also partly attributable to the asset purchase programmes of the European Central Bank (ECB) and other central banks. The Bank of England's decision to adopt an unconventional monetary policy once again led to further declines on the bond market. Yields rebounded somewhat during the third quarter, and stock markets also recovered from their temporary lows, with significant upturns on some exchanges. On the whole, it appears that fundamentals are having less of an influence on price movements on the financial markets. The direct and indirect impacts of central banks' asset purchases – the latter resulting from spillover effects – are now the decisive factor in determining prices. Although the ECB only began purchasing corporate bonds at the start of July under its quantitative easing programme, this has already had a considerable impact, with companies now able to obtain refinancing on the bond markets at negative yields for the first time ever.

Economic trends in the HYPO NOE Group's core markets

Austria

At the end of September the Institute for Advanced Studies (IHS) reported that the Austrian economy had grown by 1.4% in the first half of 2016 (eurozone: 1.6%, EU-28: 1.9%). Austria's economy has now picked up speed again following a lengthy period of stagnation.

Investment has increased markedly, while private consumption is rising again for the first time in three years, not least due to the effects of the recent tax reform. The construction industry seems to be coming out of crisis, and the modest growth recorded at the end of 2015 continued into the first half of this year. In this regard, it is worth noting that construction of new residential properties has increased, but measures implemented under the government's housing construction initiative have so far failed to have an effect. Foreign trade did not make a significant contribution to growth in the first nine months of the year, and the trade balance recently turned negative owing to a rise in imports. The Brexit vote also has also had a slightly negative effect on industry.

The latest GDP revision resulted in a fall in the 2015 budget deficit, to 1.1% of total output. Higher spending on security and on the refugee situation means that a deficit of 1.6% is expected in 2016 as things stand. Due to the tax reform, some of this spending will not be offset by government revenue, which could in turn put further pressure on the budget. However, with a solution to the Heta situation currently taking shape, it can be assumed that government debt will fall somewhat in the medium term, and that the massive contingent liabilities of the State of Carinthia will be reduced with immediate effect.

Federal states

Austria's federal states reported growth of between 0% and 1.4% in 2015. Economic growth was 0.8% in Lower Austria and 0.1% in Vienna. Upper Austria (1.8%), Vorarlberg (1.7%) and Tyrol (1.5%) posted the strongest growth rates. At present, growth in the federal states is expected to recover significantly in 2016, with rates ranging from 1.4% to 1.8%. Due to rising export demand, the more industrial states – Styria, Upper Austria and Vorarlberg – will again record stronger growth.

A welcome development is the trend towards debt reduction by the Austrian state governments – aggregate debt including guarantees is down by around 16% since 2011. Lower Austria, Carinthia, Vienna and Burgenland stood out for their rapid rundown of debt; in the case of Lower Austria and Carinthia this reflected unscheduled repayments. There has also been a reduction in guarantees (including bank guarantees) by the federal states from an aggregated EUR 75bn to around EUR 55bn, a fall of about 27%, which was primarily attributable to the maturity of state government-backed bonds issued by provincial mortgage banks.

In terms of assets, Vienna leads the way in a comparison of the Austria federal states, followed by Lower Austria. At federal state level, total assets amount to EUR 86.3bn (28.1% of national GDP).

Lower Austria and Vienna – the HYPO NOE Group's core markets – are the Austrian federal states with the highest forecast population growth up to 2075, and still have the highest average gross income among employed persons. Lower Austria moved into first place in terms of purchasing power per inhabitant in 2013, a position it has maintained ever since, ahead of Salzburg and Vienna. In that year, purchasing power in these three states exceeded EUR 20,000 per inhabitant for the first time. Lower Austria and Vienna remain the states with the highest shares of national GDP, at 16% and 26% respectively.

Danube region

According to forecasts from September 2016, most of the countries in the HYPO NOE Group's extended core market – with the exception of Germany – will again record growth well above the EU average this year. Romania is expected to see the strongest growth in the Danube region, at 4.8%. The other economies in the region are predicted to grow by between 1.8% and 3.1%, with Hungary reporting a year-on-year decline in growth, which is in line with expectations.

Private consumption is still the driving force behind growth in the Danube region. Romania stands out in this respect – the country has seen relatively high growth in both gross fixed capital formation and private consumption, while the external balance has made a significant negative contribution to growth on account of strong domestic demand. With the exception of Poland, public-sector investment remained very subdued in the first half of 2016.

Banking sector trends in the eurozone and CEE

The results of the European Banking Authority (EBA) stress test published at the end of August did not contain any major surprises. A total of 51 banks, including 37 from the eurozone, took part in the test, which assessed the resilience of EU banks against a common macroeconomic baseline and an adverse scenario. Due to the generally strong initial capitalisation, these scenarios would only pose difficulties for a few banks. The poor performance of the Italian banks covered by the test came as no surprise, as a rescue plan for the country's stricken banking sector was negotiated at about the same time the stress test results were announced.

The repurchase offer submitted by the Carinthian Compensation Payment Fund (KAF) on 6 September is expected to finally bring about a positive resolution of the Heta situation. A memorandum of understanding signed by Heta’s creditor groups, the Austrian government and the State of Carinthia in May 2016 had helped to shore up Austria’s standing as a financial centre. Under the offer, which was valid until 7 October, creditors had a choice between a cash payment totalling around EUR 7.8bn and a swap for zero-coupon bonds or zero-coupon notes with a total nominal value of EUR 10.4bn.

