HYPO NOE GRUPPE

Semi-annual financial report 2016

GROUP **FINANCIAL HIGHLIGHTS**

EUR '000	30 Jun. 2016	30 Jun. 2015	31 Dec. 2015
Total assets	**16,248,359**	**15,557,056**	**15,895,645**
Total eligible core capital in accordance with CRR/CRD IV	**585,909**	**620,496**	**597,675**
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	13.88%	13.80%	13.45%
Total capital ratio in accordance with Art. 92(2)(c) CRR	15.13%	16.05%	15.16%
Return on equity (ROE) before tax	5.9%	3.3%	2.0%
Operating ROE before tax	11.1%	7.2%	5.7%
ROE after tax	4.5%	2.4%	1.1%
Cost/income ratio (CIR) [1]	72.2%	89.0%	92.5%
Operating CIR	55.9%	74.3%	77.0%

[1]CIR as at 30 June 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 67.9% if the contributions had been reported by period.

CURRENT **RATING**

Standard & Poor's: A/A-1 (stable)

SEMI-ANNUAL FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2016
HYPO NOE GRUPPE BANK AG

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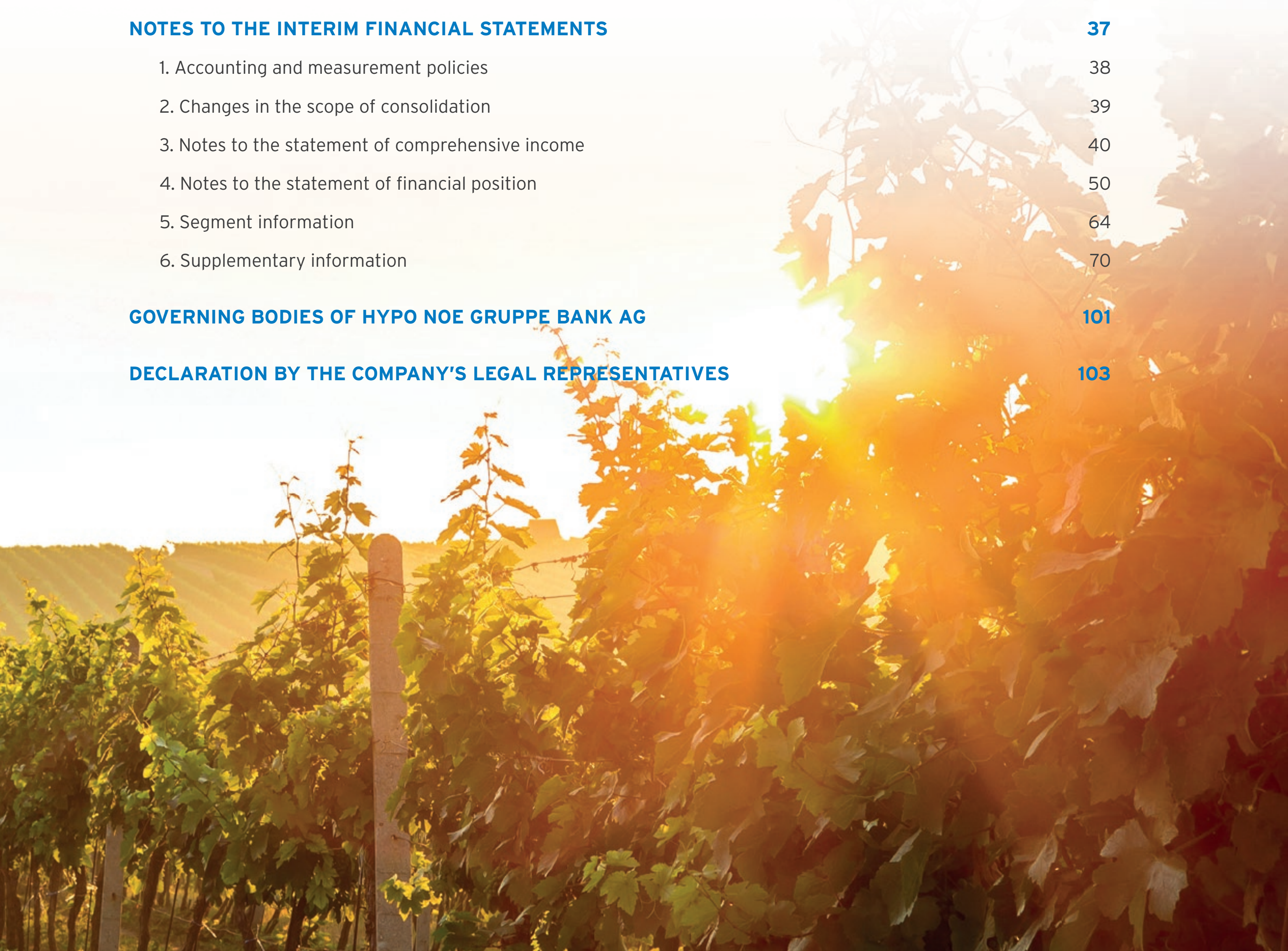

HYPO NOE:
STILL ON TRACK IN 2016

International trouble spots, the Brexit referendum and fear of terrorism: these are just a few of the factors that have made it difficult for banks to go about their business in 2016, alongside a challenging operating environment and regulatory restrictions. However, on the domestic front, and especially in terms of those aspects that HYPO NOE can influence, there were a few bright spots in the first half.

The Bank posted very satisfactory results thanks to its business model, strategy, owner and customer relationships. The Tier 1 capital ratio and the equity ratio both remained significantly above the minimum regulatory requirements, at 13.9% and 15.1% respectively. In spite of the difficult market, the Group reported a pre-tax profit of EUR 17.2m. Total assets remained healthy, increasing by 2.2% on year-end 2015, to EUR 16.2 billion (bn) as at 30 June 2016.

After several demanding periods in connection with the Heta Asset Resolution AG (Heta) moratorium and impairment of the Bank's holdings of Heta bonds, we can now look ahead with cautious optimism. Due to the agreement between the State of Carinthia and Heta's various creditors, the situation looks to be heading towards a compromise that is acceptable for all concerned, without the need for a long-drawn-out legal dispute with an uncertain outcome.

International ratings agency Standard & Poor's once again confirmed the very strong rating of the bank for the people of Lower Austria, enabling the Group to maintain its A rating with a "stable" outlook. As a result, HYPO NOE is one of Austria's best-rated banks. It is also one of only a handful of banks in the country with such an outstanding position in terms of sustainability – the Group has a "Prime" ranking from leading sustainability rating agency oekom research, and imug Investment Research has increased its rating for HYPO NOE's bonds.

Peter Harold,
Chairman of the Management Board

Nikolai de Arnoldi
Member of the Management Board

Wolfgang Viehauser
Member of the Management Board

SHAPING UP FOR 2020 – INITIAL STEPS

HYPO NOE performed well in the first half of the year in spite of low interest rates, increased regulatory requirements and the difficult operating environment. The Group is well placed and optimistic heading into the second half of 2016. However, continuous improvement remains a key priority. With this in mind, and in order to ensure that the Bank can live up to the challenging market situation both now and in the future, as previously announced an internal "fitness programme" has been implemented: "2020 zukunftsfit". The primary objective is to optimise internal processes and reduce costs. The Supervisory Board has also approved a project aimed at merging the banking operations of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG. This is scheduled for completion by autumn 2017, and will deliver efficiency gains by reducing complexity in the organisational structure and leveraging synergies. Wolfgang Viehauser has been appointed to the Management Board. As head of the private customer business, he will also be responsible for the merger project, and will form part of the new three-strong Management Board.

As the bank at your side, HYPO NOE will continue to pursue a strategy based on a regional focus, proximity to customers and sustainability.

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)

GROUP OPERATIONAL AND FINANCIAL REVIEW FOR THE SIX MONTHS TO 30 JUNE 2016

HYPO NOE
GRUPPE

ECONOMIC CLIMATE

Global economic and financial market developments

In view of the poor start to the year on the stock markets, which was accompanied by a string of weak economic data from various parts of the world, economic growth and financial markets were surprisingly upbeat in the second quarter. Economic growth rates in Europe surpassed expectations in the first quarter, and economic indicators were mostly stable. After a subdued start to 2016, US economic performance was noticeably stronger in the remainder of the first half. This was probably driven by a recovery in raw material prices, which had reached new multi-year lows in January. Data from the emerging markets pointed to increased stability in their economies. However, political developments cast a shadow over these positive economic trends. The agreement between the EU and Turkey on refugees proved to be brittle, not least due to the deterioration in relations between Germany and Turkey. The contrasting attitudes of the member states to the refugee question remains one of the key issues facing the EU. This was underlined once more at the end of the period under review when a majority of the UK electorate voted in favour of leaving the EU, or so-called Brexit. The uncertainty associated with Brexit for investors and economic operators will weigh on economic growth, although in the short term, the UK is likely to be hit harder by the negative consequences of the referendum than the rest of Europe.

Financial markets

The monetary policies of the major central banks are placing tighter constraints on financial and currency markets than ever before. In March the ECB cut interest rates once again, broadened its asset purchase programme and added corporate bonds to the categories of securities covered by the programme. Negative interest rates coupled with substantial asset purchases resulted in negative yields on more than half of all outstanding euro-denominated sovereign bonds. German bunds, which have benefited from the ECB's quantitative easing programme and their status as a safe haven in turbulent markets, were particularly badly affected. The yields on some 87% of German government bonds are now negative, while approximately 70% have yields below the ECB's current deposit rate of -0.40%, meaning they no longer qualify for the asset purchase programme. It is becoming increasingly difficult for investors to find assets that offer even minimal returns, which explains the stable and in some cases positive performance of higher-risk asset classes. On the foreign exchange markets, the yen was subject to strong upward pressure, in spite of the Bank of Japan's continued bond purchases and the introduction of negative interest rates. The stronger yen has wiped out most of the gains from depreciation in recent years. The pound had already come under pressure in the run-up to the Brexit referendum, and this was significantly magnified once the results were published. This was followed by speculation that the Bank of England would further loosen monetary policy, and in the days after the vote, the pound lost around 12% of its value against the euro compared to the start of the year.

Economic trends in the HYPO NOE Group's core markets

AUSTRIA

The Austrian economy grew by 0.4% in the second quarter of 2016 compared to the first. Although the growth in gross fixed capital formation and exports seen in the past few quarters continued, the increase in private consumption was lower than expected. So far, the income tax reform that came into effect on 1 January 2016 has only led to a marginal uptick in key demand components.

Full-year growth is forecast to reach 1.5% of GDP, meaning the Austria would catch up with the rest of the eurozone, which is seen growing by 1.6%

The European Commission's economic sentiment indicators show signs of a significant year-on-year improvement in the services and construction sectors, as well as in consumer behaviour and the retail segment. The industrial sector posted only modest gains. Due to the underlying measures, the overall Eurostat Economic Sentiment Indicator (retail trade, industrial, construction, services and consumer confidence indicators) rose from 96.8 to 99.8.

Standard & Poor's believes that Austria will only be minimally affected by the direct consequences of Brexit. This assessment was based on Austria's links to the UK in terms of exports, the financial sector, foreign direct investment and migration. There is a chance that Austrian economic growth may suffer indirectly as a result of spill-over effects from countries with closer ties to the UK.

In addition to the faltering economic recovery of recent years, the recalculation of sovereign debt (in line with the European System of Accounts) and the resulting increase in the government debt ratio from 74.5% to 86.2% as at 31 December 2015 was another setback for politicians arguing in favour of further stimulus programmes. A reversal of the upward trend in government debt is not expected until the end of 2016. However, the situation could ease as a result of the prospective restructuring of Heta liabilities outlined in a recent agreement in principle. The budget deficit for 2016 is forecast to reach around 1.5%.

FEDERAL STATES

The Austrian 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 in unscheduled repayments. There has also been a reduction in guarantees (incl. bank guarantees) by the federal states from an aggregated EUR 75bn to around EUR 55bn, a fall of around 27%, which was primarily attributable to the maturity of state government-backed bonds issued by provincial mortgage banks.

In terms of assets Vienna, followed by Lower Austria, lead the way in a comparison of the Austria federal states. 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. The state is followed by Salzburg and Vienna. 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 federal GDP, at 16% and 26% respectively.

DANUBE REGION

The countries of the HYPO NOE Group's extended core market again recorded growth rates above the EU average in 2015, and growth picked up speed in every country in the Danube region with the exception of Hungary.

According to the latest forecasts, regional growth for 2016 is expected to fall marginally short of the level reached in 2015. Bulgaria and Romania are the only exceptions, with growth this year expected to outpace last year's level.

The economies of Central, Eastern and Southeastern Europe are expected to post growth of up to 3% a year from 2016 to 2018 – 1 to 1.5 percentage points above the euro area average. Private consumption and capital investment will again be the main growth drivers in the region. The Austrian economy is still reaping the benefits of its ties with the region. Annual Austrian direct investment in CEE and SEE including Turkey has now passed the EUR 10bn mark.

Public consumption is rallying throughout the Danube region, particularly in the Czech Republic, Poland and Slovakia. The 2014-2020 regional development programme for the Danube region (including the Czech Republic and Poland) amounts to around EUR 167bn, or 12% of total regional GDP. All of the countries in the region are net recipients of EU funding, and EU support programmes account for the lion's share of public investment, making up between 40% and 90% of national spending.

Unemployment in the region ranges from 6.3% in Romania to 11.6% in Slovakia. It has declined since the start of 2016 and is seen decreasing slightly over the next few years as the economy gathers pace.

The countries should meet all of the Maastricht criteria for budget deficits and government debt in 2015, with the exception of Hungary due to its government debt.

The effects on the Danube region of the conflict between Russia and Ukraine largely depend on the structure of the individual countries' trade flows and energy resources. Of the countries served by the HYPO NOE Group, Bulgaria, Hungary and Slovakia are particularly dependent on Russian trade and energy supplies.

Brexit will only have a limited direct impact on the region, although the indirect effects on the European economy as a whole could be substantial. In the medium term, the UK's exit from the EU could directly affect the 790,000 Poles, 170,000 Romanians, 137,000 Lithuanians and 102,000 Latvians living in the country. The UK has extensive trade relations with Poland, and fairly limited links with the Czech Republic, Hungary and Slovakia, accounting for about 5% of each country's goods exports. On the whole, it can be assumed that Brexit will not have a significant direct impact on the region, although as a net contributor, the UK's decision to leave the EU may spark discussions on a reallocation of the cost of EU support programmes. The Danube region will remain a net recipient of funding, but a decline in the level of support in the medium term cannot be ruled out.

Banking sector trends in the eurozone and CEE

In spite of a slight recovery in demand for loans, eurozone lending growth remains subdued. Owing to persistent low interest rates and strong competition, there is still downward pressure on loan interest, while rates on deposits are hovering close to zero. The resulting squeeze on margins is reflected in banks' net interest income, and the proportion of earnings accounted for by net interest income varies sharply between countries. Banks with a larger share of fee and commission income and other forms of earnings are benefiting at present. By and large, recent developments in the eurozone banking sector point to a slight improvement in asset quality. Some banks still face the need to adapt their business models to the new operating environment, which is characterised by stricter regulatory requirements and lower interest rates. Banks' capitalisation improved sharply in the final quarter of 2015 thanks to the steady decline in risk-weighted assets. This trend will continue in 2016 in view of the increasingly challenging landscape. The close ties between banks and sovereigns is also likely to come under the spotlight in 2016. As part of the introduction of a uniform EU-wide deposit insurance scheme, the ECB's regulators are aiming to draw up plans for restructured relations between banks and sovereigns by the end of this year. One of the central demands is greater transparency in the links between each individual bank and its home country. Adapting the Supervisory Review and Evaluation Process (SREP) to include sovereign exposure is also up for debate. This measure could be implemented more quickly than the proposed lifting of the zero weighting or a requirement for greater diversification.

In the first quarter of 2016, the European Banking Authority (EBA) published the details of its upcoming stress tests; the results are expected early in the third quarter. This year's tests cover fewer banks (51 in 15 EU countries) than the last ECB/EBA stress test in 2014. Due to the materiality threshold (minimum level of assets), smaller banks in Italy and Spain will no longer be assessed. The Italian banking sector is currently weighed down by significant volumes of non-performing loans or NPLs (around EUR 360bn), which is putting the brakes on the country's economic recovery. In the first six months of 2016, "healthy" Italian financial institutions and insurance and asset management companies set up the Atlante bank bailout fund and contributed capital of EUR 5bn. The funds are intended for use in boosting banks' capital and acquiring junior tranches of NPLs.

The Danube region banking sector is also facing tighter capital regulations and increased regulatory requirements. In 2015, lending growth in Bulgaria, the Czech Republic, Romania and Slovakia jumped from around 2.5% to 5.5%. In some regions, the rise in mortgages to private households outpaced lending for corporate customers. In Hungary, there was a decline of close to 12%, the result of steady restructuring of loan portfolios by the country's banks. Danube region banks are still faced with higher NPL ratios than their counterparts in the rest of Europe. Overall loan quality improved, and NPL ratios now range from 5.2% to 15.7%. A further fall of around 100 basis points (bp) is predicted for 2016. Proactive implementation of the EU Bank Recovery and Resolution Directive (BRRD; Directive establishing a framework for the recovery and resolution of credit institutions and investment firms) is viewed as a positive development for the banking sector. Banks in the Danube region recorded increases in deposits of 5%-8% during the first half, a positive factor in respect of refinancing. In parallel with long-term growth trends in Central and Eastern Europe, the region's banking sector has stronger growth potential than that of the eurozone.