Stricter capital regulations, a high degree of regulatory influence and persistently low interest rates continue to weigh on profitability in the Central and East European banking sector. However, the market – in particular the retail segment – has recorded steady growth. The progress made in the Danube region banking sector is primarily reflected in the improved and increasingly stable quality of assets. Non-performing loan (NPL) ratios currently range from 5.2% to 15.7%. In line with recent trends, the growth in deposits remains solid, and in some cases lending has increased even more sharply than in the past few years.

Financial review

Key developments in the first three quarters of 2016

Earnings (IFRS)

Profit attributable to owners of the parent was higher year on year, at EUR 28.6m (Q1-3 2015: EUR 7.3m). The Gruppe Bank, Landesbank and Leasing segments all recorded strong pre-tax profits, while the Other segment reported a loss before tax. In terms of earnings, net interest income was high, in spite of low interest rates, at EUR 93.1m, although this was EUR 5.3m down on the like period of 2015 (Q1-3 2015: EUR 98.5m). As reported last year, performance in the first nine months of 2015 was affected by significant impairments recognised in relation to Heta Asset Resolution AG (Heta) bonds. However, this aspect had a positive impact in the first three quarters of this year, owing to the reversal of impairments resulting from continuous assessment of the bonds' value.

The cost of risk led to net losses on credit provisions of EUR 7.5m (Q1-3 2015: net gains of EUR 2.4m), an increase of EUR 9.9m year on year.

The Group reported net trading losses of EUR 2.9m (Q1-3 2015: net gains of EUR 6.5m). This was a result of foreign exchange losses on CHF-denominated forward exchange transactions, which were offset by corresponding foreign currency cash transactions recognised in net other operating income, and of earnings contributions from interest rate transactions, largely resulting from the difference between the measurement of customer derivatives and the related hedges.

Administrative expenses fell by 2.9% or EUR 3.1m to EUR 100.0m (Q1-Q3 2015: EUR 103.1m), mainly as a result of a decrease of EUR 2.3m in staff costs and of EUR 2.4m in other administrative expenses. The statutory contributions to the deposit insurance and resolution funds, which amounted to EUR 8.1m (Q1-3 2015: EUR 7.5m), had an adverse effect. These contributions are reported under other administrative expenses. As in the third quarter of 2015, the contributions for the year were reported in full, meaning that these expenses will not affect the fourth quarter of 2016. The statutory financial stability contribution ("bank tax") amounted to EUR 11.2m, compared with EUR 10.9m in the first three quarters of 2015.

Net gains on investments accounted for using the equity method stood at EUR 1.9m (Q1-3 2015: net losses of EUR 0.2m), primarily as a result of the positive valuation of the non-profit EWU subgroup (Gruppe Bank segment).

The net gains on available-for-sale financial assets of EUR 20.6m (Q1-3 2015: net losses of EUR 22.7m) were mainly attributable to the holdings of Heta bonds, for which remeasurements became necessary in the course of applying the internal valuation model, due to new information at the end of the reporting period.

Net other operating income was EUR 23.7m, up on the EUR 22.6m reported in the first nine months of 2015. This includes measurement gains and losses on cash transactions in the current period. The offsetting foreign currency gains and losses on forward exchange operations that were not hedging transactions are included in net trading income.

Profit before tax amounted to EUR 38.2m, which was EUR 28.0m higher than in the same period a year earlier (Q1-Q3 2015: EUR 10.2m).

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

		Q3 2016	Q3 2015	2015	2014
Return on equity (ROE) before tax**	Profit or loss for the period before tax/ave. equity	8.5%	2.4%	2.0%	-7.1%
Operating ROE before tax**	ROE before tax excl. financial stability and resolution fund contributions, and regulatory costs/ave. equity adjusted for financial stability and resolution fund contributions, and regulatory costs	[2] 12.5%	6.5%	5.6%	-4.7%
ROE after tax**	Profit or loss for the period/ave. equity	6.4%	1.8%	1.1%	-5.5%
Cost/income ratio**	Operating expenses/operating income*	[1] 68.6%	92.9%	92.5%	135.2%
Operating cost/income ratio**	Cost/income ratio excl. financial stability and resolution fund contributions, and regulatory costs	[2] 55.9%	76.8%	77.3%	121.1%
Risk/earnings ratio	Credit provisions/net interest income A negative indicator signifies income and a positive indicator signifies expenses in credit provisions	8.1%	-2.4%	-0.9%	5.3%

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

**Intrayear indicators annualised on a per diem basis.

[1]CIR as at 30 September 2016 includes the entire costs of the contributions to the deposit insurance fund and resolution fund for 2016. On a pro forma basis, CIR would have amounted to 67.2% if the contributions had been reported by period.

[2]Change in calculation from 30 September 2016: operating CIR and operating ROE include the costs of contributions to the deposit insurance fund; the figures for the previous year have been adjusted.

Assets and liabilities (IFRS)

The HYPO NOE Group's total assets increased by 2.3% compared with year-end 2015, to EUR 16.3bn as at 30 September 2016.

There was a EUR 0.2bn rise in loans and advances to banks, while loans and advances to customers declined by EUR 0.5bn, which was mainly attributable to the reclassification of assets under construction in connection with future lease receivables as other assets. There were increases in the positive fair value of hedges (assets side) and the negative fair value of hedges (equity and liabilities side). On the equity and liabilities side, deposits from customers rose by EUR 0.9bn, and there was a decline of EUR 0.6bn in deposits from banks and of EUR 0.3bn in debts evidenced by certificates.

Changes in equity (IFRS)

IFRS consolidated equity including non-controlling interests as at 30 September 2016 was EUR 621.5m, an increase of EUR 40.0m on 31 December 2015. This was mainly due to the profit attributable to owners of the parent and the improvement in the available-for-sale reserve for remeasurement of financial assets to fair value, although this was offset by dividend payments.

Changes in equity (CRR/CRD IV[1])

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

Consolidated eligible capital in accordance with the CRR was EUR 576.1m as at 30 September 2016 (31 Dec. 2015: EUR 597.7m). Surplus capital as at 30 September 2016 was EUR 255.9m (31 Dec. 2015: EUR 282.2m), in comparison with a capital requirement of EUR 320.3m (31 Dec. 2015: EUR 315.5m). The core capital ratio in accordance with Article 92(2)(b) CRR was 13.4% as at 30

[1]CRD IV: Capital Requirements Directive IV; CRR: Capital Requirements Regulation

September 2016 (31 Dec. 2015: 13.4%), and the equity ratio in accordance with Article 92(2)(c) CRR was 14.4% (31 Dec. 2015: 15.2%).

Operational review

Gruppe Bank segment

As the Group's parent, HYPO NOE Gruppe Bank AG traditionally operates in its core Austrian market, and is committed to promoting the long-term development of its home region of Lower Austria and Vienna, in line with its status as a regional bank. With the State of Lower Austria as its sole shareholder, the Group is in a position to build on the foundations provided by such stable and reliable ownership. Within the Group, HYPO NOE Gruppe Bank AG is mainly responsible for servicing large customers – chiefly state and local government clients – in Austria and selected Danube region countries. The product portfolio focuses primarily on financing for social and hard infrastructure, as well as corporate, project, structured and real estate finance, and treasury solutions.

Besides its core Austrian market – the states of Lower Austria and Vienna – HYPO NOE Gruppe Bank AG concentrates on the Danube region, which comprises Bulgaria, the Czech Republic, Germany, Hungary, Poland, Romania and Slovakia. In order to deliver comprehensive customer service and optimum risk assessment, the Bank has a network of representative offices in Bucharest, Budapest, Prague and Sofia.

On 15 June 2016 ratings agency Standard & Poor's confirmed its A/A-1 issuer rating with a "stable" outlook, a reflection of HYPO NOE Gruppe Bank AG's excellent creditworthiness. On 25 May 2016 Moody's placed HYPO NOE Gruppe Bank AG's public and mortgage-backed covered bonds, both of which have an Aa1 rating, on review for upgrade. This was in response to the announcement of an agreement in principle between the Austrian federal government and a significant number of Heta creditors. KAF submitted its adapted repurchase or swap offer on 6 September 2016. The outcome was due to be announced in October 2016.

On 29 June 2016 the HYPO NOE Gruppe Bank AG Supervisory Board approved a project for a merger with wholly-owned subsidiary HYPO NOE Landesbank AG. The main goal of the merger is to reintegrate the retail and residential construction businesses into HYPO NOE Gruppe Bank AG, in order to achieve efficiency gains. At the same time Wolfgang Viehauser, previously the head of Public Finance, assumed responsibility for the private customer business. On 7 September 2016, Peter Harold was reappointed CEO of HYPO NOE Gruppe Bank AG for another five-year term beginning on 1 January 2017. Udo Birkner will take over as the new CFO/CRO on the same date, replacing Nikolai de Arnoldi, who will leave the Company with effect from 31 December 2016. This will complete the formation of the new HYPO NOE Gruppe Bank AG Management Board.

Public Finance

The Public Finance Department is a strong partner for local and regional authorities, public agencies and infrastructure companies. In the first three quarters of 2016, the department focused on further intensifying the provision of advice on bespoke finance solutions to such customer groups in its core Austrian market, as well as in selected countries and major cities covered by the Danube region strategy.

There is increasing demand from state governments and local authorities for a variety of special financing models for public building construction projects. Public Finance's prime objectives are to develop sustainable, integrated solutions for customers, in collaboration with other parts of the Group, and increasingly to act as a provider of expertise and services. The department offers risk-aware advice and services based on knowledge of customers' specific needs, in line with HYPO NOE Gruppe Bank AG's philosophy.

So far this year, the comprehensive renovation of the state vocational college in Neunkirchen and the state nursing home in Mödling have been completed. 2016 has also seen the handover of the newly built state home for young people in Perchtoldsdorf, and of the newly refurbished and extended state hospital in Baden. New projects include the Landesgalerie Niederösterreich in Krems, where construction work began this year.

HYPO NOE Gruppe Bank AG is collaborating with the Lower Austria Community Management Academy to promote training and development in municipalities in the state. As part of this initiative, in November HYPO NOE’s headquarters in St. Pölten will play host to a joint event focusing on current issues in municipal financial management.

Keeping in close contact with local authorities and their representatives, either directly or at various specialist events such as the annual meeting of the Association of Austrian Municipalities in Klagenfurt in October 2016, remains the leading priority for Public Finance.

Real Estate Finance

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

In the first nine months of 2016 the department maintained its focus on its core markets, in particular Austria, the Czech Republic, Germany, Poland, Romania and Slovakia. With lending conditions rapidly becoming more and more borrower-friendly, leading analysts in Germany are still predicting a sharp increase in permitted lending limits, and anticipate the emergence of 100% mortgages on certain properties as early as this year. Real Estate Finance will therefore concentrate on expanding its activities in other target markets where funding parameters for comparable projects can still be brought into line with the defensive risk profile of the overall portfolio.