In the first six months Austria's banking landscape was shaped by the prospect of an agreement with Heta's creditors. Signature of a memorandum of understanding between the Finance Ministry and 72 creditors is designed to pave the way for an out-of-court settlement. The offer provides for either the immediate sale of bonds to the Carinthian Compensation Payment Fund at 75% of the nominal value or a swap for a zero-coupon bond with a maturity of 13.5 years. It is planned to present an initial draft of the repurchase offer to all creditors for inspection in the course of the summer, with creditors then expected to give their approval for acceptance of the binding support undertakings. A two-thirds majority is required for the offer to come into effect. The final offer is due to be submitted by 5 September 2016, with agreement slated for 31 October 2016 at the latest. The latest calculations assume that the swap for the zero-coupon bond would result in repayment of over 90% of senior claims and of over 45% of subordinated liabilities. The ratings agencies took the signature of the agreement in principle as a positive signal, an assessment that also took into account further developments in relation to securing the necessary approval for the repurchase offer as well as the associated legal uncertainty. Despite this upbeat news, Austria's banks are still going through a period of upheaval. The Volksbank sector is currently undergoing consolidation aimed at promoting its recovery, Raiffeisen Bank International AG and Raiffeisen Zentralbank Österreich AG are looking into the possibility of a merger, and UniCredit Bank Austria AG has spun off its East European operations to its Italian parent. Persistent low interest rates also represent a long-term challenge for the domestic banking industry, as net interest income still makes up the majority of many Austrian banks' total earnings. Although loan quality has improved, credit risk provisions are still placing a heavy burden on Austrian banks' profitability. The restructuring process currently under way is aimed at making them more profitable, and enhancing the resilience of the banking sector as a whole.

FINANCIAL REVIEW

Key developments in the first half of 2016

EARNINGS (IFRS)

Profit attributable to owners of the parent was higher year on year, at EUR 12.9m (H1 2015: EUR 6.6m). The Gruppe Bank, Landesbank and Leasing segments all recorded strong pre-tax profits, while the Other segment reported a loss. In terms of earnings, net interest income was high, in spite of low interest rates, at EUR 63.0m, although this was EUR 3.1m down on the like period of 2015 (H1 2015: EUR 66.0m). As reported last year, performance in the first six months of 2015 was affected by significant impairments recognised in relation to Heta bonds. However, this aspect had a positive impact in the first half of this year, owing to the write-ups resulting from continuous assessment of the bonds' value.

The cost of risk led to net losses on credit provisions of EUR 9.6m (H1 2015: net gains of EUR 1.0m), an increase of EUR 10.5m year on year.

Net trading losses were EUR 7.8m (H1 2015: net gains of EUR 3.9m). 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 rose by 3.2% year on year, to EUR 69.6m (H1 2015: EUR 67.4m). This increase was not attributable to changes in operating expenses, but was principally due to the statutory contributions to the deposit insurance and resolution funds, which amounted to EUR 8.1m (H1 2015: EUR 3.8m). These contributions are reported under other administrative expenses. Last year the contributions were reported by period. However, in the period under review it was necessary to report the total expense for the year. As a result, these expenses will not affect the remaining quarters of 2016. The negative impact of these costs was partially compensated for by means of reductions of EUR 0.8m in staff costs and of EUR 1.7m in other administrative expenses, which were achieved by means of projects aimed at boosting efficiency.

Net gains on investments accounted for using the equity method stood at EUR 1.4m (H1 2015: net losses of EUR 0.4m), 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 13.8m (H1 2015: net losses of EUR 21.1m) were mainly attributable to the holdings of Heta bonds.

Net other operating income was EUR 21.6m (H1 2015: EUR 22.2m), which 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.

As a result, profit before tax was EUR 17.2m, EUR 7.9m higher than in the same period a year earlier (H1 2015: EUR 9.3m).

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

		Q2 2016	Q2 2015	2015	2014
Return on equity (ROE) before tax**	Profit or loss for the period before tax/ave. equity	5.9%	3.3%	2.0%	-7.1%
Operating ROE before tax**	ROE before tax excl. financial stability contribution, contributions to resolution and deposit insurance funds, and regulatory costs/ ave. equity adjusted for financial stability contribution, contributions to resolution and deposit insurance funds, and regulatory costs	11.1%	7.2%	5.7%	-4.7%
ROE after tax**	Profit or loss for the period/ave. equity	4.5%	2.4%	1.1%	-5.5%
Cost/income ratio**	Operating expenses/operating income*	72.2% [1]	89.0%	92.5%	135.2%
Operating cost/income ratio**	Cost/income ratio excl. financial stability contribution, contributions to resolution and deposit insurance funds, and regulatory costs	55.9%	74.3%	77.0%	121.1%
Risk/earnings ratio	Credit provisions/net interest income A negative indicator signifies income and a positive indicator signifies expenses in credit provisions	15.3%	-1.5%	-0.9%	5.3%

*Operating expenses include administrative expenses, as specified in Note 3.6 Administrative expenses
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 June 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 67.9% if the contributions had been reported by period.

ASSETS AND LIABILITIES (IFRS)

The HYPO NOE Group's total assets fell by 2.2% compared with year-end 2015, to EUR 16.2bn as at 30 June 2016.

There was a EUR 0.6bn drop in loans and advances to customers, although half of this was 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, while deposits from banks fell by EUR 0.6bn.

CHANGES IN EQUITY (IFRS)

IFRS consolidated equity including non-controlling interests as at 30 June 2016 was EUR 598.6m, an increase of EUR 17.1m on year-end 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 585.9m as at 30 June 2016 (31 Dec. 2015: EUR 597.7m). Surplus capital as at 30 June 2016 was EUR 276.1m (31 Dec. 2015: EUR 282.2m), in comparison with a capital requirement of EUR 309.8m (31 Dec. 2015: EUR 315.5m). The Tier 1 capital ratio in accordance with Article 92(2)(b) CRR was 13.9% as at 30 June 2016 (31 Dec. 2015: 13.4%), and the equity ratio in accordance with Article 92(2)(c) CRR was 15.1% (31 Dec. 2015: 15.2%).

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

OPERATIONAL REVIEW

Figures for the individual segments, as well as supplementary information, can be found under Note 5 Segment information.

Gruppe Bank segment

The Group's parent company, HYPO NOE Gruppe Bank AG, is a regional lender committed to promoting and supporting the development of its home market of Lower Austria and Vienna. With the State of Lower Austria as its sole shareholder, the Group enjoys stable and reliable ownership. The parent, HYPO NOE Gruppe Bank AG, concentrates on the larger customer segments, focusing on funding social and hard infrastructure for local authorities, regional governments and other territorial authorities, as well as corporate, project and real estate finance, and providing treasury solutions for clients in Austria and the wider Danube region. Thanks to its extensive experience and solid market position, the Group is a dependable partner for clients requiring such services.

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

Ratings agency Standard & Poor's affirmed its 'A/A-1' issuer rating with a 'stable' outlook on 15 June 2016, a reflection of HYPO NOE Gruppe Bank AG's excellent creditworthiness. This action reflected the strong capitalisation, stability and security conferred by the Bank's sole owner, the Lower Austrian state government. 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 move came in response to the announcement of an agreement in principle between the Republic of Austria and a significant number of Heta creditors – successful implementation of the agreement could reasonably be expected to have a positive influence on the ratings of Austrian covered bond programmes.

Management Board member Nikolai de Arnoldi will step down on 31 December 2016. A public invitation for applications in accordance with the Austrian Stellenbesetzungsgesetz (Staffing Act) was issued immediately in order to find his successor.

PUBLIC FINANCE

The Public Finance Department is a strong partner for local and regional authorities, public agencies and infrastructure companies. In the first half of 2016, the department focused on further intensifying the provision of advice on bespoke finance solutions to state governments, local authorities, other public sector bodies and infrastructure companies, as well as to selected countries and major cities covered by the Danube region strategy.

The budgetary situation faced by state governments and local authorities is fuelling increased demand for a variety of bespoke finance solutions tailored to the needs of public building construction projects. Public Finance's prime objectives are to develop sustainable, integrated solutions for customers, in concert with other parts of the Group, and increasingly to figure as a provider of expertise and services – for example, by structuring public building construction projects aimed at creating social infrastructure. The department always sets out to understand customers' special requirements and to deliver risk-aware advice and service.

An agreement on financing for the new Galerie Niederösterreich, and the resulting extension of the Kunstmeile area of Krems an der Donau was finalised in the first half of this year. The new building will be located close to the Kunsthalle and Karikaturmuseum. Public finance projects in the first six months of 2016 mainly concerned investments in water supply and wastewater disposal infrastructure, as well as the renovation of educational and administrative buildings.

In view of the current market environment, the department is focusing on close customer relationships and high-quality advice. To support this strategy, customer relationship managers participate in continuous training programmes, often organised in cooperation with partners such as the Lower Austria Community Management Academy and Danube University Krems.

REAL ESTATE FINANCE

The Real Estate Finance Department specialises in finance for real estate and real estate projects. Its key strengths are the wide range of products it offers, its ability to structure bespoke finance solutions and the expertise of the department's staff.

The core markets of Austria and Germany, as well as selected CEE countries remained the focus of attention in the period under review. The department concentrates in particular on the Czech Republic, Slovakia and Hungary, while the Bulgarian and Romanian markets are also gaining in importance.

Demand for virtually all real estate categories, and especially inner city rental apartment buildings, remained high due to low interest rates and unprecedented weak returns on alternative investments. Foreign investors continued to find the German commercial and residential property markets – primarily in the east of the country – among the most attractive in Europe.

The department's business model is based on financing for the office, shopping centre, retail park, housing, logistics facility and city hotel asset classes, and on relatively conservative lending terms. HYPO NOE Gruppe Bank AG and its long-standing business partners particularly prize hand-picked, centrally located and highly adaptable properties with blue-chip tenants.

CORPORATE & PROJECT FINANCE

The Corporate & Project Finance (CPF) Department is responsible for HYPO NOE Gruppe Bank AG's corporate customer business. Its main tasks are to further enhance the HYPO NOE Group's standing as the bank for Lower Austrian businesses, and to provide corporate clients in Lower Austria and Vienna with top-quality services. The department has prioritised the continued, long-term development of a broad customer portfolio that can lay the foundations for Group-wide cross-selling activities. There is a strong emphasis on clear differentiation from competitors – this is done by stressing the Bank's efficient and reliable decision-making, long-term customer focus and continuous, high-quality personal service. The declared aim for the future is to provide professional and dependable support to corporate clients in special situations, such as acquisitions or in connection with business succession.

The difficult environment that shaped the whole of 2015 persisted in the opening six months of this year, as reflected in companies' cautious investment behaviour. As a result, competition for new business was strong, and in some cases there was considerable pressure on the conditions offered to companies with excellent credit ratings.

Nevertheless, Corporate & Project Finance succeeded in hitting its targets thanks to detailed discussions with customers, and a consistent focus on less price-sensitive types of financing. A number of follow-up transactions were concluded with existing customers, and some new customer relationships were formed. Once again, there was an increase in support for clients operating outside the Group's core market, such as Austrian customers with investments in Germany. HYPO NOE Gruppe Bank AG scores highly thanks to its flat decision-making structures and transparent implementation processes.

Performance in terms of corporate deposits remained exceptionally positive. In this regard, Corporate & Project Finance is reaping the benefits of highlighting the HYPO NOE Group's solid business model, and its outstanding credit rating compared to its competitors. There were further improvements in customer deposit volumes, the customer base and the granularity of the portfolio. The emphasis on constant market development was reflected in exceptionally high and lasting customer confidence and correspondingly good results.

One particularly positive consequence of the steadily growing number of relationships with customers in Austria and Germany was the acquisition of new clients, as well as the continued development of existing ties in the selected target markets in the Danube region.

RELIGIOUS COMMUNITIES, INTEREST GROUPS AND AGRICULTURE

In the first half of 2016, the strategic Religious Communities, Interest Groups and Agriculture (KIA) Department focused on developing and extending activities in the agricultural sector, and on financing for social and care centres.

With the Bank retaining its outstanding credit rating and uncertainty still widespread on the capital markets, interest from institutional investors in money market investments was exceptionally high. Demand for ethical and alternative investments remains strong, although turmoil on the markets has had a significant influence.

The main highlights of the product portfolio are:

- Finance for social and public facilities, such as care and social centres, educational facilities and event centres
- Finance for the renovation and revitalisation of churches and church buildings
- Finance for agricultural companies and farming businesses
- Ethical and sustainable investment
- Money market investments

CAPITAL MARKETS

Treasury & Funding

2016 started with a large number of issues on the international capital markets. By the end of 2015, concerns regarding the Heta moratorium had largely calmed, and several Austrian issuers took advantage of favourable conditions in January and February to place benchmark covered bonds. In the first half of 2016 HYPO NOE Gruppe Bank AG focused principally on private placements, issuing public and mortgage-backed covered bonds, and completing substantial unsecured issues.

The agreement in principle on acceptance of the offer made by Heta enabled the HYPO NOE Group to conclude numerous placements with existing and new investors. In geographical terms, the focus was on the German-speaking countries. HYPO NOE Gruppe Bank AG's 'A' rating with a stable outlook, which Standard & Poor's confirmed in June 2016, had a favourable impact.

Developments in capital market funding and deposits from institutional investors were highly satisfactory. Repo and loan business was further expanded in the first half in order to maintain a broad refinancing base.

HYPO NOE Gruppe Bank AG is well positioned in terms of refinancing options – besides customer deposits and conventional long-term capital market instruments, the Bank draws its liquidity from standard repo transactions, including on the Eurex exchange and the SIX repo platform, as well as from ECB tenders. The Bank also uses development banks such as the European Investment Bank (EIB) and Kreditanstalt für Wiederaufbau (KfW) as refinancing sources.

Nostro

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.

ALM

The Asset Liability Management (ALM) unit seeks to use the Bank's interest rate risk position to strengthen its financial structure, stabilise net interest income and optimise the risk/return ratio. Close monitoring ensures that the unit responds rapidly to market movements as they unfold.

In addition to open fixed-interest positions aimed at generating mismatch contributions, a long-term fund investment was concluded in the period under review to complement and replace interest rate positions that were about to mature.

Investor Relations

Transparent and continuous capital market communications directed towards investors are a central concern for HYPO NOE Gruppe Bank AG. As in previous years, the HYPO NOE Gruppe Bank AG Management Board gave investors an insight into the Bank's commercial success in 2015 in the course of an earnings call, and at the now-traditional investors' luncheon at Palais Niederösterreich in Vienna.

The Investor Relations area of the HYPO NOE website (www.hyponoe.at) carries the Group's most recent financial reports and investor presentations, as well as detailed information on HYPO NOE Gruppe Bank AG's credit ratings and cover pools. Meanwhile, the Sustainability section contains full details of the Group's sustainability reporting, as well as the latest information on sustainability ratings.

INSTITUTIONAL CUSTOMERS

Working to maintain relationships with other financial institutions remained a vital aspect of HYPO NOE Gruppe Bank AG's mission in the first half of 2016. Besides our business links with numerous banks in Austria and abroad, we are also continuing to actively manage our ties with insurance companies, pension funds and investment companies. The primary focus is on relations with European partners, even though investors are increasingly shifting their attention to certain countries outside the continent.

Besides staging various non-deal-related roadshows in the German-speaking region, the Bank also organised appointments with investors in other European countries, so as to bring holders of Austrian securities up to date with recent developments. Our relationships with partner banks also require ongoing personal maintenance. Alongside constant interaction with bondholders, engagement with correspondent banks is still an important ingredient in HYPO NOE Gruppe Bank AG's long-term strategic success.

PUBLIC LOAN MANAGEMENT

The Lower Austrian government has mandated HYPO NOE Gruppe Bank AG to handle queries from recipients of subsidies about account management, account balances and repayments. This enables Lower Austrian owner-builders and the province's numerous housing cooperatives, which are also entitled to apply for such loans, to take advantage of cheap and efficient loan management services. Besides its loan management function, HYPO NOE Gruppe Bank AG handles accounting for various Lower Austrian state government grants, such as those to schools and kindergartens. The assistance provided by the Bank in connection with a variety of state government home building transactions includes preparation of detailed breakdowns of the existing loan portfolio and generating cumulative analyses of the payment flows from individual loan tranches – as well as deviations from the original repayment plans – as part of our regular reporting to investors.

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

The number of loans handled on behalf of the Lower Austrian state government is constantly growing, and HYPO NOE Gruppe Bank AG has over 314,000 direct loans under management for the state government, totalling more than EUR 6.1bn. Subsidised home loans account for the lion's share of this total, at some EUR 5.7bn.

Housing subsidy recipients can access information on their subsidised home loans and tax office confirmations for the past four years, and carry out standard home loan subsidy processes, in a manner similar to online banking.

In recent years HYPO NOE Gruppe Bank AG has given the Lower Austrian state government extensive assistance with the technical and organisational implementation of the large-scale home loan subsidy scheme, and we now also act as a point of contact for questions about payment processing issues from the various banks involved in disbursements. Housing cooperatives are still served by their established contact persons at the Bank. Full-scale operation of the new high-volume Lower Austrian housing subsidy system began in 2015; this has involved processing seven subsidy tranches to date.

In 2016 HYPO NOE Gruppe Bank AG concluded an agreement with the Lower Austrian fund for the promotion of facilities for people with special needs and people in need of care to assume responsibility for account management, customer information and reminders in connection with loans extended by the fund. The Bank is currently in the process of incorporating the existing loans into its account systems. This will provide the fund with state-of-the-art account management, as well as removing the administrative burden of loan management from the fund's employees.

PARTICIPATIONS

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

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

The following portfolio restructuring events took place in the first six months of 2016:

Initial steps were taken to prepare NID Beteiligungs GmbH for sale by the end of the year.

As a consequence of the merger agreement concluded on 29 June 2016, the entire assets of SRE Immobilien Deutschland GmbH (the predecessor company) including all rights and obligations were transferred to SRE Immobilien GmbH (the acquiring company) by way of universal succession without recourse to liquidation, with effect from the merger date of 31 December 2015. The transfer will become legally effective upon entry in the register of companies.