Low interest rates and record low returns on alternative investments have led to sharp increases in demand across almost all real estate categories, and especially city centre rental apartment buildings. Central Europe’s commercial and residential property markets are still among the most attractive in the world for foreign investors.

In the remainder of 2016 the department’s operations will again centre on the core Austrian and German real estate markets, and on neighbouring EU member states. Real Estate Finance is keeping a close watch on macroeconomic developments and regional property market trends in its target markets outside Austria.

The volume of transactions involving commercial properties is expected to hold at last year’s levels in the final quarter of 2016. The department will give priority to stabilising profitability and optimising the lending portfolio by selectively seeking new customers among institutional investors, funds and property developers. The department’s business model is still based on the office, shopping centre, retail park, residential property, logistics facility and city hotel asset classes. Portfolios of mixed-use properties in various locations and with a wide range of tenants also serve to diversify risk. As regards risk allocation, Real Estate Finance remains committed to cooperating with established partners on projects in prime locations, under long-term financing arrangements.

Corporate & Structured Finance

The Corporate & Structured Finance Department (CSF) is responsible for HYPO NOE Gruppe Bank AG’s large customer and structured finance operations.

Although the market remained subdued, the department’s performance was in line with the budget for the third quarter of 2016. In addition to supporting a prominent leveraged buyout by a leading Lower Austrian business, the department enhanced existing customer relationships, laying the foundations for further profitable transactions in the fourth quarter. The department also intensified its medium-term acquisition-related activities, meaning it is well placed heading into 2017.

On the liabilities side, the average terms for customer deposits increased. There was also an emphasis on enhancing the granularity of the portfolio. In financing terms, CSF further expanded its customer base, as well as boosting the net margin. The bespoke financing business for existing customers also produced very satisfactory results, and there was another fall in the proportion of pure syndicate investments in financing not extended on the basis of direct customer relationships.

The department's foreign operations continued to focus strongly on supporting German customers aiming to enter the Austrian market or make acquisitions in Austria. The lending and deposits businesses both performed exceptionally well. The department deepened its relationships with a number of key customers in the Danube region by concluding new financing agreements.

Religious Communities, Interest Groups and Agriculture

The Religious Communities, Interest Groups and Agriculture (KIA) Department concluded a number of transactions in the church and social segments in the period under review. The focus was mainly on health and care facilities.

The product portfolio is primarily geared towards:

- Finance for social and public facilities, such as care and social centres, educational facilities and nurseries
- Finance for the renovation and revitalisation of churches and church buildings
- Finance for large agribusinesses, especially food processing and retailing, and for farmers in the region
- Ethical and sustainable investment

Uncertainty on the financial markets is still reflected in the high volume of term deposits. As far as investment is concerned, the department continues to exclusively offer ethical and sustainable securities.

KIA sees itself as the first point of contact within the Group for real estate services for its target group. The service portfolio for properties and projects extends from valuations and construction management to administration and facility management.

Treasury & Funding

In view of the impending resolution of the Heta situation, spreads on outstanding secondary bonds issued by Austrian banks have narrowed recently. Against this backdrop, HYPO NOE Gruppe Bank AG completed the private placement of a EUR 100m, 30-year covered bond from the public sector cover pool with an option for early repayment after eight years. HYPO NOE Gruppe Bank AG also became one of the first Austrian banks for some time to issue a senior unsecured bond denominated in Swiss francs. A successful roadshow in Zurich in late summer was followed by a CHF 100m benchmark issue with a maturity of seven years, which attracted interest from a wide variety of investors.

Performance in the institutional deposits business is still above expectations, and has become an increasingly reliable funding instrument in the course of this year.

Selective acquisitions were made for the liquidity portfolio to take advantage of the attractive spreads on new covered bond issues at the start of the year. Government bonds with good credit ratings were also purchased. The average volume-weighted rating of the purchased securities was equivalent to AA.

During the period under review, steps were taken to improve reporting of interest rate positions, with a view to presenting the interplay between intrayear and long-term interest more effectively. The control processes for interest rate management were evaluated and, where necessary, adapted in light of the difficulties of leveraging potential improvements as a result of low and negative rates.

Institutional Customers

In the third quarter of 2016 constant maintenance of relationships with other financial institutions remained an important aspect of HYPO NOE Gruppe Bank AG's philosophy. The Bank actively manages its business links with numerous banks in Austria and abroad, as well as its relationships with insurance companies, pension funds and investment companies. During the period under review, a number of non-transaction-related roadshows enabled the Bank to retain its strong focus on continuous dialogue with investors. Ongoing communication with correspondent banks is another key aspect of the Bank's financial market communications.

Foreign branches, representative offices and branches

HYPO NOE Gruppe Bank AG had no foreign branches in the third quarter of 2016, but operated representative offices in Bucharest, Budapest, Prague and Sofia.

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

Landesbank segment

HYPO NOE Landesbank AG

HYPO NOE Landesbank AG is responsible for the HYPO NOE Group's retail banking and housing development businesses. The Bank defined "finance and housing", "saving and investment" and "accounts and cards" as strategic areas in terms of the needs that it aims to meet.

Its 28 branches provide outstanding service to private, self-employed and business customers in the Group's core market of Lower Austria and Vienna.

In terms of the strategic pillars mentioned above, HYPO NOE Landesbank AG posted particularly strong performance in saving and investment – in spite of the prevailing market trend – thanks to a number of campaigns aimed at attracting customer deposits.