Kasernen Immobilienerrichtungsgesellschaft mbH merged with Kasernen Projektentwicklungs- und Beteiligungs GmbH with retroactive effect from 30 June 2015 (the merger date) by way of the transfer of assets in accordance with section 96 et seqq Gesetz über Gesellschaften mit beschränkter Haftung (Limited Liability Companies Act) in conjunction with section 219 et seqq Aktiengesetz (Companies Act), applying Article I Umgründungssteuergesetz (Reorganisation Tax Act).

Foreign branches and representative offices

HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG had no foreign branches in the first half of 2016, but operated representative offices in Bucharest, Romania; Budapest, Hungary; Prague, Czech Republic; and Sofia, Bulgaria.

Branch offices

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

Landesbank segment

HYPO NOE LANDESBANK AG

HYPO NOE Landesbank AG is responsible for the HYPO NOE Group's retail banking and residential 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.

A total of 30 branches in eight regions ensure that private, self-employed and business customers in the Group's core market of Lower Austria and Vienna receive top-quality service. Branches were optimised in the period under review to ensure that customers continue to receive services of the highest standard in future.

In terms of the strategic pillars mentioned above, HYPO NOE Landesbank AG posted particularly strong performance in saving and investment in the first half, thanks to three savings account drives. This was achieved in spite of the prevailing market trend.

Accompanied by an attractive product range and extensive marketing, the Lower Austria Savings Account formed part of three primary funding drives and laid the foundations for HYPO NOE Landesbank AG's success. The Bank has offered video-based customer advice since May 2016 with a view to offering its customers better, faster and more convenient service. This new channel enables customers to contact relationship managers from anywhere in the world and obtain support using an innovative approach. The Bank's insurance business also launched a broad-based sales campaign, bringing a host of new products onto the market, such as private deposit insurance and cancer insurance.

HYPO NOE Landesbank AG continues to target growth in savings deposits, service income and customer numbers. The Bank also remains firmly committed to achieving sustainable profitability.

A customer acquisition campaign aimed at small and medium-sized enterprises (SMEs) in Lower Austria and Vienna, similar to those mounted in recent years, drove further growth in the corporate customer base in the first half. The corporate investment segment performed particularly well.

In view of the strong earnings potential in this segment, HYPO NOE Landesbank AG has realigned its services this year, further enhancing its regional focus. A corporate customer team is now in place in Lower Austria, with another unit in Vienna, and corporate customers can also contact any of the Bank's branches as required.

HYPO NOE Landesbank AG's residential housing development segment expanded its portfolio of non-profit housing developers in the first six months of this year. Targeted customer advice in connection with selected projects led to growth in the commercial housing development segment.

A focus on acquiring customers for investment products also paid dividends.

Due to the risk/return ratio, there is strong demand in the cooperative housing segment, and our highly experienced and motivated staff create bespoke solutions designed to meet customers' specific needs and consolidate the Bank's traditionally strong position on the market.

Leasing segment

HYPO NOE LEASING GMBH

HYPO NOE Leasing GmbH and the project companies it runs specialise in providing leasing solutions for the public sector as a whole, and the Lower Austrian state government in particular. The core business is complex lease agreements relating to real estate projects. The company also offers business management and real estate project management services.

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

Due to the continuing demand for financing compatible with the Maastricht criteria, especially PPP models, this line of business will be central to HYPO NOE Leasing GmbH's growth in the medium term.

Leasing volumes were very satisfactory in the period under review, and as things stand the company is on track to meet its full-year financing and earnings targets.

Other segment

HYPO NOE IMMOBILIEN BETEILIGUNGSHOLDING GMBH

In 2015 the HYPO NOE Group's real estate activities were merged into HYPO NOE Immobilien Beteiligungsholding GmbH, comprising 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.

The registration of NOE Immobilien Development AG (NID) on 21 November 2015 as a wholly owned subsidiary of HYPO NOE Immobilien Beteiligungsholding GmbH laid the foundations for consolidation of the Group's property portfolio, with the aim of creating investor-friendly structures and facilitating the implementation of development projects currently at the planning stage by involving all of the services offered by the Group. At its meeting of 29 June 2016, the Supervisory Board of HYPO NOE Gruppe Bank AG passed a resolution on the sale of part of the Bank's majority interest in NOE Immobilien Development AG to a maximum of five external investors. HYPO NOE Gruppe Bank AG will remain the largest shareholder, with a 48% stake. NID will concentrate on premium and affordable housing and district development. Although a number of measures were implemented on 30 June, NID's structure means that the company is not yet ready for sale to investors. The entire restructuring exercise is scheduled for completion by the end of 2016.

HYPO NOE REAL CONSULT GMBH

HYPO NOE Real Consult GmbH's operations cover construction management, sales and estate agency services, as well as property management, with a focus on Lower Austria and Vienna.

In the construction management business, the company is aiming for completion of the Karl Landsteiner University of Health Sciences by the end of 2016. Following conclusion of several subprojects at the Institute of Science and Technology Austria (IST Austria), work on what is currently the company's largest project is now under way. Construction of the Galerie Niederösterreich in Krems will begin in August 2016. Further headway was also made on building improvement projects at various hospitals.

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.

In property management, the company aims to increase its market share in the Lower Austrian local authority segment.

HYPO NOE FIRST FACILITY GMBH

HYPO NOE First Facility GmbH is a leading provider of integrated facility management (FM), technical FM and special services for technically advanced and complex properties, forming a key link in the HYPO NOE Group's real estate value chain. The core geographical markets served are Lower Austria, Vienna and the Danube region. HYPO NOE First Facility GmbH follows its clients into selected CEE countries and represents their interests with respect to the buildings they occupy, leaving them free to concentrate on their core business. The main customer groups are property fund companies, banks and insurance companies, as well as public sector clients.

The facility management sector remains highly segmented, and the market environment in which the company operates is characterised by increasing saturation and resultant predatory competition. While service FM businesses (such as those with their origins in the cleaning industry) are striving to break into the technical facility management market, property management companies are increasingly including FM in their offerings. Further broadening its expertise and services for healthcare and public sector clients is also a high priority for HYPO NOE First Facility.

The market situation in the CEE countries is largely unchanged. Due to the current financial climate in the real estate sector and intense price competition, the consolidation process in the asset and property management and facility management services segments is gathering pace. The company aims to enhance its competitiveness by means of cost reductions. There is a tendency for some market players to outsource technical and infrastructure FM services directly, and to partly dispense with higher level external facility management.

HYPO NOE First Facility GmbH is entering another new line of business in the form of PPP models. The aim is to win the trust of new customers using the company's expertise and the advantage generated by economies of scale, and to convince new business partners of the quality of its services. This quality was reflected in 2016 in HYPO NOE First Facility GmbH's certification in accordance with ISO 9001:2015 and the award of the GEFMA 730 ipv® FM Excellence Certificate.

GROUP OUTLOOK FOR 2016

Market outlook

In spite of a string of weak economic data recorded in various parts of the world, economic growth and financial markets have been surprisingly upbeat so far this year. Especially in Europe, economic growth rates surpassed expectations in the first half, and economic indicators were mostly stable. The widely criticised deal on refugees arduously hammered out between the EU and Turkey proved to be brittle, particularly in view of the attempted coup in Turkey, although the agreement appears to be still working. The political chaos unleashed by the result of the Brexit referendum in the UK is a sign that the subsequent negotiations in the second half of 2016 will be difficult and protracted. The uncertainty associated with Brexit for investors and economic operators will weigh on economic growth in 2016. Reliable forecasts for the second half suggest a broad range of growth rates, as even the future of the EU could be at stake. Current predictions suggest a slight drop in EU unemployment to 10.1%. Capital markets expect central banks to stick with their loose monetary policies – in the UK, an interest rate cut and perhaps a new QE programme may be on the cards, while in the USA hopes of an increase in interest rates this year seem to have been dashed.

After performing sluggishly in the past four years, the Austrian economy has picked up speed. This is being driven by domestic demand, a healthy jobs situation and rising household income. Against this backdrop, the latest Austrian Federal Economic Chamber forecast suggests that real GDP could jump by 1.7% in 2016, compared with 0.9% last year. Although this figure is high compared to the last few years, it should not conceal the fact that underlying growth in 2016 is still weak. To a significant degree, this year's strong growth is down to various one-off factors (calendar effects, the tax reform and the influx of refugees), without which GDP would be only marginally higher year on year. During the period covered by the forecast, prices as measured by the consumer price index (CPI) could rise by 1.1% (2015: 0.9%). This is the result of domestic and external factors – the prices of raw material imports and visible imports are trending upwards. In parallel, domestic influences such as the increase in the reduced rate of VAT in the course of the recent tax reform and the sharp rise in domestic demand are pushing prices upwards.

Business outlook

Although the market environment remains challenging, 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 half, we expect to report sustainable and stable operating profit for 2016. The high financial stability contribution and the anticipated one-off effect of this will have a negative impact on the 2016 results. The 2014 and 2015 accounts included provisions in respect of Heta receivables, including liquidity provided to Pfandbriefbank. The Group is constantly monitoring developments in connection with these receivables.

A major focus for the Gruppe Bank segment in the second half will be financing for corporate customers in our core market, as well as for regional and social infrastructure. The segment is also 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. 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 our products and advice, and on acquiring new customers. The current rates of customer growth are above the market average. Attracting customer deposits, which are increasing at rates well in excess of the market average, will remain a major focus.

The Leasing segment also anticipates continued growth in the second half 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. Founded during the reporting period, NOE Immobilien Development AG (NID) is due to be sold to a maximum of five external investors; the HYPO NOE Group will remain the largest shareholder, with a stake of 48%. Once it enters operation, NID's property development activities will concentrate on premium and affordable housing and urban development.

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

Ratings agency S&P reaffirmed HYPO NOE Gruppe Bank's strong A/A-1 issuer rating in June 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 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.

INTERIM FINANCIAL STATEMENTS
AS AT 30 JUNE 2016

HYPO NOE
GRUPPE

STATEMENT OF COMPREHENSIVE INCOME

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

Profit or loss (EUR '000)	Notes	H1 2016	H1 2015
Interest and similar income	(3.1)	285,489	294,700
Interest and similar expense	(3.2)	-222,534	-228,652
Net interest income		**62,955**	**66,048**
Credit provisions	(3.3)	-9,627	991
Net interest income after risk provisions		**53,328**	**67,039**
Fee and commission income		8,448	7,907
Fee and commission expense		-1,404	-1,366
Net fee and commission income	**(3.4)**	**7,044**	**6,541**
Net trading income	(3.5)	-7,836	3,856
Administrative expenses	(3.6)	-69,595	-67,429
Net other operating income	(3.7)	21,563	22,230
Net gains or losses on investments accounted for using the equity method		1,444	-421
Net gains or losses on available-for-sale financial assets	(3.8)	13,828	-21,098
Net gains or losses on financial assets designated as at fair value through profit or loss	(3.9)	-35	-36
Net gains or losses on hedges	(3.10)	-2,635	-1,755
Net gains or losses on other financial investments	(3.12)	118	411
Profit before tax		**17,224**	**9,338**
Income tax expense	(3.13)	-4,150	-2,443
Profit for the period		**13,074**	**6,895**
Non-controlling interests	(3.14)	-140	-317
Profit attributable to owners of the parent		**12,934**	**6,578**

Other comprehensive income (EUR '000)	H1 2016	H1 2015
Profit attributable to owners of the parent	**12,934**	**6,578**
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)	8,059	-8,224
Exchange differences on translating foreign operations accounted for using the equity method (before tax)	-1	-4
Change in deferred tax	-2,015	2,057
Total other comprehensive income	**6,044**	**-6,171**
Total comprehensive income attributable to owners of the parent	**18,978**	**407**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

Assets (EUR '000)	Notes	30 Jun. 2016	31 Dec. 2015
Cash and balances at central banks	(4.1)	280,421	68,986
Loans and advances to banks	(4.2)	1,047,572	922,091
Loans and advances to customers	(4.3)	10,940,802	11,557,287
Risk provisions	(4.4)	-109,209	-100,423
Assets held for trading	(4.5)	653,511	586,811
Positive fair value of hedges (hedge accounting)	(4.6)	628,269	509,458
Available-for-sale financial assets	(4.7)	2,173,887	2,104,338
Financial assets designated as at fair value through profit or loss	(4.8)	24,707	4,118
Investments accounted for using the equity method	(4.9)	21,970	20,937
Investment property	(4.10)	73,923	68,704
Intangible assets	(4.11)	918	1,411
Property, plant and equipment	(4.11)	78,640	80,159
Current tax assets	(4.13)	19,838	19,653
Deferred tax assets	(4.13)	1,392	2,105
Other assets	(4.14)	411,718	50,010
Total assets		**16,248,359**	**15,895,645**

Equity and liabilities (EUR '000)	Notes	30 Jun. 2016	31 Dec. 2015
Deposits from banks	(4.16)	1,580,504	2,217,495
Deposits from customers	(4.17)	4,170,940	3,260,856
Debts evidenced by certificates	(4.18)	7,968,056	8,165,837
Liabilities held for trading	(4.19)	606,992	516,969
Negative fair value of hedges (hedge accounting)	(4.20)	931,838	740,962
Provisions	(4.21)	53,299	55,794
Current tax liabilities	(4.22)	8,069	10,073
Deferred tax liabilities	(4.22)	36,039	34,434
Other liabilities	(4.23)	89,437	106,297
Subordinated capital	(4.24)	204,557	205,449
Equity (incl. non-controlling interests)*	(4.25)	598,628	581,479
Equity attributable to owners of the parent		589,826	572,855
Non-controlling interests		8,802	8,624
Total equity and liabilities		**16,248,359**	**15,895,645**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 Jun. 2016, EUR '000	Balance at 1 Jan. 2016	Profit/loss for the year	Capital increase	Dividends paid	Other comprehen-sive income	Balance at 30 Jun. 2016
Share capital	51,981	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	191,824
Retained earnings	293,267	12,934	-	-2,000	-	304,196
IAS 19 reserve	-4,393	-	-	-	-	-4,394
Available-for-sale reserve	40,246	-	-	-	6,044	46,290
Currency translation reserve	-70	-	-	-	-1	-71
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**572,855**	**12,934**	**-**	**-2,000**	**6,043**	**589,826**
Non-controlling interests	8,624	140	294	-261	-	8,802
TOTAL EQUITY	**581,479**	**13,074**	**294**	**-2,261**	**6,043**	**598,628**

30 Jun. 2015, EUR '000	Balance at 1 Jan. 2015	Profit/loss for the year	Capital increase	Dividends paid	Other comprehen-sive income	Balance at 30 Jun. 2015
Share capital	51,981	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	191,824
Retained earnings	287,115	6,578	-	-	-	293,693
IAS 19 reserve	-5,011	-	-	-	-	-5,011
Available-for-sale reserve	36,506	-	-	-	-6,168	30,338
Currency translation reserve	-60	-	-	-	-3	-63
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**562,355**	**6,578**	**-**	**-**	**-6,171**	**562,762**
Non-controlling interests	8,371	317	2	-	-	8,690
TOTAL EQUITY	**570,726**	**6,895**	**2**	**-**	**-6,171**	**571,452**

See Note 4.25 for a discussion of the consolidated statement of changes in equity.

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

EUR 2,404thsd in after-tax gains on available-for-sale (AFS) financial instruments (30 Jun. 2015: losses of EUR 1,941thsd) were recycled from other comprehensive income to profit or loss.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	30 Jun. 2016	31 Dec. 2015
Profit/loss for the period (before non-controlling interests)	**13,074**	**6,404**
Non-cash comprehensive income items		
Amortisation, depreciation, impairment and write-ups	-8,926	35,900
Allocations to and reversals of provisions and risk provisions	8,894	16,952
Gains on disposal of financial assets and property, plant and equipment	1,058	-1,008
Other adjustments	16,281	-17,563
Changes in assets and liabilities due to operating activities after adjustments for non-cash components		
Loans and advances to banks	-125,539	21,657
Loans and advances to customers	787,686	-490,521
Available-for-sale financial assets	-46,870	115,699
Other operating assets	-356,220	44,185
Deposits from banks	-635,699	-408,169
Deposits from customers	903,775	967,826
Debts evidenced by certificates	-319,862	-239,683
Other operating liabilities	-18,342	-87,236
Cash flows from operating activities	**219,310**	**-35,558**
Proceeds from sale of/redemption of:		
Other investments	36	3,533
Property, plant and equipment, intangible assets and investment property	1,352	1,954
Purchase of:		
Other investments	-925	-805
Property, plant and equipment, intangible assets and investment property	-4,370	-9,062
Cash flows from investing activities	**-3,907**	**-4,380**
Dividends paid	-2,000	-
Subordinated debt (outflows)	-24	-2,205
Cash flows from financing activities	**-2,024**	**-2,205**
Effect of exchange rate changes on cash and cash equivalents	**-1,944**	**12,104**
Cash and cash equivalents at end of previous period	**68,986**	**99,025**
Cash flows from operating activities	219,310	-35,558
Cash flows from investing activities	-3,907	-4,380
Cash flows from financing activities	-2,024	-2,205
Effect of exchange rate changes on cash and cash equivalents	-1,944	12,104
Cash and cash equivalents at end of period	**280,421**	**68,986**

EUR '000	30 Jun. 2016	31 Dec. 2015
Taxes, interest and dividends paid (included in cash flows from operating activities)		
Income taxes refunded/paid	-5,609	-11,233
Interest received	282,444	576,939
Interest paid	-224,476	-463,687
Dividends on AFS investments received	2,104	1,101
Dividends received from associates	280	902
Dividends received from joint ventures	122	526

NOTES TO THE INTERIM FINANCIAL STATEMENTS AS AT 30 JUNE 2016

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 2016 were drawn up in accordance with the International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs) issued by the International Accounting Standards Board (IASB), as well as the interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Committee (IFRIC).

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

IAS 34 was applied to preparation of this interim report. Essentially the same accounting policies were applied to the interim report of the HYPO NOE Group as on 31 December 2015, taking account of new standards which entered into effect on 1 January 2016.

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 2015. The interim financial statements were neither audited nor reviewed by independent auditors.

2. CHANGES IN THE SCOPE OF CONSOLIDATION AS AT 30 JUNE 2016

The scope of consolidation of the HYPO NOE Group includes all the subsidiaries that are directly or indirectly controlled by the parent, and are material to the presentation of the Group's assets, finances and earnings. The scope of consolidation is reviewed on an ongoing basis. As was the case at year-end 2015, apart from the parent, HYPO NOE Gruppe Bank AG, the Group comprises a total of 73 Austrian subsidiaries in which the parent meets the criteria for control.

In addition, 15 Austrian and five foreign companies are accounted for using the equity method. As of 31 December 2015, 16 Austrian and five foreign companies were accounted for in the Group's consolidated financial statements using the equity method.

Change in the scope of consolidation

Haring Liegenschaftsentwicklungs GmbH (25% interest held through HYPO NOE Immobilien Beteiligungsholding GmbH) was deconsolidated due to its being immaterial and to the termination of its operations (carrying amount as at 31 Dec. 2015: EUR 22thsd).

Acquisitions/name changes

HYPO NOE Leasing GmbH increased its 50% interest in NÖ. HYPO LEASING – Sparkasse Region St. Pölten Grundstückvermietungs Gesellschaft m.b.H. by acquiring all of the remaining shares and assuming full ownership. NÖ. HYPO LEASING – Sparkasse Region St. Pölten Grundstückvermietungs Gesellschaft m.b.H. was renamed ARTES Grundstückvermietungs GmbH. The company continues to be reported as an AFS investment as it has not yet commenced operations.

The registration of NOE Immobilien Development AG (NID) on 21 November 2015 as a wholly owned subsidiary of HYPO NOE Immobilien Beteiligungsholding GmbH laid the foundations for consolidation of the Group's property portfolio, with the aim of creating investor-friendly structures and facilitating the implementation of development projects currently at the planning stage. At its meeting of 29 June 2016, the Supervisory Board of HYPO NOE Gruppe Bank AG passed a resolution approving the sale of part of the Bank's majority interest in NOE Immobilien Development AG to a maximum of five external investors. Although a number of measures were implemented on 30 June 2016, NID's structure means that the company is not yet ready for sale. The company is therefore still reported as a non-operating AFS investment, as at 31 December 2015.

3. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

3.1 Interest and similar income

3.1.A INTEREST AND SIMILAR INCOME

EUR '000	H1 2016	H1 2015
Interest income from:		
Cash and balances at central banks	2	3
Loans and advances to banks	1,217	1,391
Loans and advances to customers	97,139	102,081
Bonds	26,141	29,144
Hedges (hedge accounting)	90,173	94,636
Other interest income (incl. negative interest)	57,127	55,717
of which income from investment property	*495*	*529*
Rental income	*1,491*	*1,506*
Depreciation	*-996*	*-977*
Current income from:		
Leases	11,586	10,721
Shares and other variable-income securities	346	42
Other investments	1,758	965
Total	**285,489**	**294,700**

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

EUR '000	H1 2016	H1 2015
Interest and similar income from:		
Loans and receivables (LAR)	99,842	104,870
Available-for-sale (AFS) assets	28,047	29,959
Assets measured using the fair value option (FVO)	170	102
Assets held for trading (HFT)	52,853	49,103
Impaired loans and advances (unwinding)	1,408	1,821
Hedges (hedge accounting)	90,173	94,636
Interest income attributable to other periods	119	155
Net gains or losses on investment property:	495	529
Rental income	*1,491*	*1,506*
Depreciation	*-996*	*-977*
Current lease income	11,586	10,721
Current origination and commitment fees	1,853	2,804
Income from loans and advances with negative interest rates	-1,057	-
Total	**285,489**	**294,700**

3.2 Interest and similar expense

3.2.A INTEREST AND SIMILAR EXPENSE

EUR '000	H1 2016	H1 2015
Interest expense on:		
Liabilities to central banks	-32	-46
Deposits from banks	-6,082	-6,274
Deposits from customers	-12,811	-12,153
Debts evidenced by certificates	-91,373	-101,572
Subordinated capital	-931	-1,086
Hedges (hedge accounting)	-60,287	-59,930
Other interest expense (incl. negative interest)	-51,018	-47,591
Total	**-222,534**	**-228,652**

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

EUR '000	H1 2016	H1 2015
Interest expense on:		
Financial liabilities measured at amortised cost (LAC)	-111,693	-121,347
Financial liabilities held for trading (HFT)	-50,596	-47,375
Hedges (hedge accounting)	-60,287	-59,930
Deposits with negative interest rates	42	-
Total	**-222,534**	**-228,652**

3.3 Credit risk provisions

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

EUR '000	H1 2016	H1 2015
Allocations	**-16,743**	**-12,205**
Individual impairment allowances	-15,035	-10,654
Collective impairment allowances	-1,028	-1,523
Other credit provisions	-680	-27
Reversals	**4,699**	**9,005**
Individual impairment allowances	3,559	7,224
Collective impairment allowances	1,114	1,763
Other credit provisions	26	19
Receipts from impaired assets	**2,477**	**4,272**
Direct write-offs	**-60**	**-81**
Total	**-9,627**	**991**

The change in credit provisions in the first half of 2016 is the result of increased allocations to individual impairment allowances in the business customer segment, and to a fall in reversals of risk provisions compared with the first half of 2015.

3.4 Net fee and commission income

EUR '000	H1 2016	H1 2015
Fee and commission income	**8,448**	**7,907**
Loans and advances	772	850
Securities and custody account business	2,373	2,317
Payment transactions	2,888	2,786
Foreign exchange, foreign notes and coins, and precious metals	114	153
Other services	1,921	1,403
Diversification	377	395
Other fee and commission income	3	3
Fee and commission expense	**-1,404**	**-1,366**
Loans and advances	-37	-31
Securities and custody account business	-652	-553
Payment transactions	-488	-577
Other services	-7	-9
Diversification	-220	-196
Total	**7,044**	**6,541**

3.5 Net trading income

EUR '000	H1 2016	H1 2015
Interest rate transactions	-6,035	5,131
Foreign exchange transactions	-1,836	-1,275
Other transactions	35	-
Total	**-7,836**	**3,856**

The contributions of interest rate transactions largely reflect the difference between the present value of customer derivatives and the related hedges, and an increase in the estimated credit risk on customers' derivatives. The impact on earnings of foreign exchange transactions was mainly due to CHF-denominated forward exchange operations. Net other operating income includes the offsetting effect of foreign exchange transactions.

3.6 Administrative expenses

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

EUR '000	H1 2016	H1 2015
Staff costs	-33,909	-34,759
Other administrative expenses	-32,363	-29,602
Depreciation, amortisation and impairment	-3,323	-3,069
Total	**-69,595**	**-67,429**

3.6.1 STAFF COSTS

EUR '000	H1 2016	H1 2015
Wages and salaries	-26,050	-26,983
of which phantom-share-based cash incentives	*-*	*-256*
Social security costs	-5,709	-5,678
Cost of voluntary employee benefits	-584	-599
Retirement benefit costs	-818	-800
Termination benefit costs	-748	-699
of which expenses for provident fund	*-324*	*-287*
Total	**-33,909**	**-34,759**

	H1 2016	H1 2015
Average number of employees (incl. staff on parental leave)	915	914

3.6.2 OTHER ADMINISTRATIVE EXPENSES

EUR '000	H1 2016	H1 2015
Premises	-2,846	-2,909
Office and communication expenses	-718	-720
IT expenses	-4,886	-4,705
Legal and consultancy costs	-2,315	-3,190
Advertising and entertainment costs	-2,720	-2,949
Warranty costs	-181	-325
Other administrative expenses	-18,697	-14,804
of which financial stability contribution (bank tax)	*-7,441*	*-7,252*
of which deposit insurance fund and resolution fund	*-8,083*	*-3,773*
of which expenses for FMA and AFREP	*-143*	*-133*
Total	**-32,363**	**-29,602**

Non-deferrable contributions to the deposit insurance fund and resolution fund led to an increase in other administrative expenses in the first half of 2016. The financial stability contribution had a negative impact on the Group's earnings.

3.6.3 DEPRECIATION, AMORTISATION AND IMPAIRMENT

EUR '000	H1 2016	H1 2015
Depreciation and amortisation	**-2,895**	**-3,069**
Intangible assets	-325	-332
Buildings used by Group companies	-940	-903
Equipment, fixtures and furnishings (incl. low value assets)	-1,630	-1,834
Impairment	**-428**	**-**
Intangible assets	-428	-
of which Goodwill	*-428*	-
Total	**-3,323**	**-3,069**

Impairments in the period under review related to goodwill. Details can be found in Note 4.11 Intangible assets.

3.7 Net other operating income

EUR '000		H1 2016	H1 2015
Other rental income		**160**	**157**
Gains/losses on:		**28**	**49**
disposal of intangible assets, and property, plant and equipment		28	49
Net gains or losses on recognition and reversal of provisions		**2,572**	**91**
Sundry other operating income		**18,803**	**21,933**
Sundry other income		20,426	25,507
Sundry other expenses		-1,623	-3,574
Total		**21,563**	**22,230**

Net gains or losses on recognition and reversal of provisions include the reversal of provisions for litigation costs.

Sundry other expenses include net gains of EUR 5,163thsd (2015: net gains of EUR 2,511thsd) on currency translation (see Note 3.11 Net gains and losses on financial assets and liabilities).

This item also includes gains of EUR 3,229thsd (2015: EUR 3,034thsd) in administrative and intermediation fees, as well as net gains on debt repurchases of EUR 2,224thsd (H1 2015: EUR 9,814thsd).

3.8 Net gains or losses on available-for-sale financial assets

EUR '000		H1 2016	H1 2015
Income from financial assets		**13,828**	**2,021**
Gains on disposal	(3.11)	96	2,021
Write-ups		13,732	-
Expenses arising from financial assets		**-**	**-23,119**
Losses on disposal	(3.11)	-	-2,508
Depreciation, amortisation and impairment		-	-20,611
Total		**13,828**	**-21,098**

The write-ups in 2016 and impairments in 2015 primarily relate to Heta Asset Resolution AG bonds, as measured using the internal valuation model.

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

EUR '000	H1 2016	H1 2015
Net gains or losses on financial assets	**-35**	**-36**
Loans	17	-
Bonds	-52	-36
Total	**-35**	**-36**

3.10 Net gains or losses on hedges

EUR '000	H1 2016	H1 2015
Hedge accounting	**-2,635**	**-1,755**
Net gains or losses on underlying transactions	71,717	-10,644
Net gains or losses on hedging instruments	-74,352	8,889
Total	**-2,635**	**-1,755**

The net loss on hedges is principally attributable to the different discount rates applied to hedges and the related underlying transactions. The different discounting of hedges caused by changed market standards (OIS discounting) produces temporary differences in the results. Derivatives measured at fair value (hedge transactions) predominantly form part of closed positions. To the extent that the other half of the closed position uses a different discount rate, there are differences in the results.

3.11 Net gains or losses on financial assets and liabilities

EUR '000		H1 2016	H1 2015
Net realised gains or losses on financial assets and liabilities not measured at fair value through profit or loss		**201**	**-487**
Available-for-sale financial assets	(3.8)	96	-487
Loans and receivables (incl. finance leases)	(3.12)	105	-
Net gains or losses on financial assets and liabilities held for trading	(3.5)	**-7,836**	**3,856**
Interest rate instruments and related derivatives		-6,036	5,131
Foreign exchange trading		-1,836	-1,275
Other (incl. hybrid derivatives)		36	-
Gains or losses on financial assets and liabilities measured at fair value through profit or loss	(3.9)	**-35**	**-36**
Gains or losses on hedge accounting	(3.10)	**-2,635**	**-1,755**
Net gains on currency translation	(3.7)	**5,163**	**2,511**
Total		**-5,142**	**4,089**

3.12 Net gains or losses on other financial investments

EUR '000		H1 2016	H1 2015
Gains or losses on disposal of receivables and promissory notes	(3.11)	**105**	**-**
Investment property		**13**	**402**
Let investment property		22	424
Vacant investment property		-9	-22
Net gains or losses on other financial investments		**-**	**9**
Other income from other financial assets		-	9
Total		**118**	**411**

3.13 Income tax expense

EUR '000	H1 2016	H1 2015
Current income tax	-3,870	-3,910
Deferred income tax	-280	1,467
Total	**-4,150**	**-2,443**

EUR '000	H1 2016	H1 2015
Deferred tax recognised in other comprehensive income		
Items that may be reclassified subsequently to profit or loss	**-2,015**	**2,057**
Available-for-sale (AFS) financial instruments	-2,015	2,056
Currency translation reserve	-	1
Total	**-2,015**	**2,057**

3.14 Non-controlling interests

EUR '000	H1 2016	H1 2015
FORIS Grundstückvermietungs Gesellschaft m.b.H.	-5	-27
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	-44	-8
LITUS Grundstückvermietungs Gesellschaft m.b.H.	-3	-33
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	-17	-19
Adoria Grundstückvermietungs Gesellschaft m.b.H.	3	-7
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	-8	-12
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	-72	-76
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	23	-92
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	-15	-45
Josef-Heinzl-Gasse 1 Immobilienentwicklung GmbH	-	-2
Neustift-am-Walde 32 Immobilienentwicklung GmbH	-	-1
Haymogasse 102 Immobilienentwicklung GmbH	-	-2
Hauptplatz 18 Entwicklungs- und Verwertungs GmbH	-1	7
Total	**-140**	**-317**

4. NOTES TO THE STATMENT OF FINANCIAL POSITION

4.1 Cash and balances at central banks

EUR '000	30 Jun. 2016	31 Dec. 2015
Cash on hand	13,840	13,508
Balances at central banks	266,581	55,478
Total	**280,421**	**68,986**

4.2 Loans and advances to banks

EUR '000	30 Jun. 2016	31 Dec. 2015
Domestic banks	111,197	115,777
Foreign banks		
CEE	1,165	1,458
Rest of the world	935,210	804,856
Total	**1,047,572**	**922,091**

4.3 Loans and advances to customers

The figures were adjusted for future finance lease agreements, which will be included in Note 4.14 Other assets from 2016.

4.3.1 CUSTOMER GROUP ANALYSIS

EUR '000	30 Jun. 2016	31 Dec. 2015
Public sector customers	5,010,825	5,606,235
Business customers	1,872,927	2,051,636
Housing developers	1,541,736	1,543,237
Retail customers	2,456,253	2,290,827
Professionals	59,061	65,352
Total	**10,940,802**	**11,557,287**

4.3.2 GEOGRAPHICAL ANALYSIS

EUR '000	30 Jun. 2016	31 Dec. 2015
Domestic customers	9,639,821	10,153,127
Foreign customers		
CEE	517,641	527,351
Rest of the world	783,340	876,809
Total	**10,940,802**	**11,557,287**

4.4 Risk provisions and credit provisions

4.4.1 ANALYSIS OF RISK PROVISIONS AND CREDIT PROVISIONS BY CUSTOMER GROUPS

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

EUR '000	1 Jan. 2016	Allocations	Utilisation	Reversals	Unwinding	Other changes	30 Jun. 2016
Risk provisions for customers: individual impairment allowances	**-95,313**	**-15,035**	**1,194**	**3,559**	**1,408**	**-**	**-104,187**
Public sector customers	-5,352	-11	-	-	11	-	-5,352
Business customers	-59,216	-13,780	25	1,679	1,040	220	-70,032
Housing developers	-124	-2	-	-	2	-	-124
Retail customers	-28,623	-906	1,170	1,737	329	-329	-26,622
Professionals	-1,998	-336	-1	143	26	109	-2,057
Risk provisions for customers: collective impairment allowances	**-5,110**	**-1,028**	**-**	**1,114**	**-**	**-**	**-5,023**
Subtotal: risk provisions for customers	**-100,423**	**-16,063**	**1,195**	**4,673**	**1,408**	**-**	**-109,209**
Credit provisions	-3,398	-680	-	26	-	-	-4,053
Total	**-103,821**	**-16,743**	**1,194**	**4,699**	**1,408**	**-**	**-113,262**

EUR '000	1 Jan. 2015	Allocations	Utilisation	Reversals	Unwinding	Other changes	31 Dec. 2015
Risk provisions for customers: individual impairment allowances	**-103,365**	**-20,671**	**10,656**	**14,791**	**3,276**	**-**	**-95,313**
Public sector customers	-4,661	-719	-	-	28	-	-5,352
Business customers	-67,271	-14,797	8,854	10,849	2,515	634	-59,216
Housing developers	-79	-51	-	-	6	-	-124
Retail customers	-29,007	-4,867	1,716	3,594	663	-722	-28,623
Professionals	-2,347	-237	86	348	64	88	-1,998
Risk provisions for customers: collective impairment allowances	**-5,197**	**-1,103**	**-**	**1,189**	**-**	**-**	**-5,110**
Subtotal: risk provisions for customers	**-108,562**	**-21,774**	**10,656**	**15,980**	**3,276**	**-**	**-100,423**
Credit provisions	-3,469	-101	-	172	-	-	-3,398
Total	**-112,031**	**-21,875**	**10,656**	**16,152**	**3,276**	**-**	**-103,821**

4.4.2 GEOGRAPHICAL ANALYSIS OF RISK PROVISIONS

EUR '000	30 Jun. 2016	31 Dec. 2015
Domestic	-73,499	-68,322
Foreign		
CEE	-11,640	-12,327
Rest of the world	-24,070	-19,774
Total risk provisions	**-109,209**	**-100,423**

4.5 Assets held for trading

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

EUR '000	30 Jun. 2016	31 Dec. 2015
Positive fair value of financial instruments (banking book)		
Interest rate derivatives	635,230	553,839
Foreign exchange derivatives	16,471	20,880
Other assets held for trading	1,810	12,092
Total	**653,511**	**586,811**

4.6 Positive fair value of hedges (hedge accounting)

The positive fair values of hedges are disclosed separately as assets, in the consolidated statement of financial position, provided that they qualify for hedge accounting under IAS 39.