In parallel, the "finance and housing" pillar was prioritised, with a focus on subsidies. Close cooperation with the State of Lower Austria enabled the Bank to offer end-to-end support on loans and subsidies.

The merger of locations into the two remaining business customer centres, located in Lower Austria and Vienna, in the course of this year has led to additional improvements in services for small and medium-sized enterprises (SMEs).

HYPO NOE Landesbank AG expanded its customer base in housing development and in the financing business. In connection with payment transactions, a new account for collecting rent deposits (*Mietsammelkonto*) was introduced in response to amendments in the Austrian *Wohnungsgemeinnützigkeitsgesetz* (Non-Profit Housing Act).

The Bank has offered video-based customer advice since May 2016 with a view to providing customers with even more flexible service. This new channel enables customers to contact relationship managers from any location.

Leasing segment

HYPO NOE Leasing GmbH

HYPO NOE Leasing GmbH and its project companies look after the leasing business with the public sector as a whole, and the Lower Austrian state government in particular. Its core competency is complex lease agreements connected with real estate projects. Against the backdrop of changing public-sector financing needs, the company has seen increasing demand for operating leases and PPP models.

Performance in the third quarter of 2016 was satisfactory. The highlights included equipment leasing for local authorities, and the continued expansion of the care home segment with the aim of providing further backing for Lower Austria's strong social infrastructure.

Other segment

HYPO NOE Immobilien Beteiligungsholding GmbH

In 2015 HYPO NOE Gruppe Bank AG's real estate activities were merged into HYPO NOE Immobilien Beteiligungsholding GmbH, which comprises HYPO NOE Real Consult GmbH, HYPO NOE First Facility GmbH and NOE Immobilien Development AG. In line with the primary goal of providing a one-stop shop for the entire real estate management value chain, the holding company brings together facility and property management, real estate sales and brokerage services, cross-selling functions, project development and management, and transaction and asset management.

Regarding **HYPO NOE Real Consult GmbH**'s largest current project, at the Institute of Science and Technology Austria (IST Austria), an architectural competition was held for the kindergarten at the facility. The company also won an additional contract for the site, which is due for completion by 2023, following a Europe-wide tender process. Construction work began at the Landesgalerie Niederösterreich in Krems, and phase five of Amstetten hospital was handed over and opened. In terms of sales and estate agency services, HYPO NOE Real Consult GmbH is making progress on work connected with Group projects, and its activities under contracts with third parties in Lower Austria and Vienna. Preparations are under way for bringing the Karrée Korneuburg to market. In property management, the company is taking steps to increase its market share in the Lower Austrian local authority segment.

In addition to providing products in energy management as well as measurement and control services, **HYPO NOE First Facility GmbH** is broadening its skills and service offerings in the health sector and in the uninterruptible power supply (UPS) business. HYPO NOE First Facility GmbH is entering another market in the form of PPP models. The aim is to win the trust of new customers through the firm's expertise and the advantages generated by economies of scale, and to convince new business partners of the quality of its services. This high quality was reflected in 2016 in HYPO NOE First Facility GmbH's certification in accordance with ISO 9001:2015 – making it a pioneer among Austrian businesses – and the award of the GEFMA 730 ipv® FM Excellence Certificate (the highest level of certification).

Under a resolution adopted by the Supervisory Board of HYPO NOE Gruppe Bank AG on 29 June 2016, the Bank will sell its majority interest in **NOE Immobilien Development AG** to external investors; the related negotiations are now under way. HYPO NOE Gruppe Bank AG will remain the largest shareholder, with a 48% stake. Although a number of measures had been implemented as of 30 September, NID's structure means that the company is not yet ready for sale to investors. The transfer of employees and the majority of the Bank's development and portfolio properties to NOE Immobilien Development AG is due to take place in the fourth quarter of 2016, and the entire restructuring exercise is scheduled for completion by the end of 2016. NID will concentrate on premium and affordable housing as well as district development, incorporating HYPO NOE Gruppe Bank AG's entire service portfolio.

Group outlook for 2016

Market outlook

The prospects for the US economy in the remaining months of this year are considerably brighter following a disappointing first half. The result of the presidential election will significantly affect future developments. After a strong opening quarter of 2016, eurozone growth has weakened recently, and a modest rate of between 0.2% and 0.3% per quarter is forecast for the coming months. Although there are indications of another interest rate rise in the US at the end of this year, the monetary policies of the ECB and other central banks remain extremely expansive. Several decisions which could potentially have an influence on the markets are due to be taken by year-end. In political terms, these include the American presidential election and a referendum on constitutional reform in Italy. Central banks are expected to stick to their current monetary policies, which in principle should benefit the financial markets. An important exception is the US central bank, the Federal Reserve, which has signalled the possibility of another interest rate increase in December. However, the Fed’s credibility has taken a beating in recent months, so uncertainty has persisted on the capital markets. It also remains to be seen how central banks around the world respond to the foreseeable rise in inflation, which will mainly result from statistical base effects, at the end of this year. In any event, this represents a significant change compared to conditions in the last two years, which were hallmarked by low inflation and related ultra-expansive monetary policies.