Measurement gains and losses on fair value hedges are recognised in profit or loss, under net gains or losses on hedges (Note 3.10). Current income from hedges is reported under Note 3.1 Interest and similar income.

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

EUR '000	30 Jun. 2016	31 Dec. 2015
Assets	**1,348**	**2,449**
Loans and advances to banks	854	664
Loans and advances to customers	1	926
Financial assets	493	859
Liabilities	**626,921**	**507,009**
Deposits from banks	2,966	1,139
Deposits from customers	38,834	36,191
Debts evidenced by certificates	585,121	469,679
Total	**628,269**	**509,458**

4.7 Available-for-sale financial assets

EUR '000	30 Jun. 2016	31 Dec. 2015
Other equity instruments	39,267	4,020
Bonds	2,130,575	2,096,613
Interests in non-consolidated subsidiaries (over 50%)	1,269	931
Interests in associates (20-50%)	477	477
Other investments	2,299	2,297
Total	**2,173,887**	**2,104,338**

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

EUR '000	30 Jun. 2016	31 Dec. 2015
Bonds	4,168	4,118
Loans	20,539	-
Total	**24,707**	**4,118**

Previously this item only included financial assets that were designated as at fair value through profit or loss on initial recognition. In the period under review, a loan for which the fair value option was taken is reported under this item.

4.9 Investments accounted for using the equity method

EUR '000	30 Jun. 2016	31 Dec. 2015
Banks	2,056	2,012
Non-banks	19,914	18,925
Total	**21,970**	**20,937**

4.10 Investment property

EUR '000	30 Jun. 2016	31 Dec. 2015
Investment property	73,923	68,704

4.11 Intangible assets

EUR '000	30 Jun. 2016	31 Dec. 2015
Intangible assets		
Software	918	983
Goodwill	-	428
Total intangible assets	**918**	**1,411**

The goodwill arising on the acquisition of HYPO NOE First Facility GmbH in 2012 was tested for impairment, applying HYPO NOE Group's standard rules and procedures. The forecasts provided by management were based on historical performance data, the current situation of the company and market developments, and in contrast to the period ended 31 December 2015, the need to recognise impairments was identified.

4.12 Property, plant and equipment

EUR '000	30 Jun. 2016	31 Dec. 2015
Property, plant and equipment		
Land and buildings	67,770	67,981
IT equipment	564	672
Equipment, fixtures and furnishings	10,235	11,444
Other property, plant and equipment	71	62
Total property, plant and equipment	**78,640**	**80,159**

The carrying amount of land as at 30 June 2016 was EUR 17,392thsd (30 Jun. 2015: EUR 17,322thsd).

4.13 Tax assets

EUR '000	30 Jun. 2016	31 Dec. 2015
Current tax assets	19,838	19,653
Deferred tax assets	1,392	2,105
Total	**21,230**	**21,758**

No deferred tax assets were recognised in respect of tax loss carryforwards of EUR 19,495thsd (2015: EUR 19,229thsd).

4.14 Other assets

This item principally consists of accruals and deferrals and other non-bank receivables (e.g. trade receivables and amounts due from the tax authorities in respect of other taxes).

EUR '000	30 Jun. 2016	31 Dec. 2015
Accruals and deferrals	1,035	1,444
Other receivables and assets	410,683	48,566
of which future finance lease assets	*370,149*	-
of which value added tax (VAT) and other tax credits (other than income tax)	*7,951*	*12,408*
of which property classified as inventory	*17,238*	*16,221*
of which trade receivables	*6,690*	*11,589*
of which collateral seized with the intention of disposal	*56*	*56*
Total	**411,718**	**50,010**

The change in other assets is due to the reclassification of future finance lease assets previously reported under loans and advances to customers. A comparative amount of EUR 310,595thsd was included under loans and advances to customers as at 31 December 2015.

4.16 Deposits from banks

EUR '000	30 Jun. 2016	31 Dec. 2015
Domestic banks	294,414	791,261
Foreign banks		
CEE	85,110	74,927
Rest of the world	1,200,980	1,351,307
Total	**1,580,504**	**2,217,495**

The deposits from banks as at 31 December 2015 include "genuine" sale and repurchase agreements entered into by the Group (as the transferor).

"Genuine" sale and repurchase agreements

The repurchase agreements were of the type described by AG51(a) IAS 39, in that the assets sold under them were loaned. The Group 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 (OeNB). There were no such agreements as at the end of the period under review.

EUR '000	30 Jun. 2016	31 Dec. 2015
Liabilities to banks under repo agreements	-	605,000

4.17 Deposits from customers

4.17.1 CUSTOMER GROUP ANALYSIS

EUR '000	30 Jun. 2016	31 Dec. 2015
Savings deposits	**921,735**	**838,918**
Demand and time deposits	**3,249,205**	**2,421,938**
Public sector customers	876,049	477,116
Business customers	1,803,691	1,476,815
Housing developers	107,651	76,476
Retail customers	417,430	343,329
Professionals	44,384	48,202
Total	**4,170,940**	**3,260,856**

4.17.2 GEOGRAPHICAL ANALYSIS

EUR '000	30 Jun. 2016	31 Dec. 2015
Domestic customers	3,363,702	2,547,348
Foreign customers		
CEE	125,630	39,944
Rest of the world	681,608	673,564
Total	**4,170,940**	**3,260,856**

4.18 Debts evidenced by certificates

EUR '000	30 Jun. 2016	31 Dec. 2015
Covered and municipal bonds	4,245,223	4,115,458
Other bonds	3,722,564	4,050,119
Profit-sharing certificates	269	260
Total	**7,968,056**	**8,165,837**

Debts evidenced by certificates included new issues, floated during the reporting period, of EUR 87,849thsd (31 Dec. 2015: EUR 523,371thsd). The Group repurchased issued debt amounting to EUR 56,293 (31 Dec. 2015: EUR 909,917thsd).

4.19 Liabilities held for trading

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

EUR '000	30 Jun. 2016	31 Dec. 2015
Negative fair value of financial instruments (banking book)		
Interest rate derivatives	590,065	497,468
Foreign exchange derivatives	16,927	19,501
Total	**606,992**	**516,969**

4.20 Negative fair value of hedges (hedge accounting)

The negative fair value of hedges is reported separately, on the equity and liabilities side of the consolidated statement of financial position, 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 transaction, as follows:

EUR '000	30 Jun. 2016	31 Dec. 2015
Assets	**918,184**	**715,307**
Loans and advances to customers	755,335	575,130
Available-for-sale financial assets	162,849	140,177
Liabilities	**13,654**	**25,655**
Deposits from banks	92	16
Debts evidenced by certificates	13,562	25,639
Total	**931,838**	**740,962**

4.21 Provisions

EUR '000	30 Jun. 2016	31 Dec. 2015
Employee benefit provisions	**36,455**	**36,959**
Provisions for pensions	23,063	23,571
Provisions for termination benefits	11,293	11,377
Provisions for jubilee benefits	2,099	2,011
Credit provisions	**4,053**	**3,398**
Other provisions	**12,791**	**15,437**
Total	**53,299**	**55,794**

4.22 Tax liabilities

EUR '000	30 Jun. 2016	31 Dec. 2015
Current tax liabilities	8,069	10,073
Deferred tax liabilities	36,039	34,434
Total	**44,108**	**44,507**

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

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

4.23 Other liabilities

EUR '000	30 Jun. 2016	31 Dec. 2015
Accruals and deferrals	21,952	26,461
Sundry other liabilities	67,485	79,836
of which trade payables	*20,239*	*21,474*
of which outstanding invoices	*24,236*	*26,802*
of which VAT and other tax liabilities (other than income tax)	*3,844*	*6,659*
of which Legal and consultancy costs	*810*	*1,943*
of which phantom-share-based cash incentives	*1,085*	*1,736*
Total	**89,437**	**106,297**

4.24 Subordinated capital

EUR '000	30 Jun. 2016	31 Dec. 2015
Subordinated capital	204,557	205,449
of which subordinated loans	*1,453*	*1,453*

4.25 Equity

EUR '000	30 Jun. 2016	31 Dec. 2015
Share capital	51,981	51,981
Capital reserves	191,824	191,824
of which appropriated reserve	*94,624*	*94,624*
of which unappropriated reserve	*97,200*	*97,200*
Revaluation surplus	41,896	35,853
Retained earnings	304,125	293,197
Parent shareholders' equity	**589,826**	**572,855**
Non-controlling interests	8,802	8,624
Total	**598,628**	**581,479**

4.26 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 Jun. 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	-5,049	-4,487
Other adjustments to hard core capital	-16,120	-24,180
Intangible assets	-774	-824
Hard core capital	537,677	530,256
Additional core capital	-	-
Core capital (Tier 1 capital)	**537,677**	**530,256**
Deductions pursuant to Art. 36 and Art. 89 CRR	-	-
Eligible core capital	**537,677**	**530,256**
Eligible subordinated debt issued by the Group's parent	36,807	51,758
Eligible subordinated debt issued by subsidiaries	11,425	15,662
of which grandfathering	*554*	*2,366*
Supplementary capital (Tier 2 capital)	**48,232**	**67,419**
Deductions pursuant to Art. 36 and Art. 89 CRR	-	-
Eligible supplementary capital (after deductions)	**48,232**	**67,419**
Total eligible capital	**585,909**	**597,675**
Capital requirement	**309,940**	**315,497**
Surplus capital	**275,969**	**282,178**
Coverage ratio (%)	189.04%	189.44%
Tier 1 capital ratio (%) in accordance with Art. 92(2)(b) CRR	13.88%	13.45%
Total capital ratio (%) in accordance with Art. 92(2)(c) CRR	15.12%	15.16%

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

EUR '000	CRR/CRD IV 30 Jun. 2016	CRR/CRD IV 31 Dec. 2015
Risk-weighted assessment base for credit risk	3,401,372	3,485,514
of which 8% minimum capital requirement	272,110	278,841
Capital requirement for open currency positions	-	-
Capital requirement for operational risk	23,704	23,262
Capital requirement for CVA	14,126	13,394
Total capital requirement	**309,940**	**315,497**

In 2016, the Group again exceeds the regulatory Tier 1 and total capital ratios of 4.5% and 8.0% respectively.

5. SEGMENT INFORMATION

5.1 Business segment information

5.1.1 SEGMENT PROFIT OR LOSS BEFORE TAX

H1 2016, EUR '000	Gruppe Bank	Landes-bank	Leasing	Other	Consoli-dation	Total
Net interest income	41,150	20,334	2,043	-311	-261	62,955
Credit risk provisions	-11,839	2,206	-	6	-	-9,627
Net interest income after risk provisions	**29,311**	**22,540**	**2,043**	**-305**	**-261**	**53,328**
Net fee and commission income	464	6,606	-7	-19	-	7,044
Net trading income	-7,774	-62	-	-	-	-7,836
Net losses on hedges	-2,619	-16	-	-	-	-2,635
Net losses on financial assets measured using the fair value option	-35	-	-	-	-	-35
Net gains or losses on available-for-sale financial assets	11,903	1,926	-	1	-1	13,828
Net gains or losses on other financial investments	105	-	-	753	-740	118
Net other operating income	17,664	1,751	1,528	7,936	-7,316	21,563
Operating income after credit risk provisions	**49,019**	**32,745**	**3,564**	**8,366**	**-8,318**	**85,375**
Staff costs	-14,789	-12,052	-1,398	-5,670	-	-33,909
Other administrative expenses	-23,769	-12,904	-646	-3,101	8,057	-32,363
Depreciation and amortisation (excl. investment properties)	-900	-927	-48	-1,448	-	-3,323
Operating expense	**-39,457**	**-25,884**	**-2,092**	**-10,219**	**8,057**	**-69,595**
Net gains or losses on investments accounted for using the equity method	1,225	-	-26	245	-	1,444
Profit for the period before tax	**10,787**	**6,861**	**1,445**	**-1,609**	**-261**	**17,224**
Income tax expense						-4,150
Profit for the period						**13,074**
Non-controlling interests						-140
Profit attributable to owners of the parent						**12,934**

Gruppe Bank

The Gruppe Bank segment reported a EUR 1.9m improvement in profit for the period compared with the first half of 2015. Net interest income fell and there was an increase in credit risk provisions. Negative movements in net trading income and net gains or losses on hedges were offset by a rise of around EUR 30.6m in net gains or losses on available-for-sale financial assets. Impairment were recognised on Heta bonds in 2015, but in the period under review, write-ups of EUR 11.7m were reported. There was a moderate increase in operating expense, although staff costs fell. However, non-deferrable contributions to the deposit insurance fund and resolution fund had a negative impact on total administrative expenses. Profit for the period before tax improved year on year from EUR 8.9m to EUR 10.8m in the first half of 2016, mainly due to net gains on investments accounted for using the equity method.

Landesbank

In comparison with the previous year, the Landesbank segment again reported increased income from its core business (net interest income including net fee and commission income), as well as higher net gains on credit risk provisions as a result of effective workout management and lower risk costs. In the first half of 2016, net gains or losses on available-for-sale financial assets included write-ups of EUR 1.9m on Heta Asset Resolution AG bonds, compared with impairments of those bonds amounting to EUR 2.8m in the like period of 2015. Administrative expenses remained stable year on year. Profit for the period before tax was EUR 7.0m, compared with a pre-tax loss of EUR 0.9m for the first six months of last year.

Leasing

The decline of EUR 1m in earnings, which was largely in line with the budget, was mainly the result of one-off effects in the leasing business. Final settlement of leasing contracts had a negative influence on results in the period under review. This was in contrast to the positive effects of a handover and the reversal of provisions in the first half of 2015.

Other

The loss for the period before tax for the Other segment increased year on year in the first half of 2016. The key influences in this regard in the period under review include a goodwill impairment of EUR 428thsd in relation to HYPO NOE First Facility GmbH (HFF), expenses incurred by HYPO NOE Immobilien Beteiligungsholding GmbH in connection with the project aimed at preparing NOE Immobilien Development AG for sale, and costs related to the renovation of the property at Wipplingerstrasse 2-4.

Consolidation

The amounts in the column that reconciles the segment results with the consolidated profit arise from the elimination of intra-Group expenses and revenue. The remaining unadjusted amounts, recognised in consolidated profit or loss, reflect the consolidation of intra-Group dividends.

H1 2015, EUR '000	Gruppe Bank	Landes-bank	Leasing	Other	Consol-idation	Total
Net interest income	44,610	19,589	2,230	-381	-	66,048
Credit risk provisions	97	919	-	-25	-	991
Net interest income after risk provisions	**44,707**	**20,508**	**2,230**	**-406**	**-**	**67,039**
Net fee and commission income	418	6,177	-39	-15	-	6,541
Net trading income	3,897	-41	-	-	-	3,856
Net losses on hedges	-1,292	-463	-	-	-	-1,755
Net gains or losses on financial assets measured using the fair value option	-36	-	-	-	-	-36
Net gains or losses on available-for-sale financial assets	-18,741	-2,361	-	4	-	-21,098
Net gains or losses on other financial investments	-	-	453	676	-718	411
Net other operating income	18,791	1,151	1,898	7,169	-6,779	22,230
Operating income after credit risk provisions	**47,744**	**24,972**	**4,542**	**7,428**	**-7,497**	**77,188**
Staff costs	-15,580	-12,567	-1,425	-5,186	-	-34,759
Other administrative expenses	-21,630	-12,176	-720	-2,573	7,497	-29,602
Depreciation and amortisation (excl. investment properties)	-910	-1,082	-55	-1,022	-	-3,069
Operating expense	**-38,120**	**-25,825**	**-2,200**	**-8,781**	**7,497**	**-67,429**
Net gains or losses on investments ac-counted for using the equity method	-719	-	63	235	-	-421
Profit for the period before tax	**8,905**	**-854**	**2,405**	**-1,118**	**-**	**9,338**
Income tax expense						-2,443
Profit for the period						**6,895**
Non-controlling interests						-317
Profit attributable to owners of the parent						**6,578**

5.1.2 SEGMENT ASSETS AND LIABILITIES

30 Jun. 2016, EUR '000	Gruppe Bank	Landesbank	Leasing	Other	Consolidation	Total
Assets						
Cash and balances at central banks	249,150	31,268	1	2	-	280,421
Loans and advances to banks	1,390,714	235,916	60,801	12,759	-652,618	1,047,572
Loans and advances to customers	9,040,623	2,133,816	1,844,331	1,345	-2,079,313	10,940,802
Risk provisions	-57,283	-49,641	-2,265	-20	-	-109,209
Assets held for trading	653,511	55	-	-	-55	653,511
Positive fair value of hedges (hedge accounting)	653,780	33,400	-	-	-58,911	628,269
Available-for-sale financial assets	2,099,101	315,936	7,333	1,281	-249,764	2,173,887
Financial assets designated as at fair value through profit or loss	24,707	-	-	-	-	24,707
Investments accounted for using the equity method	18,066	-	2,469	1,435	-	21,970
Investment property	-	-	10,633	63,290	-	73,923
Intangible assets	484	263	10	161	-	918
Property, plant and equipment	5,411	6,978	551	65,700	-	78,640
Tax assets	19,834	505	304	587	-	21,230
Other assets	7,024	3,655	418,142	25,643	-42,746	411,718
Total assets	**14,105,122**	**2,712,151**	**2,342,310**	**172,183**	**-3,083,407**	**16,248,359**
Equity and liabilities						
Deposits from banks	1,647,936	349,319	2,112,456	128,374	-2,657,581	1,580,504
Deposits from customers	2,457,578	1,735,745	52,009	1,183	-75,575	4,170,940
Debts evidenced by certificates	7,647,543	406,348	269	-	-86,104	7,968,056
Liabilities held for trading	607,002	45	-	-	-55	606,992
Negative fair value of hedges (hedge accounting)	958,671	32,079	-	-	-58,912	931,838
Provisions	39,848	11,267	1,179	1,005	-	53,299
Tax liabilities	20,899	1,490	19,675	2,044	-	44,108
Other liabilities	21,591	16,348	43,659	7,906	-67	89,437
Subordinated capital	192,652	50,452	2,906	-	-41,453	204,557
Equity (incl. non-controlling interests)	511,402	109,058	110,157	31,671	-163,660	598,628
Equity attributable to owners of the parent	511,402	109,058	101,834	31,192	-163,660	589,826
Non-controlling interests	-	-	8,323	479	-	8,802
Total equity and liabilities	**14,105,122**	**2,712,151**	**2,342,310**	**172,183**	**-3,083,407**	**16,248,359**

Leasing

For purposes of consistency and improved transparency, from 2016 future finance lease assets (assets under construction), which were previously reported under loans and advances to customers, are recognised in other assets. This is reflected in a reduction in loans and advances to customers, and in an increase of EUR 370m in other assets, to EUR 418m.