According to forecasts from the WIFO (Austrian Institute of Economic Research), household consumption in Austria is set to rise in 2016 – the first increase in three years. At 1.5%, this is a vital boost for the country’s economic growth. The rise is attributable to the latest tax reform and increased demand resulting from a growing population. Demand for investment goods in Austria, and equipment in particular, went up in 2015, and this trend continued in the first two quarters of 2016. But because the economic outlook is still rather downbeat, such spending may have been on replacements for outdated equipment as opposed to investment in capacity expansion. The weak global economy has had a negative impact on Austria this year. The WIFO expects the country’s exports to rise by only 2.8%, compared with 3.6% last year. In spite of the sluggish economic performance of recent years, there has been a steady increase in employment. Stronger economic growth in 2016 and 2017 will go hand in hand with a sharper increase in employment (2016: up 48,000 or 1.4%; 2017: up 37,000 or 1.1%). Unlike in previous years, jobseekers are increasingly looking for full-time positions. However, the WIFO also sees a further significant increase in the labour supply, especially from abroad, although this rise will be lower than in 2014 and 2015. Despite stronger demand for workers and with slowing growth in the labour supply, unemployment is not expected to fall during the period covered by the forecast. Austrian inflation is predicted to remain very low in 2016, at 1%, although upward pressure on prices is far stronger than the eurozone average.

Business outlook

Under the prevailing financial market conditions, the HYPO NOE Group is holding its own as a dependable partner for private customers, businesses and the public sector in its core market. The Group’s focus on its core regional market, coupled with selective growth and proximity to customers, has proved its worth in recent years and will remain unchanged in the next few years. Following a solid operating performance in the first three quarters, the Group expects to report sustainable and stable operating profit for 2016. The high financial stability contribution and the resulting anticipated one-off effect will have a negative impact on the 2016 results, although this will alleviate the burden on future periods. The HYPO NOE Group has accepted the swap offer for Heta receivables and now holds a zero-coupon bond issued by the Carinthian Compensation Payment Fund and guaranteed by the Austrian government on its books.

A major focus for the Gruppe Bank segment in the fourth quarter will be financing for corporate customers in our core market, as well as for regional and social infrastructure. The segment is again aiming to extend its success in generating primary funding. The corporate investment services business is an important component in this respect. Optimised earnings potential and a volume of transactions similar to last year are expected in the real estate financing business in 2016. Relationships with religious communities, interest groups and agricultural sector customers will be intensified with a view to building on past successes in the lending and investment businesses. Growth in these sectors is anticipated to be in line with the market average. The Group will retain a sharp focus on its core target groups and regions, while taking risk requirements into account. Outside its core market, the Group's business model and risk optimisation are complemented by its activities in the Danube region, where it has four representative offices.

In the Landesbank segment, the emphasis is on extending use of the sales network in the branches, as well as on ongoing optimisation of the quality of products and advice, and on acquiring new customers. The aim is to achieve growth in savings deposits, service income and customer numbers. The Bank also remains firmly committed to achieving sustainable profitability.

The Leasing segment anticipates continued growth in the fourth quarter after tendering for a wide range of projects on terms similar to rental agreements. The Other segment, where companies such as HYPO NOE Real Consult GmbH and facility management services provider HYPO NOE First Facility GmbH form the final link in the Group's real estate services value chain, will continue its expansion in the second half of the year. NOE Immobilien Development AG (NID) is due to commence operations by the end of 2016. NOE Immobilien Development AG (NID) is due to be sold to external investors, and negotiations with potential buyers are set to be concluded in the fourth quarter of 2016; the HYPO NOE Group will remain the largest shareholder, with a stake of 48%. NID's property development activities will concentrate on premium and affordable housing and urban development.

In the final quarter of this year, the Group will again be fully occupied with new accounting standards and upcoming regulatory changes. In the first half, the Supervisory Board approved a project aimed at merging the banking operations of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG – this will also require substantial organisational resources in the final three months of 2016. The merger is scheduled to take operational effect in autumn 2017. The main goal of the merger is to reintegrate the retail, commercial and residential construction businesses into HYPO NOE Gruppe Bank AG. The related operational synergies and reduced organisational complexity should enable the Group to boost efficiency.

Ratings agency S&P reaffirmed HYPO NOE Gruppe Bank AG's strong A/A-1 issuer rating in July 2016, with a positive outlook based on the stability provided by the Group's sole owner, the State of Lower Austria. Consequently, the HYPO NOE Group is one of Austria's best-rated banks. The agency takes a particularly positive view of the Group's consistent business model and the continued strengthening of its equity base. This excellent rating underlines the Bank's long-standing strengths. The operating results, positive contribution of the business model and solid equity base have laid the foundations for the HYPO NOE Group to carry on justifying its customers' trust, and providing comprehensive project support to corporate, institutional and retail clients.

Accounting and measurement policies

Essentially the same accounting policies were applied to this quarterly report as to the consolidated financial statements of the HYPO NOE Group for the year ended 31 December 2015.

This report was neither fully audited nor reviewed by independent auditors.

The Group is under no legal obligation to publish interim reports. This report does not fully comply with, and was not drawn up in accordance with International Financial Reporting Standards (IFRSs).

In particular, paragraphs 8d (statement of cash flows) and 8e (disclosures) IAS 34 were not fully applied and this report should therefore be read in conjunction with the 2016 semi-annual financial report and consolidated annual financial statements as at 31 December 2015.