31 Dec. 2015, EUR '000	Gruppe Bank	Landesbank	Leasing	Other	Consolidation	Total
Assets						
Cash and balances at central banks	24,543	44,436	-	7	-	68,986
Loans and advances to banks	1,358,648	36,645	53,072	8,660	-534,934	922,091
Loans and advances to customers	9,252,459	2,157,585	2,206,586	2,077	-2,061,420	11,557,287
Risk provisions	-45,326	-52,786	-2,265	-46	-	-100,423
Assets held for trading	586,811	341	-	-	-341	586,811
Positive fair value of hedges (hedge accounting)	529,722	27,832	-	-	-48,096	509,458
Available-for-sale financial assets	2,042,309	357,053	7,309	960	-303,293	2,104,338
Financial assets designated as at fair value through profit or loss	4,118	-	-	-	-	4,118
Investments accounted for using the equity method	17,197	-	2,495	1,245	-	20,937
Investment property	-	-	6,785	61,919	-	68,704
Intangible assets	506	299	18	588	-	1,411
Property, plant and equipment	6,065	7,582	591	65,921	-	80,159
Tax assets	19,651	1,248	321	538	-	21,758
Other assets	19,017	4,919	51,988	23,886	-49,800	50,010
Total assets	**13,815,720**	**2,585,154**	**2,326,900**	**165,755**	**-2,997,884**	**15,895,645**
Equity and liabilities						
Deposits from banks	2,089,653	445,664	2,094,222	128,087	-2,540,131	2,217,495
Deposits from customers	1,767,106	1,504,646	49,928	1,036	-61,860	3,260,856
Debts evidenced by certificates	7,888,391	423,295	260	-	-146,109	8,165,837
Liabilities held for trading	517,040	270	-	-	-341	516,969
Negative fair value of hedges (hedge accounting)	761,849	27,209	-	-	-48,096	740,962
Provisions	42,549	11,100	1,149	996	-	55,794
Tax liabilities	20,832	1,940	19,735	2,000	-	44,507
Other liabilities	32,947	19,144	50,163	6,753	-2,710	106,297
Subordinated capital	193,391	50,604	2,907	-	-41,453	205,449
Equity (incl. non-controlling interests)	501,962	101,282	108,536	26,883	-157,184	581,479
Equity attributable to owners of the parent	501,962	101,282	100,390	26,405	-157,184	572,855
Non-controlling interests	-	-	8,146	478	-	8,624
Total equity and liabilities	**13,815,720**	**2,585,154**	**2,326,900**	**165,755**	**-2,997,884**	**15,895,645**

5.2 Geographical information

The table below shows the main balance sheet items broken down by domestic and foreign business.

	30 Jun. 2016		31 Dec. 2015	
EUR '000	Domestic	Foreign	Domestic	Foreign
Loans and advances to banks	111,197	936,375	115,777	806,314
Loans and advances to customers	9,639,821	1,300,981	10,153,127	1,404,160
Active operations – foreign customers		8.01%		8.83%
Available-for-sale financial assets	732,998	1,440,889	695,880	1,408,457
Financial assets designated as at fair value through profit or loss	4,168	20,539	4,118	-
Deposits from banks	294,414	1,286,090	791,261	1,426,234
Deposits from customers	3,363,702	807,238	2,547,348	713,508
Debts evidenced by certificates	2,852,720	5,115,336	2,806,715	5,359,122

Debts evidenced by certificates that relate to listed securities are presented by country of issue.

6. SUPPLEMENTARY INFORMATION

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 for the year ended 31 December 2015.

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

The nature and extent of the risks associated with financial instruments, further sensitivity analyses and other disclosures also form part of Note 6.6 Risk management.

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

6.1.1 FAIR VALUE

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

	30 Jun. 2016		31 Dec. 2015	
EUR '000	Fair value	Carrying amount	Fair value	Carrying amount
Assets				
Loans and advances to banks	1,040,038	1,047,572	913,961	922,091
Loans and advances to customers1	10,675,599	10,836,616	11,697,120	11,461,974
Assets held for trading	653,511	653,511	586,811	586,811
Positive fair value of hedges	628,269	628,269	509,458	509,458
Available-for-sale financial assets	2,173,887	2,173,887	2,104,338	2,104,338
Financial assets designated as at fair value through profit or loss	24,707	24,707	4,118	4,118
Investments accounted for using the equity method	21,970	21,970	20,937	20,937
Investment property	81,048	73,923	76,524	68,704
Sundry other assets	412,089	411,718	50,388	50,010
Total assets	**15,711,118**	**15,872,173**	**15,963,655**	**15,728,441**

	30 Jun. 2016		31 Dec. 2015	
EUR '000	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**
Equity and liabilities				
Deposits from banks	1,574,610	1,580,504	2,199,359	2,217,495
Deposits from customers	4,164,377	4,170,940	3,280,790	3,260,856
Debts evidenced by certificates	8,056,769	7,968,056	8,161,236	8,165,837
Liabilities held for trading	606,992	606,992	516,969	516,969
Negative fair value of hedges	931,838	931,838	740,962	740,962
Other liabilities	74,171	89,437	106,298	106,297
Subordinated capital	183,295	204,557	185,088	205,449
Total equity and liabilities	**15,592,052**	**15,552,324**	**15,190,702**	**15,213,865**

1 Carrying value of loans and advances to customers net of impairment allowances

6.1.2 FAIR VALUE HIERARCHY DISCLOSURES

IFRS 13 applies to the categories of financial instruments established by IAS 39, as well as to those where fair value is required under other Standards, and to other unrecognised instruments. Under IFRS 13 these financial instruments must be grouped into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of the instruments concerned.

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

Level 1: quoted prices in active markets

These are quoted prices in active markets for identical assets or liabilities.

In the HYPO NOE Group this mainly applies to exchange-traded securities.

Level 2: valuation techniques based on observable inputs

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

Level 3: valuation techniques not based on observable inputs

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

30 Jun. 2016, EUR '000	Total fair value	Fair value measurement Level 1	Level 2	Level 3
Assets				
Loans and advances to banks	1,040,038	-	1,036,858	3,180
Loans and advances to customers	10,675,599	-	44,805	10,630,794
Assets held for trading	653,511	-	78,735	574,776
Positive fair value of hedges	628,269	-	628,269	-
Available-for-sale financial assets	2,173,887	1,795,458	88,220	290,209
Financial assets designated as at fair value through profit or loss	24,707	4,168	-	20,539
Investments accounted for using the equity method	21,970	-	-	21,970
Investment property	81,048	-	-	81,048
Sundry other assets	412,089	-	-	412,089
Total assets	**15,711,118**	**1,799,626**	**1,876,887**	**12,034,605**
Equity and liabilities				
Deposits from banks	1,574,610	-	1,408,307	166,303
Deposits from customers	4,164,377	-	-	4,164,377
Debts evidenced by certificates	8,056,769	3,552,823	4,490,026	13,920
Liabilities held for trading	606,992	-	606,992	-
Negative fair value of hedges	931,838	-	931,838	-
Other liabilities	74,171	-	-	74,171
Subordinated capital	183,295	-	183,295	-
Total equity and liabilities	**15,592,052**	**3,552,823**	**7,620,458**	**4,418,771**

Detailed information on Level 3 financial assets measured at fair value is shown in Note 6.1.3 Fair value hierarchy: Level 3 disclosures. There were no transfers of financial assets between levels during the period under review.

31 Dec. 2015, EUR '000	Total fair value	Fair value measurement Level 1	Level 2	Level 3
Assets				
Loans and advances to banks	913,961	-	909,055	4,906
Loans and advances to customers	11,697,120	-	45,430	11,651,690
Assets held for trading	586,811	11,293	50,132	525,386
Positive fair value of hedges	509,458	-	509,458	-
Available-for-sale financial assets	2,104,338	1,740,606	88,422	275,310
Financial assets designated as at fair value through profit or loss	4,118	4,118	-	-
Investments accounted for using the equity method	20,937	-	-	20,937
Investment property	76,524	-	-	76,524
Sundry other assets incl. non-current assets held for sale (IFRS 5)	50,388	-	-	50,388
Total assets	**15,963,655**	**1,756,017**	**1,602,497**	**12,605,141**
Equity and liabilities				
Deposits from banks	2,199,359	-	2,039,527	159,832
Deposits from customers	3,280,790	-	-	3,280,790
Debts evidenced by certificates	8,161,236	3,892,250	4,255,060	13,926
Liabilities held for trading	516,969	-	516,969	-
Negative fair value of hedges	740,962	-	740,962	-
Other liabilities	106,298	-	-	106,298
Subordinated capital	185,088	-	183,634	1,454
Total equity and liabilities	**15,190,702**	**3,892,250**	**7,736,152**	**3,562,300**

6.1.3 FAIR VALUE HIERARCHY: LEVEL 3 DISCLOSURES

EUR '000	1 Jan. 2016	Gains or losses: In profit or loss	Gains or losses: In other comprehensive income	Purchases	Settlements	Transfers to/from Level 3	30 Jun. 2016	Gains/losses recognised in statement of profit or loss for assets held as at 30 Jun. 2016
Assets								
Assets held for trading	525,386	49,390	-	-	-	-	574,776	56,207
Available-for-sale financial assets	275,310	18,970	-2,959	340	-1,451	-	290,209	-
Financial assets designated as at fair value through profit or loss	-	74	-	20,465	-	-	20,539	17
Sundry other assets	-	-	-	-	-	-	-	-
Total assets	**800,696**	**68,434**	**-2,959**	**20,805**	**-1,451**	**-**	**885,524**	**56,224**
Equity and liabilities								
Liabilities held for trading	-	-	-	-	-	-	-	-
Total equity and liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Material gains/losses on Level 3 assets comprised gains of EUR 56,207thsd on assets held for trading (2015: losses of EUR 81,451thsd).

EUR '000	1 Jan. 2015	Gains or losses: In profit or loss	Gains or losses: In other comprehensive income	Purchases	Settlements	Transfers to/from Level 3	31 Dec. 2015	Gains/losses recognised in statement of profit or loss for assets held as at 31 Dec. 2015
Assets								
Assets held for trading	607,872	-82,486	-	-	-	-	525,386	-81,451
Available-for-sale financial assets	262,706	-25,538	-882	805	-3,774	41,991	275,310	-25,533
Financial assets designated as at fair value through profit or loss	-	-	-	-	-	-	-	-
Sundry other assets	2,983	-583	-	-	-2,400	-	-	-
Total assets	**873,561**	**-108,607**	**-882**	**805**	**-6,174**	**41,991**	**800,696**	**-106,984**
Equity and liabilities								
Liabilities held for trading	32,100	-	-	-	-	-32,100	-	-
Total equity and liabilities	**32,100**	**-**	**-**	**-**	**-**	**-32,100**	**-**	**-**

6.1.4 LEVEL 3 SENSITIVITY ANALYSIS

The following disclosures are intended to show the potential consequences of the relative uncertainty inherent in determining the fair value of financial instruments for which measurement is based on unobservable parameters. The sensitivity analysis for derivatives takes into account credit spreads in the determination of the credit value adjustment (CVA) or debit valuation adjustment (DVA), and for securities, changes in upward valuation adjustments based on the risk-free yield curve and discounts on future payments. Appropriate values which reflect the prevailing market conditions and the uncertainty involved in calculating measurement inputs as at the end of the reporting period were selected when determining the unobservable parameters. On the basis of this framework, a bandwidth of 10 basis points (bp) for credit spreads was used in the analysis presented in the table below,

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

30 Jun. 2016, EUR '000	Positive changes in fair value	Negative changes in fair value
Derivatives	-	-2,446
Securities	-	-1,836
Total	**-**	**-4,282**

6.1.5 OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

These agreements do not fulfil the criteria for offsetting such transactions in the statement of financial position. This is because the Group is currently not entitled to offset the transactions, since under the agreements concluded an entitlement to offset transactions is only applicable under certain conditions that may arise (for example, default or insolvency of the counterparty).

30 Jun. 2016, EUR '000	Financial assets/ liabilities (gross)	Reported amounts offset (gross) (-)	Financial assets reported (net)	Effect of master netting agreements (-)	Collateral in the form of financial instruments (-)	
				Not offset		Net amount
	(a)	(b)	(c)=(a)+(b)	(d)(i), (d)(ii)	(d)(ii)	(e)=(c)+(d)
Assets						
Assets held for trading	653,511	-	653,511	-44,188	-184	609,139
Positive fair value of hedges	628,269	-	628,269	-348,483	-88,336	191,450
Total assets	**1,281,780**	**-**	**1,281,780**	**-392,671**	**-88,520**	**800,589**
Equity and liabilities						
Liabilities held for trading	606,992	-	606,992	-44,188	-	562,804
Negative fair value of hedges	931,838	-	931,838	-348,483	-	583,355
Total equity and liabilities	**1,538,830**	**-**	**1,538,830**	**-392,671**	**-**	**1,146,159**

31 Dec. 2015, EUR '000	Financial assets/ liabilities (gross) (a)	Reported amounts offset (gross) (-) (b)	Financial assets reported (net) (c)=(a)+(b)	Not offset: Effect of master netting agreements (-) (d)(i), (d)(ii)	Not offset: Collateral in the form of financial instruments (-) (d)(ii)	Net amount (e)=(c)+(d)
Assets						
Assets held for trading	586,811	-	586,811	-29,958	-159	556,694
Positive fair value of hedges	509,458	-	509,458	-328,564	-59,509	121,385
Total assets	**1,096,269**	**-**	**1,096,269**	**-358,522**	**-59,668**	**678,079**
Equity and liabilities						
Liabilities held for trading	516,969	-	516,969	-29,958	-	487,011
Negative fair value of hedges	740,962	-	740,962	-328,564	-	412,398
Total equity and liabilities	**1,257,931**	**-**	**1,257,931**	**-358,522**	**-**	**899,409**

6.2 Derivatives

EUR '000	30 Jun. 2016 Nominal value	30 Jun. 2016 Fair value Positive	30 Jun. 2016 Fair value Negative	31 Dec. 2015 Nominal value	31 Dec. 2015 Fair value Positive	31 Dec. 2015 Fair value Negative
Derivatives held for trading						
Interest rate	6,235,317	635,230	590,065	6,390,161	553,839	497,468
Foreign currencies and gold	1,186,242	16,471	16,927	721,396	20,880	19,501
Total	**7,421,559**	**651,701**	**606,992**	**7,111,557**	**574,719**	**516,969**
Fair value hedges						
Interest rate	11,421,790	605,879	925,131	11,822,606	499,554	725,296
Foreign currencies and gold	293,447	22,390	6,707	283,956	9,904	15,666
Total	**11,715,237**	**628,269**	**931,838**	**12,106,562**	**509,458**	**740,962**

6.3 Analysis of assets and liabilities by IAS 39 measurement categories

30 Jun. 2016, EUR '000	Loans and receivables (LAR)	Liabilities measured at amortised cost (LAC)	Assets held for trading (HFT)	Designated as at fair value through profit or loss (FVTPL)	Available-for-sale (AFS) assets	Fair value hedge	Financial assets/ liabilities at cost (amortised cost)	Total
Cash and balances at central banks	-	-	-	-	-	-	280,421	280,421
Loans and advances to banks	1,047,572	-	-	-	-	-	-	1,047,572
Loans and advances to customers	10,940,802	-	-	-	-	-	-	10,940,802
Risk provisions	-109,209	-	-	-	-	-	-	-109,209
Assets held for trading	-	-	653,511	-	-	-	-	653,511
Positive fair value of hedges	-	-	-	-	-	628,269	-	628,269
Available-for-sale financial assets	-	-	-	-	2,173,887	-	-	2,173,887
Financial assets designated as at fair value through profit or loss	-	-	-	24,707	-	-	-	24,707
Investments accounted for using the equity method	-	-	-	-	-	-	21,970	21,970
Investment property	-	-	-	-	-	-	73,923	73,923
Other financial assets1	410,683	-	-	-	-	-	-	410,683
Total financial assets	**12,289,848**	**-**	**653,511**	**24,707**	**2,173,887**	**628,269**	**376,314**	**16,146,536**
Deposits from banks	-	1,580,504	-	-	-	-	-	1,580,504
Deposits from customers	-	4,170,940	-	-	-	-	-	4,170,940
Debts evidenced by certificates	-	7,968,056	-	-	-	-	-	7,968,056
Liabilities held for trading	-	-	606,992	-	-	-	-	606,992
Negative fair value of hedges	-	-	-	-	-	931,838	-	931,838
Subordinated capital	-	204,557	-	-	-	-	-	204,557
Other financial liabilities1	-	67,485	-	-	-	-	-	67,485
Total financial liabilities	**-**	**13,991,542**	**606,992**	**-**	**-**	**931,838**	**-**	**15,530,372**

31 Dec. 2015, EUR '000	Loans and receivables (LAR)	Liabilities measured at amortised cost (LAC)	Assets held for trading (HFT)	Designated as at fair value through profit or loss (FVTPL)	Availa-ble-for-sale (AFS) assets	Fair value hedge	Financial assets/ liabilities at cost (amortised cost)	Total
Cash and balances at central banks	-	-	-	-	-	-	68,986	68,986
Loans and advances to banks	922,091	-	-	-	-	-	-	922,091
Loans and advances to customers	11,557,287	-	-	-	-	-	-	11,557,287
Risk provisions	-100,423	-	-	-	-	-	-	-100,423
Assets held for trading	-	-	586,811	-	-	-	-	586,811
Positive fair value of hedges	-	-	-	-	-	509,458	-	509,458
Available-for-sale financial assets	-	-	-	-	2,104,338	-	-	2,104,338
Financial assets desig-nated as at fair value through profit or loss	-	-	-	4,118	-	-	-	4,118
Investments accounted for using the equity method	-	-	-	-	-	-	20,937	20,937
Investment property	-	-	-	-	-	-	68,704	68,704
Other financial assets1	48,566	-	-	-	-	-	-	48,566
Total financial assets	**12,427,521**	**-**	**586,811**	**4,118**	**2,104,338**	**509,458**	**158,627**	**15,790,873**
Deposits from banks	-	2,217,495	-	-	-	-	-	2,217,495
Deposits from customers	-	3,260,856	-	-	-	-	-	3,260,856
Debts evidenced by certificates	-	8,165,837	-	-	-	-	-	8,165,837
Liabilities held for trading	-	-	516,969	-	-	-	-	516,969
Negative fair value of hedges	-	-	-	-	-	740,962	-	740,962
Subordinated capital	-	205,449	-	-	-	-	-	205,449
Other financial liabilities1	-	79,836	-	-	-	-	-	79,836
Total financial liabilities	**-**	**13,929,473**	**516,969**	**-**	**-**	**740,962**	**-**	**15,187,404**

1Shown under other assets or other liabilities in the statement of financial position.

6.4 Disclosures on related-party relationships

30 Jun. 2016, EUR '000	Investors with influence over the Group's parent	Non-con-solidated subsidiaries (greater than 50%)	Investments accounted for using the equity method	Joint ventures in which the Company is a joint venturer	Associates and other related parties	Key management personnel
Loans and advances to customers	2,311,505	112,553	215,674	16,628	9,628	4,549
of which lease receivables	*1,494,273*	-	-	-	-	-
Equity instruments (shareholdings, etc.)	-	1,269	18,605	3,528	477	-
Positive fair value of derivatives	99,784	-	-	-	-	-
Other assets	370,149	-	460	-	-	-
Deposits from banks	-	-	-	1,194	-	-
Deposits from customers	87,279	330	18,597	1,056	7,442	5,111
Other liabilities	-	-	-	401	-	-
Guarantees provided by the Group	-	-	8,133	-	-	7
Other obligations incl. unused credit lines	507,471	46,354	26,961	35,651	10,556	272
Guarantees received by the Group	2,857,938	-	-	-	-	-
Credit risk provisions, individual and collective impairment allowances	-	-	82	8	-	9

31 Dec. 2015, EUR '000	Investors with influence over the Group's parent	Non-con-solidated subsidiaries (greater than 50%)	Investments accounted for using the equity method	Joint ventures in which the Company is a joint venturer	Associates and other related parties	Key management personnel
Loans and advances to customers	2,947,941	112,329	212,958	11,207	12,706	4,092
of which lease receivables	*1,578,162*	-	-	-	-	-
Equity instruments (shareholdings, etc.)	-	931	18,641	2,422	487	-
Positive fair value of derivatives	90,646	-	-	-	-	-
Other assets	-	-	238	-	-	-
Deposits from banks	-	-	-	1,228	-	-
Deposits from customers	32,657	743	17,229	1,370	6,146	4,932
Other liabilities	-	-	-	301	-	-
Guarantees provided by the Group	-	-	8,151	-	-	7
Other obligations incl. unused credit lines	545,585	6,562	5,696	45,549	10,433	621
Guarantees received by the Group	2,825,002	-	-	-	-	-
Credit risk provisions, individual and collective impairment allowances	-	-	24	5	-	8

The transfer prices between the HYPO NOE Group and related parties were arm's length prices. Key management in the HYPO NOE Group comprises "identified staff".

Further details on the reclassification of loans and advances to customers as other assets can be found in Note 4.14.

6.5 Contingent liabilities and credit risk

6.5.1 CONTINGENT LIABILITIES

EUR '000	30 Jun. 2016	31 Dec. 2015
Acceptances and endorsements	109	109
Liabilities arising from guarantees and provision of collateral	120,086	119,657

6.5.2 CREDIT RISK

EUR '000	30 Jun. 2016	31 Dec. 2015
Unutilised facilities	1,367,096	1,355,257

6.6 Risk management

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

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

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

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

Risk management system

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

The Group's organisational structure provides for a clear separation of front and back office functions (four-eye principle) at every level up to and including the Management Board. The front office functions originate business and give initial clearance to transactions, while the back office functions (i.e. all those for which the front office is not responsible) cast an independent vote (second opinion) that confers final approval. The internal control regulations require the unanimous approval of the front and back office functions for certain business decisions. There is also a structured process for the approval of exposures requiring resolutions of the Group's 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 risk management report, which provides an aggregated summary of all risks and their capital coverage, the Management and Supervisory Boards receive separate, regular risk reports for each risk category. These provide comprehensive information on current risk developments.

The disclosures required under Part 8 of the CRR are made on a consolidated basis for the HYPO NOE Group, in a separate document posted on the corporate website (www.hyponoe.at).

Aggregate risk management and risk-bearing capacity (ICAAP)

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

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

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

2 Going concern management control 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 unfavourable market environment in the first half of this year, as at 30 June 2016 utilisation of the Group risk limit was only 77.1% (including an adequate buffer) – a slight decline as compared with 31 December 2015 (77.1%).

RESTRUCTURING PLAN

Under the Bundesgesetz über die Sanierung und Abwicklung von Banken (Federal Act on the Recovery and Resolution of Banks), which came into force on 1 January 2015, the HYPO NOE Group is required to submit a restructuring plan to the Austrian regulator. When incorporated into day-to-day operations, the details of the restructuring plan will form an integral part of the Group's risk and capital management framework. The development of restructuring measures is a regular part of the work of the Risk Management Committee.

In the first half of 2016, the Financial Market Authority (FMA) issued a notice revoking the simplified requirements for the content of the HYPO NOE Group's restructuring plan and replacing them with unrestricted requirements by means of the Bankensanierungsplanverordnung (Regulation of the Financial Market Authority on the content and level of detail of recovery plans of banks), pursuant to section 5(1) Federal Act on the Recovery and Resolution of Banks.

The reasons for this were the Group's total assets of around EUR 15.9bn and its deposits from banks of around EUR 2.2bn (as per the annual financial statements for the year ended 31 December 2015) – meaning that the HYPO NOE Group is one of the largest banks in Austria that is not directly supervised by the European Central Bank – as well as the potential impact of a default by the Group in view of its size and links with other banks and the wider financial system.

Regarding the number of scenarios to be modelled and the restructuring indicators, the HYPO NOE Group must now meet the requirements for Category 3 entities under the Regulation of the Financial Market Authority on the content and level of detail of recovery plans of banks, as well as the EBA guidelines as part of the annual review of the restructuring plan.

BANK-WIDE STRESS TESTING

As part of the internal Bank-wide stress testing process, a comprehensive economic study compiled every year provides the basis for the annual analysis of scenarios relevant to the HYPO NOE Group's business model (e.g. global recession, an increase in unconventional monetary policies, or possible effects of new regulations). The impact of the scenarios on credit, investment, interest rate and liquidity risk at subsidiary and Group level, in terms both of regulatory and economic risk-bearing capacity, was simulated. The results were presented to management, and suitable countermeasures were devised.

The overall stress testing framework comprises monthly calculations of risk-bearing capacity, the annual Bank-wide stress test and monthly liquidity risk stress tests (with idiosyncratic, market-wide and combined stress scenarios) under the time-to-wall concept, as well as annual FX and endowment loan stress tests, testing of indicators on the basis of stress scenarios as part of the restructuring plan (reverse stress tests) and ad-hoc simulations (e.g. of developments in connection with Heta).

BASEL III

Ongoing reporting improvements with a view to meeting revised reporting standards have now become routine, and preparations for implementing and analysing the effects of future measures (currently known as Basel IV) are already under way. The objective here is not merely to be regulatorily compliant, but also to evaluate the effects on all areas of the Bank, so as to be able to initiate any necessary corrective measures in areas such as planning and business strategy in good time.

In this regard, the HYPO NOE Group carried out a detailed analysis of effects at Group and subsidiary level on the basis of figures for year-end 2015, reporting the results to the regulator in the form of a quantitative impact study of Basel III monitoring. The findings of a specially formed working group were used to draw up any necessary measures and counterstrategies, and the Bank's medium-term plan was also taken into account. Two projects (counterparty risk in accordance with BCBS 279 and revised disclosure requirements in accordance with BCBS 309) are being implemented at the Allgemeines Rechenzentrum (ARZ) IT competence centre in collaboration with two other HYPO banks.

SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

Under the 2016 annual plan for less significant institutions (LSIs), part of the Supervisory Review and Evaluation Process (SREP), the HYPO NOE Group has been allocated to cycle 1. Phase I of the process – collection of qualitative and quantitative data based on a questionnaire – was concluded and the completed questionnaire was sent to the OeNB on time.

In phase 2, which is now in progress, the data will be analysed on the basis of information collected on the various types of risk and an expert opinion, with a view to automating the evaluation of risk levels. Due to its solid capital ratios (31 Dec. 2015: tier 1 ratio of EUR 13.45%), the Group assumes that it will be able to comply with a possible increase in the capital adequacy requirements; data on this subject was gathered during the SREP.

BREXIT

The possible consequences of Brexit for the Group were analysed in the run-up to the referendum and the resulting risks were assessed as low. Matching currency refinancing and the use of FX derivatives means that the Group effectively has no open currency risk positions, and consequently does not expect an increase in foreign exchange risk. In addition, the Group does not have a significant volume of loans with pound sterling FX risk for borrowers on its books. A rise in default risk attributable to foreign currencies is therefore not anticipated. The effects of an indirect increase in risk due to further strengthening of the Swiss franc are seen as moderate. A drop in some growth forecasts for Europe as a whole is expected, though, which could have an indirect impact on the Group's medium-term performance.

RISK MANAGEMENT SYSTEMS

In 2016 the HYPO NOE Group will be enhancing its IT infrastructure, as well as processes and methodologies, in order to comply with future regulatory requirements (Basel IV, IFRS 9, MREL, leverage ratio). This will require additional expenditure and resources, and will also ensure that risk control systems remain compatible with the authorised levels of risk tolerance and the Group's business objectives.

Credit risk

Credit risk is the risk of deterioration in creditworthiness – ultimately, the risk of a counterparty or guarantor defaulting.

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

The HYPO NOE Group's credit risk strategy is based on the following risk policy principles:
- Identifying and regularly evaluating credit risks
- Identifying and regularly reviewing the suitability of models and processes for measuring credit risks
- Quantifying credit risks on the basis of the processes established
- Identifying and complying with statutory regulations and frameworks
- Establishing management's risk tolerance and appetite
- Limiting and monitoring credit risks on the basis of the risk tolerance established
- Appropriate reporting
- Determining processes and procedures for risk-related allocation of credit costs

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

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

HYPO NOE Group master scale			Corresponding external ratings	
Grade	**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 – B3	B
	Watch list	4C – 4E	Caa1 – C	B- – C
	Default	5A – 5E	D	D

For private customers, the Group currently employs an applications rating procedure together with behaviour rating for day-to-day evaluation. Business customers are assessed using different rating instruments for start-ups, businesses preparing accounts on a cash basis and those using accrual accounting. There are also separate processes for local authorities and for banks. Credit ratings for bespoke financing are carried out using the slotting approach based on income-producing real estate (IPRE) and project finance ratings. A rating tool is used for the evaluation of creditworthiness for condominium apartments under the Wohnungseigentumsgesetz (Condominium Act). Other customer categories are currently rated internally on the basis of expert analyses and external information.

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

CREDIT RISK ANALYSIS

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

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

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

In addition, the operational credit risk management units are responsible for monitoring early warning indicators (principally generated by Credit Services) in order to identify potential problem customers as early as possible, so as to be able to initiate countermeasures in good time. The appearance of certain early warning indicators means that the loan is designated a watch loan, with intensified customer service and monitoring. The market units and the operational credit risk units are jointly responsible for this.

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

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

COUNTRY ANALYSIS

Aufgrund der anhaltenden Staatsfinanzkrise in Europa, der Unsicherheit aufgrund der „BREXIT"-Entscheidung in Großbritannien und der seit Jahren nicht gelösten angespannten Situation betreffend notleidender Kredite bzw. des daraus resultierenden notwendigen Rekapitalisierungsbedarfs im italienischen Bankensektors wird weiterhin ein besonderes Augenmerk auf die Entwicklung in den Ländern Griechenland, Großbritannien, Italien, Irland, Kroatien, Ungarn sowie Zypern gelegt. Die Exposures in diesen Ländern werden eng überwacht. Die HYPO NOE Gruppe hat kein Direktexposure in Staatsanleihen von Großbritannien, Portugal, der Ukraine sowie Russland. Darüber hinaus wurde in den vergangenen Wochen die Darlehensaushaftung in Großbritannien reduziert.

Regionale Gliederungen nach Inland, Central Eastern Europe (CEE) sowie restliche Länder (ROW) finden sich in den jeweiligen Detailtabellen der Notes (4.2 Forderungen an Kreditinstitute, 4.3 Forderungen an Kunden).

Risk provisions

Individual and collective impairment allowances and general provisions are recognised for identifiable lending risks. The analysis of risk provisions and provisions broken down by customer and region is shown in Notes 4.4.1 Analysis of risk provisions and credit provisions by customer groups and 4.4.2 Geographical analysis of risk provisions.

Credit risk monitoring and portfolio management

The Group Strategic Risk Management Department is responsible for monitoring credit risk at portfolio level. Management is kept up to date with changes in credit risks by means of monthly credit risk reports, and regular or case-by-case reports on risk-related issues (transfer of accounts to the Collections Department, overdraft increases, etc.). Management is kept comprehensively informed about the Group's risk situation, including in-depth analysis of key issues, at meetings of the Risk Management Committee (RICO), which are held at least six times a year.

CREDIT RISK SITUATION IN 2016

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 Group's total lending relates to the purchase of subsidised home loans from the Lower Austrian state government. Additional security for this lending is provided by a guarantee from the state government, and the credit risk on these exposures is therefore low.

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

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

The non-performing loan (NPL) ratio, defined as total exposure on default customers divided by total loans and advances to customers, is calculated at Group level. As at 30 June 2016 the NPL ratio was 2.85% (31 Dec. 2015: 2.85%).

HETA ASSET RESOLUTION AG

The notice on Heta issued by the FMA on 1 March 2015 created a situation that directly affects the HYPO NOE Group. In 2006 and 2007 the HYPO NOE Group subscribed to bonds issued by Hypo Alpe-Adria-Bank International AG (now Heta), which were guaranteed by the State of Carinthia, and maturing in 2017. These bonds fall under the aforementioned FMA notice. There are no other secured or unsecured loans or advances to Heta. The Heta bonds held by the Group fall due in the second half of 2016 and 2017 – in other words, after the FMA's moratorium has expired. In its special notice, the FMA concluded that in addition to Heta's current overindebtedness, the company would become insolvent in the near future (i.e. after 2016 at the latest) unless regulatory measures were taken. It was therefore possible that the FMA could impose further measures pursuant to the Federal Act on the Recovery and Resolution of Banks in relation to Heta, which would affect repayments of principals as well as interest payments. This occurred on 10 April 2016, when the FMA issued an emergency administrative decision on the writedown of Heta liabilities. In light of these considerations, the Management Boards of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG decided on the basis of a valuation model to recognise impairments of EUR 87.1m in profit or loss, effective as of 31 December 2015, and to recognise no further interest income on the HETA issue with effect from 1 January 2015.

The impairment is based on a valuation model, because there was no active market for Heta debt issues as at the end of the reporting period. This assessment reflected the very low trading volumes for Heta debt, as well as significant variations between the stock exchange prices posted by the various market participants in the price information systems and the extremely high bid/ask spread quoted in the systems. The valuation model is based on unobservable estimates regarding the timing and size of outstanding payments of principal and interest on Heta bonds backed by the State of Carinthia.

The estimates were based on relevant and publicly available information on the Heta situation. The risk associated with future payments was taken into account by means of appropriate discounts. The effect of delayed payments was taken into consideration by means of discounting based on risk-free discount rates commensurate with the currencies and maturities of the bonds.