STATEMENT OF COMPREHENSIVE INCOME

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

Profit or loss (EUR ’000)	**Q1-Q3 2016**	**Q1-Q3 2015**
Interest and similar income	425,969	438,761
Interest and similar expense	-332,824	-340,291
Net interest income	**93,145**	**98,470**
Credit provisions	-7,537	2,364
Net interest income after risk provisions	**85,608**	**100,834**
Fee and commission income	12,370	12,076
Fee and commission expense	-2,088	-2,036
Net fee and commission income	**10,282**	**10,040**
Net trading income	-2,859	6,467
Administrative expenses*	-100,016	-103,053
Net other operating income	23,731	22,558
Net gains or losses on investments accounted for using the equity method	1,878	-192
Net gains or losses on available-for-sale financial assets	20,559	-22,725
Net gains or losses on financial assets designated as at fair value through profit or loss	-7	-64
Net gains or losses on hedges	-1,350	-4,070
Net gains or losses on other financial investments	365	418
Profit before tax	**38,191**	**10,213**
Income tax expense	-9,557	-2,616
Profit for the period	**28,634**	**7,597**
Non-controlling interests	-8	-324
Profit attributable to owners of the parent	**28,626**	**7,273**

Other comprehensive income (EUR ’000)	**Q1-Q3 2016**	**Q1-Q3 2015**
Profit attributable to owners of the parent	**28,626**	**7,273**
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)	*17,547*	*-14,415*
Exchange differences on translating foreign operations accounted for using the equity method (before tax)	*17*	*-2*
Change in deferred tax	*-4,391*	*3,604*
Total other comprehensive income	**13,173**	**-10,813**
Total comprehensive income attributable to owners of the parent	**41,799**	**-3,540**

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

*Administrative expenses include the financial stability contribution (“bank tax”) of EUR 11,161thsd (30 Sep. 2015: EUR -10,912thsd), as well as contributions to the deposit insurance and resolution funds totalling EUR -8,092thsd (30 Sep. 2015: EUR -7,546thsd).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

Assets (EUR ’000)	30 Sep. 2016	31 Dec. 2015
Cash and balances at central banks	172,295	68,986
Loans and advances to banks	1,160,731	922,091
Loans and advances to customers	11,062,769	11,557,287
Risk provisions	-100,971	-100,423
Assets held for trading	652,203	586,811
Positive fair value of hedges (hedge accounting)	621,457	509,458
Available-for-sale financial assets	2,197,001	2,104,338
Financial assets designated as at fair value through profit or loss	20,318	4,118
Investments accounted for using the equity method	22,177	20,937
Investment property	76,984	68,704
Intangible assets	681	1,411
Property, plant and equipment	77,699	80,159
Current tax assets	20,696	19,653
Deferred tax assets	895	2,105
Other assets	279,927	50,010
Total assets	**16,264,862**	**15,895,645**

Equity and liabilities (EUR ’000)		
Deposits from banks	1,608,997	2,217,495
Deposits from customers	4,181,659	3,260,856
Debts evidenced by certificates	7,872,629	8,165,837
Liabilities held for trading	597,164	516,969
Negative fair value of hedges (hedge accounting)	939,541	740,962
Provisions	53,085	55,794
Current tax liabilities	9,523	10,073
Deferred tax liabilities	40,028	34,434
Other liabilities	138,320	106,297
Subordinated capital	202,391	205,449
Equity (incl. non-controlling interests)*	621,525	581,479
Equity attributable to owners of the parent	612,649	572,855
Non-controlling interests	8,876	8,624
Total equity and liabilities	**16,264,862**	**15,895,645**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 Sep. 2016, EUR '000	Balance at 1 Jan. 2016	Profit/loss for the year	Capital increase	Dividends paid	Other comprehensive income	Balance at 30 Sep. 2015
Share capital	51,981	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	191,824
Retained earnings	293,267	28,626	-	-2,000	-	319,888
IAS 19 reserve	-4,393	-	-	-	-	-4,393
Available-for-sale reserve	40,246	-	-	-	13,160	53,406
Currency translation reserve	-70	-	-	-	13	-57
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**572,855**	**28,626**	**-**	**-2,000**	**13,173**	**612,649**
Non-controlling interests	8,624	8	499	-261	-	8,876
TOTAL EQUITY	**581,479**	**28,634**	**499**	**-2,261**	**13,173**	**621,525**

30 Sep. 2015, EUR '000	Balance at 1 Jan. 2015	Profit/loss for the year	Capital increase	Dividends paid	Other comprehensive income	Balance at 30 Sep. 2015
Share capital	51,981	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	191,824
Retained earnings	287,115	7,273	-	-	-	294,388
IAS 19 reserve	-5,011	-	-	-	-	-5,011
Available-for-sale reserve	36,506	-	-	-	-10,811	25,695
Currency translation reserve	-60	-	-	-	-2	-62
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**562,355**	**7,273**	**-**	**-**	**-10,813**	**558,815**
Non-controlling interests	8,371	323	2	-	-	8,696
TOTAL EQUITY	**570,726**	**7,596**	**2**	**-**	**-10,813**	**567,511**

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

EUR 3,629thsd in after-tax gains on available-for-sale (AFS) financial instruments (30 Sep. 2015: losses of EUR 1,153thsd) were recycled from other comprehensive income to profit or loss.