As part of the process of reviewing the valuation assumptions as at 30 June 2016, new information was taken into consideration. This was mainly taken from the annual report published by Heta in accordance with section 82(4) Börsegesetz (Stock Exchange Act), as well as "Additional information for creditors – reconciliation of the administrative decision of 10 April 2016 with the balance sheet (separate financial statements according to UGB/BWG) as at 31 December 2015", a publication which provided further details of the impact on Heta's balance sheet of the creditor bail-in ordered by the FMA. The new information revealed an improvement in the effects of the winding-down process, as reflected in Heta's balance sheet prepared in accordance with the Unternehmensgesetzbuch (Austrian Business Code, ABC), resulting in a rise in the expected proceeds from the resolution. On the basis of the new information, and using the valuation model updated in the first half of 2016 in light of that information, the impairment recognised on Heta bonds was reduced by EUR 13.8m. The cumulative impairment through profit or loss as at 30 June 2016 amounted to EUR 73.3m. The internal valuation was 70.15% of the nominal price.

Analysis of the effects of the bail-in ordered by the FMA showed that this would not have an impact on Heta's economic value or consequently on the expected proceeds from the resolution.

In order to avoid long-drawn-out legal proceedings to enforce the guarantee of the Carinthian state government, investors and the Ministry of Finance (in consultation with the State of Carinthia) held negotiations in April aimed at reaching an out-of-court settlement. A structure for the transaction was officially agreed and a memorandum of understanding signed by the investors and the Republic of Austria. The HYPO NOE Group also signed the memorandum. If, as expected, the agreement between the Austrian government and the Heta investors comes into effect, by the end of 2016 this will lead to a 1:1 swap of senior Heta liabilities for a zero-coupon bond with a maturity of around 13.5 years issued by the Carinthian Compensation Payment Fund (KAF) and guaranteed by the Republic of Austria. This would be valued at about 90% of the nominal price of Heta bonds – well in excess of the current internal valuation of 70.15%. Owing to the current legal uncertainty that still surrounds the new KAF offer (introduction of certain statutory regulations in Austria, assessment under state aid law and approval by the EU Commission, acceptance by two-thirds of Heta creditors, etc.), the value of the Group's holdings of Heta bonds as at 30 June 2016 will still be based on the previous internal model, which only used publicly available financial data.

The FMA moratorium imposes a temporary suspension of Heta's liabilities to its creditors, including the Heta Asset Resolution AG bonds held – directly and on a consolidated basis – by HYPO NOE Gruppe Bank AG, which has filed an appeal against the FMA moratorium.

Pfandbriefbank (Österreich) AG

Liability for the obligations of Pfandbriefbank (Österreich) AG rests with (i) the member institutions pursuant to section 2(1) Pfandbriefstelle-Gesetz (Pfandbriefstelle Act) in conjunction with section 92(9) Bankwesengesetz (Banking Act) and (ii) the member institutions' guarantors, in line with the agreement with the EU Commission of 1 April 2003 with regard to state aid law (provided the liabilities were incurred before 2 April 2003, and for liabilities incurred between that date and 1 April 2007 provided the maturities do not extend beyond 30 September 2017) pursuant to section 2(2) Pfandbriefstelle Act in conjunction with section 92(9) Banking Act, whereby the guarantors are jointly and severally liable in relation to third parties.

As a result of the FMA notice of 1 March 2015, Heta is not permitted to repay amounts owing to Pfandbriefbank. However, Pfandbriefbank (Österreich) AG must redeem debt instruments issued to third parties on behalf of Heta. If Pfandbriefbank (Österreich) AG does not receive sufficient funding from its member institutions and guarantors for the outstanding payments, and is without recourse, this would lead to a cross default on all debt instruments issued by Pfandbriefbank (Österreich) AG. These amount to around EUR 3.3bn (as at 30 June 2016), and creditors would be entitled to demand repayment directly from any member institution and guarantor.

As part of an agreement with the member institutions and the State of Carinthia, the Management Board of HYPO NOE Gruppe Bank AG has undertaken to provide financing for one-eighth of the approximately EUR 1.2bn of debt instruments issued on behalf of Heta, i.e. about EUR 155m. This amount includes the share of the State of Lower Austria and that of HYPO NOE Gruppe Bank AG, of which around EUR 100m in respect of instruments payable by 30 June 2016 has already been assumed. The amount unpaid is shown under Note 6.5.2 Credit risks. The State of Lower Austria, in a unanimous resolution of the Lower Austrian parliament on 19 March 2015 and at a meeting of the Lower Austrian government on 24 March 2015, agreed to guarantee the obligations of HYPO NOE Gruppe Bank AG, in fulfilment of its joint and several liability pursuant to the Pfandbriefstelle Act. The guarantee has been recognised by the Group as a financial guarantee in the meaning of paragraph 9 IAS 39, so that in 2015 no recognition of a risk provision was necessary. In return, HYPO NOE Gruppe Bank AG undertook to pay an appropriate consideration (less the set-off of refinancing costs incurred) as well as full compensation for drawdowns in the form of a debt warranty contingent on the Bank's future profits. The value of the debt warranty at 30 June 2016 was EUR 10.9m and was taken to expense. With regard to the agreement, there is a risk that other member institutions or guarantors may not fulfil their obligations under the Pfandbriefstelle Act. In such an event, new agreements might have to be concluded.

In addition to the claims against Heta and the financing of one-eighth of the debt instruments issued on Heta's behalf, there are also holdings of debt instruments issued by a company belonging to the State of Carinthia which fall due between 2023 and 2029.

Market risk

GENERAL

Market risks are potential losses where the underlying value of exposures declines as a result of changes in market prices.

Bank-specific market risks include:
- Interest rate risk in the banking book
- Credit spread risk
- Foreign exchange risk
- Options risk (volatility risk)
- Trading book risk
- Basis risk in hedge accounting
- CVA/DVA risk (OTC derivatives excluding credit derivatives)
- Commodity price risk
- Share price risk
- Fund price risk

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

The major market risks facing the HYPO NOE Group are interest rate risk on the banking book and credit spread risk (particularly on the nostro portfolio) arising in part as a result of ordinary banking activities such as fixed-interest lending and management of liquidity reserves. In 2016 the Group acquired an interest in an investment fund, with a view to broadening its investment horizon and improving the diversification of investment risk. The HYPO NOE Group has detailed monitoring and control processes for these risks. Business strategy considerations mean that foreign exchange risk and option risk (e.g. embedded upper and lower interest rate limits) are also managed. As a result of changes in the underlying environment in financial markets (such as multiple curve approaches and OIS discounting on collateralised derivatives) and in regulatory provisions (Basel III, IFRS 9, etc.), the management of basis risk in hedge and CVA accounting is assuming ever greater importance. The Bank also uses the small trading book for servicing the secondary market and trading on its own account.

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

The overriding goal of the Group's market risk management activities is guaranteeing adequate capital coverage of the market risks incurred at all times, and ensuring that individual risk positions are transparent and are appropriately monitored and managed. Based on this goal, the Group has defined the following principal objectives for market risk management:
- Identifying and evaluating all of the Bank's key market risks
- Taking into account key market risks in the calculation of the Bank's total risk-bearing capacity and in Bank-specific stress testing scenarios
- Optimising the allocation of risk capital and market risk positions with respect to risk and earnings expectations
- Taking earnings expectations and risk tolerance into consideration in planning processes
- Complying with statutory requirements

Based on these objectives, risk policy principles were defined as part of the process of determining the market risk strategy, and these strategic guidelines are implemented in the course of operational market risk management activities:

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

INTEREST RATE RISK IN THE BANKING BOOK

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

The HYPO NOE Group monitors and controls interest rate risks with respect to net interest income and to IFRS earnings or equity-related sub-portfolios as the most important financial ratios. The present value of the interest rate risk on the entire banking book is managed to ensure conformity with Bank's total risk-bearing capacity and compliance with the limit requirements set out in the OeNB interest rate risk statistics. The Bank's equity is invested separately, using an equity book.

Interest rate risks on structured positions and fixed-interest positions in the retail business (loans, securities, issues, etc.) are – to the extent it is possible and makes sense – microhedged from the outset and accounted for using hedge accounting. Medium-to-long-term open positions taken by the Bank in expectation of future changes in interest rates must reflect the product-specific risk profile, and must be in authorised products and within approved limits. If there are as yet no appropriate limits defined for a desired position, Group Strategic Risk Management and the unit taking the risk jointly propose a limit and a monitoring process, which must be approved by the Management Board before adoption.

Interest rate risk management

Monitoring and quantification of interest rate risk is the responsibility of an independent back office department, Group Strategic Risk Management. The analysis is carried out in the SAP banking system and supported by the PMS risk management system. This generates interest rate gap and sensitivity analyses. Positions with interest rates fixed for indefinite periods are modelled and regularly assessed on the basis of statistical methods and/or expert evaluations. Analyses are made for the banking book as a whole and for sub-portfolios.

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

Banking book

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

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

Interest rate risk is assessed using gap analysis and interest rate sensitivity (average of the five worst deteriorations in net present value from ten interest rate scenarios for the entire banking book). In addition to parallel shifts (100 and 200 basis points), twists in the yield curve (both on money markets and on capital markets) are also modelled in the scenarios.

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

Individual portfolios

In addition to monitoring and control of the banking book as a whole, limits are also set and monitored for the nostro portfolio and IFRS earnings or equity-related sub-portfolios as part of the control system, using a 1 bp parallel shift. For non-linear positions, appropriate limits depending on the risk profile and corresponding to a 1 bp parallel shift limit are imposed. The individual portfolios are as follows:

- Nostro portfolio
- AFS reserve
  - AFS securities portfolio
  - Cash flow hedges
  - Other AFS assets
- IFRS earnings portfolio (linear)
  - Fixed-income securities portfolio
  - Other fixed-income assets
  - Stand-alone derivatives
- IFRS earnings portfolio (non-linear)

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

To manage the net interest income risk, interest-sensitive positions with less than one year to maturity or repricing dates during the year are regularly extracted and analysed.

For non-interest-bearing equity, equity investments are made. The equity book is kept and managed separately. The aim is to achieve low fluctuations in net interest income.

Interest rate risk in 2016

The OeNB statistics indicate that interest rate risk was moderate relative to the regulatory limit (20% of eligible capital), with equity investments in a rolling fixed income portfolio making a significant contribution to risk utilisation. The following table shows the results of the OeNB regulatory interest rate risk statistics as at 30 June 2016 and 31 December 2015:

OeNB regulatory interest rate risk statistics	30 Jun. 2016	31 Dec. 2015
OeNB interest rate risk indicator	4.93%	9.24%

Credit spread risk

Credit spread risks are particularly important in connection with the Group's own investments, and these risks are monitored and reported on in the monthly risk management report. The credit spread risk is calculated for the whole nostro portfolio in the banking book using a value-at-risk approach based on historical credit spread scenarios. Correlations between historical credit spreads are taken into account (variance/covariance approach). Time series (monthly credit spread data for a maximum of five years prior to the reporting date) feed into the analysis and are given an equal weighting (decay factor of 1). This indicator measures the potential loss in value from widening spreads that would be realised by selling the whole securities portfolio on a gone concern basis.

Fund price risk

Volume and earnings limits and corresponding escalation processes were determined for the fund investment. Fund price risk is also included in the calculation of the Bank's total risk-bearing capacity, using a value-at-risk approach based on price changes over time. The fund selection process and ongoing strategic monitoring are the responsibility of the Group Treasury & ALM Department. The Group Strategic Risk Management Department is responsible for monitoring risk limits.

Foreign exchange risk

The HYPO NOE Group's conservative risk policies are supported by very strict internal limits on open currency positions. The use of refinancing in the same currency and of FX derivatives means that foreign exchange risks for the Group are effectively eliminated. In accordance with Article 92(3)(c)(i) CRR in conjunction with Article 351 et seqq CRR, as at 30 June 2016 the Group was not subject to the own funds requirement for foreign exchange positions, as the total position for the Group as a whole was less than 2% of eligible capital. The internal limit for foreign exchange positions as a whole is below this figure.

Options risk

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

Trading book risk

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

Basis risk in hedge accounting

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

CVA/DVA risk

When calculating the fair value of derivative instruments, a credit valuation adjustment (CVA) must be taken into account for counterparty risk and a debt valuation adjustment (DVA) for the Bank's own credit risk. The refinement of the valuation methodology resulted in a move towards a market-based valuation process, and the effects of the CVA and DVA are recognised in consolidated profit and loss. Group Strategic Risk Management carries out regular assessments of these effects.

Liquidity risk

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

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

LIQUIDITY RISK MANAGEMENT

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

This forms the basis of the fundamental liquidity management objectives:

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

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

IMPLEMENTING INTRADAY LIQUIDITY RISK MANAGEMENT PROCESSES

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

IMPLEMENTATION OF LIQUIDITY RISK MANAGEMENT

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

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

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

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

With a limit of eight weeks (or 12 weeks in the case of an early warning), the HYPO NOE Group's time to wall as at 30 June 2016 was a maximum of 34 weeks (31 Dec. 2015: 34 weeks). In addition to time to wall, the regulatory liquidity coverage ratio (LCR) is an important control metric for operational liquidity. The LCR is calculated monthly as at the end of the current month, the end of the coming month and the end of the next year. It is a performance target in the Group's planning processes. The LCR reported to the regulator, on the basis of internal calculations, was 123% as at 30 June 2016 (31 Dec. 2015: 123%), and the Group's target for 2016 is to achieve 100%.

For structural liquidity risk, the period and cumulative liquidity gaps are presented in one-year maturity bands, including both contractually fixed cash flows and modelled payment streams for all existing business. Assumptions are also made regarding new business and prolongations.

The HYPO NOE Group uses economic capital as a major metric for structural liquidity risk. Economic capital measures the maximum possible net interest loss that can be absorbed. For liquidity risk it is calculated using higher costs, because of potentially higher refinancing spreads over a year. On the basis of historical funding costs, the maximum expected increase in refinancing costs over the period of a year is calculated with a given confidence level for each major funding instrument. Actual performance is then monitored. The economic capital for a limit of EUR 12m was EUR 7.1m as at 30 June 2016 (31 Dec. 2015: EUR 7.1m). In addition to the economic capital, there is a structural one-year gap limit of EUR 1bn.

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

CONTINGENCY PLAN

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

LIQUIDITY RISK IN 2016

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

The memorandum of understanding agreed between the Republic of Austria and Heta's creditors in the second quarter of 2016 has made international capital and money markets more accommodating for Austrian banks.

There was also further strong growth in deposits from institutional and retail customers and SMEs.

Operational risk

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

Operational risks in the HYPO NOE Group are subject to a consistent Group-wide system of controls.

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

OPERATIONAL RISK IN 2016

Detailed information on operational losses during the first half of 2016 was collected in a database. Improvements are seen as a major way of controlling operational risk: as operational risk events and near-miss incidents occur, appropriate improvements must be defined and implemented. The new in-house operational risk event database, which was programmed in 2015, was adapted in line with the best-practice methods in the BCBS 355 consultative document on the Standardised Measurement Approach for Operational Risk (March 2016) and now offers enhanced assessment options. In preparation for the rollout of the new database in July 2016, the nominated operational risk officer in each department attended a training course.

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

The annual review of the internal control system began during the first half.

Reputational risk

The HYPO NOE Group attaches great importance to avoiding reputational risk, and it is therefore treated as a separate risk category. The Group's code of conduct sets out the common values and principles shared by all HYPO NOE employees. Avoiding potential damage to the reputation of the HYPO NOE Group is a vital consideration when making business decisions. The HYPO NOE Group also takes care to avoid business policies and activities associated with unusual tax or legal risks, or with major environmental risks. A comprehensive approach to sustainability is part of HYPO NOE's guiding philosophy, and – especially in its lending activities – the Group applies its ethical guidelines and business principles in relation to environmental and social issues. A process for evaluating reputational risk is now in place.

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

Other risks

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

BUSINESS RISK

Business risk is the danger of loss due to a deterioration in the general economic environment, including changes in the marketplace, customer behaviour and regulatory requirements. New supervisory regulations could have adverse impacts on the HYPO NOE Group's business activities, and as a result directly or indirectly affect its finances and earnings. The Group identifies, quantifies and monitors potential business risks and reflects negative changes in its budgeting and medium-term planning as early as possible.

Legal risks

Generally, provisions are recognised for legal proceedings for which negative outcomes or 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.

Information on the provisions against legal risks arising from pending proceedings can be found in Note Movements in provisions. Anmerkung FES: Tabelle haben wir nicht in den Notes 30.6.2016 As at 30 June 2016 provisions were in place against legal risks from pending proceedings connected with derivatives and credit restructuring.

6.7 Events after the reporting period

On 12 July 2016, the Austrian cabinet passed a resolution approving a change in the financial stability contribution from 2017. This change provides for an additional part payment for 2016 and a reduction in the financial stability contribution from 2017.

After the Supervisory Board of HYPO NOE Gruppe Bank AG had passed a resolution at its meeting of 29 June 2016 on the sale of part of the Bank's majority interest in NOE Immobilien Development AG to a maximum of five external investors, further steps were taken to prepare the company for sale.

St Pölten, 5 August 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)

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
- Wolfgang Viehauser (from 15 Jul. 2016)

Supervisory Board
- Günther Ofner, Chairman
- Michael Lentsch, Deputy Chairman
- Engelbert J. Dockner
- Karl Fakler
- Gottfried Haber
- Ulrike Prommer
- Karl Schlögl
- 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
- Johannes Pasquali, Federal Ministry of Finance (from 1 Jan. 2016)

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

St Pölten, 5 August 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)

DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES

We hereby confirm that to the best of our knowledge the condensed 2016 interim consolidated financial statements of HYPO NOE Gruppe Bank AG give a true and fair view of the Group's assets, finances and earnings as required by the applicable accounting standards, and that the Group interim operational and financial review gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed interim consolidated financial statements, and of the principal risks and uncertainties to which the Group will be exposed during the remaining six months of the financial year.

IAS 34 was applied in the preparation of the condensed 2016 interim consolidated financial statements. Essentially the same accounting policies were applied as to the financial statements for the year ended 31 December 2015.

The 2016 semi-annual financial report was neither audited nor reviewed by independent auditors.

St Pölten, 5 August 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)

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