Consolidated capital resources and regulatory capital adequacy requirements

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

The Group's own funds, calculated in accordance with the CRR/CRD IV, are broken down as follows:

EUR '000	CRR/CRD IV 30 Sep. 2016	CRR/CRD IV 31 Dec. 2015
Share capital	136,546	136,546
of which paid-up capital instruments	*51,981*	*51,981*
of which premiums	*84,566*	*84,566*
Reserves, differences and non-controlling interests	423,074	423,200
of which retained earnings	*282,243*	*282,249*
of which other reserves	*104,744*	*104,744*
of which transitional adjustments for additional minority interests	*242*	*363*
of which accumulated comprehensive income	*35,845*	*35,845*
Prudential filter: adjustments based on the requirements for prudential measurement	-5,058	-4,487
Other adjustments to hard core capital	-16,120	-24,180
Intangible assets	-581	-824
Hard core capital	537,862	530,256
Additional core capital	-	-
Core capital (tier 1 capital)	**537,862**	**530,256**
Deductions pursuant to Art. 36 and Art. 89 CRR	-	-
Eligible core capital	**537,862**	**530,256**
Eligible subordinated debt issued by the Group's parent	29,250	51,758
Eligible subordinated debt issued by subsidiaries	9,001	15,662
of which grandfathering	*491*	*2,366*
Supplementary capital (Tier 2 capital)	**38,251**	**67,419**
Deductions pursuant to Art. 36 and Art. 89 CRR	-	-
Eligible supplementary capital (after deductions)	**38,251**	**67,419**
Total eligible capital	**576,113**	**597,675**
Capital requirement	**320,258**	**315,497**
Surplus capital	**255,855**	**282,178**
Coverage ratio	179.89%	189.44%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	13.44%	13.45%
Total capital ratio in accordance with Art. 92(2)(c) CRR	14.39%	15.16%

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

EUR '000	CRR/CRD IV 30 Sep. 2016	CRR/CRD IV 31 Dec. 2015
Risk-weighted assessment base for credit risk	3,540,531	3,485,514
of which 8% minimum capital requirement	283,242	278,841
Capital requirement for open currency positions	-	-
Capital requirement for operational risk	23,704	23,262
Capital requirement for CVA	13,311	13,394
Total capital requirement	**320,258**	**315,497**

Risk management

Significant risk-related developments in the third quarter of 2016

The HYPO NOE Group's liquidity situation remains stable. A broad funding portfolio and sufficient assets eligible as collateral for tenders and GC Pooling refinancing transactions are available. Due to the strong prospect of an agreement on the Heta situation, uncertainty on the capital market has been further reduced and the HYPO NOE Group completed a number of issues, especially in the senior unsecured segment. The resolution of the Heta question now taking shape should result in further positive developments. The growth in the deposits business remains pleasing. The liquidity coverage ratio (LCR) was well above 100% in the third quarter of 2016, and the long-term forecast, which is produced regularly, shows that the Group will remain in compliance with the statutory requirements.

Owing to the HYPO NOE Group's strategic focus and business model, public finance is the largest line of business, so low-risk loans make up a large proportion of the lending portfolio. As a result, the NPL ratio is low, at around 3%.

Risk management processes focus primarily on the Group's remaining exposures in countries such as Croatia, Cyprus, Greece, Ireland and Italy, and developments in those countries are being monitored closely. The parameters for the internal Heta valuation model were updated on 30 September 2016, and the internal model will continue to be applied. As a result of the increased resolution proceeds which Heta Asset Resolution AG reported in its 2016 half-yearly report, the surplus capital available to repay the Heta creditors affected by the bail-in has increased by EUR 300m compared with 31 December 2015. This factor, combined with further reductions in discount rates from the EUR swap curve, led to a 2.97 percentage point increase in the value of Heta bonds, to 73.12% of the nominal value as at 30 September 2016 (30 Jun. 2016: 70.15%), based on the continuously applied internal valuation model. The swap offer included in the Carinthian Compensation Payment Fund's second tender offer was found to be non-adjusting, and as at 30 September 2016 had no effect on the valuation method previously applied to Heta bonds. The cancellation of interest payments in 2015 still applies.

In July 2016 the Financial Market Authority (FMA) issued a notice revoking the previous simplified requirements for the preparation of the Group's restructuring plan. Preparation is a legal requirement and the plan must be regularly updated. As a result of the notice, a predefined, more comprehensive set of early warning and restructuring indicators must be implemented, tested using three stress scenarios and monitored as part of the Group's ongoing operations. The HYPO NOE Group will conform with these requirements by submitting an adapted restructuring plan by 31 December 2016. The restructuring plan has been integrated into the Group's continuing operations, and forms an integral part of the Group's risk and capital management framework. The changes in restructuring indicators are an essential aspect of reports by the relevant management bodies.

In order to meet the additional reporting obligations under the Basel III framework and those arising from future measures (currently referred to as Basel IV) in good time, the Group regularly examines the new requirements, assesses whether there is a need to implement them, and takes appropriate action. The HYPO NOE Group also voluntarily participates in the OeNB's half-yearly surveys on Basel III monitoring.

Events after the reporting period

On 10 October 2016 the Carinthian Compensation Payment Fund (KAF) announced that 98.71% of Heta creditors had accepted its repurchase offer. The agreement of two-thirds of the creditors was required for the offer to become legally effective. Upon acceptance, senior creditors either receive 75% of the nominal value of receivables in cash, or exchange their receivables for secured zero-coupon bonds issued by KAF and guaranteed by the Republic of Austria, which upon completion of the exchange at the end of December (repurchase by KAF) will result in creditors receiving almost 90% of their outstanding receivables. The HYPO NOE Group accepted the offer of exchange for secured zero-coupon bonds.

On 14 October 2016 Moody's Investors Service confirmed its Aa1 ratings on HYPO NOE Gruppe Bank AG's public sector and mortgage cover pools. The outstanding rating reviews for Austria's provincial mortgage banks were concluded with the acceptance of KAF's repurchase offer.

St. Pölten, 10 November 2016
The Management Board

Peter Harold
Chairman of the
Management Board

Nikolai de Arnoldi
Member of the
Management Board

Wolfgang Viehauser
Member of the
Management Board (from 15 Jul. 2016)