FINANCIAL FACT SHEET FOR THE QUARTER ENDED **30 SEPTEMBER 2017**

HYPO NOE Landesbank für Niederösterreich und Wien AG Group (hereinafter referred to as "the HYPO NOE Group") is under no legal obligation to publish interim reports. This report does not fully comply with, and was not drawn up in accordance with International Financial Reporting Standards (IFRSs).

In particular, paragraphs 8d (statement of cash flows) and 8e (disclosures) IAS 34 were not fully applied. This report should therefore be read in conjunction with the 2017 semi-annual financial report and the consolidated annual financial statements as at 31 December 2016.

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

HYPO NOE

Group financial highlights

EUR ’000	30 Sep. 2017	30 Sep. 2016	31 Dec. 2016
Total assets	**14,633,916**	**16,264,862**	**15,392,051**
Total eligible core capital in accordance with CRR/CRD IV	**613,402**	**576,113**	**632,730**
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	18.13%	13.44%	16.34%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR - fully loaded	18.37%	13.83%	16.78%
Total capital ratio in accordance with Art. 92(2)(c) CRR	18.13%	14.39%	17.10%
Total capital ratio in accordance with Art. 92(2)(c) CRR - fully loaded	18.37%	14.78%	17.53%
Return on equity (ROE) before tax	5.2%	8.5%	15.2%
Operating ROE before tax	8.5%	12.7%	18.5%
ROE after tax	4.1%	6.4%	11.4%
Cost/income ratio (CIR)	1) 81.0%	68.6%	56.0%
Operating CIR	66.7%	55.9%	46.3%

[1]CIR as at 30 September 2017 includes the entire costs of the annual financial stability contribution, as well as contributions to the deposit insurance fund and resolution fund for 2017. On a pro forma basis, CIR would have amounted to 77.6% if the contributions had been reported by period.

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Economic climate

Global economic and financial market developments

The level of political risk in the EU and the eurozone is seen as having dropped significantly in the past few months, following the pro-European results of elections in France. This has also prompted much-improved sentiment on the capital markets. Although the geopolitical situation remains challenging, strong economic growth continued in the third quarter of 2017. Positive factors such as negative real interest rates, continuing solid performance on capital markets and moderate commodities prices have led to a broad-based, worldwide upturn. Eurozone growth forecasts were revised upwards once again recently, and the economy is expected to expand by at least 2.2% in 2017. Inflation is higher compared with recent years, but price increases have only been modest in view of the bright growth picture. Inflation is likely to remain below the European Central Bank's target level for some time. The ECB is forecasting inflation of 1.5% in 2017 and 1.3% in 2018. After a lacklustre start to the year, the US economy has recovered in line with expectations. With growth at 2.1%, the economy is picking up speed, although the stimulus measures announced by President Trump are still to be implemented. The impacts of the severe hurricane season will temporarily put the brakes on America's economic performance in the third quarter. However, experience shows that the economy will overcome this dip in growth in the next few months.

With the global economy stable and in good shape, and inflation still modest, the major central banks are preparing for a sea change in monetary policy. In September, the Federal Reserve announced that from the fourth quarter of this year it would reduce its total assets by USD 10bn a month. This amount will rise by USD 10bn each quarter, until the monthly reduction reaches EUR 50bn. There are signs of a paradigm shift on the horizon, including the ECB's intention to scale back its asset purchase programme in the course of 2018 and the Bank of England's announcement of an initial interest rate rise, probably before the end of this year. In August, the Czech central bank became the first in the European Union to increase base rates since 2008.

After sharp increases in equity prices since the beginning of this year, consolidation was the order of the day in the third quarter of 2017. The markedly stronger euro temporarily cast a shadow over Europe's stock markets. The intensified war of words between North Korea and the US also weighed intermittently on the uninterrupted upward trend in share prices. Nevertheless, the upbeat economic mood and encouraging prospects for corporate profits continued to drive markets higher. Market interest rates kept moving sideways, and changes remained within a narrow band, while the impending turning point in monetary policy has so far hardly had an impact on interest rate trends. In contrast, there were some big moves on the currency markets, and the strength of the euro caught many people by surprise, in terms of both the timing and scale of the appreciation. After remaining within a narrow corridor in the past two years, the euro gained considerable ground against the Swiss franc, while the EUR/USD exchange rate jumped from around USD 1.06 to USD 1.21 in a matter of weeks.

Economic trends in the HYPO NOE Group's core markets

Austria

The latest forecasts for the Austrian economy, which see growth reaching 2.8% in 2017, suggest far quicker expansion than originally assumed by the Oesterreichische Nationalbank (OeNB) and the Austrian Institute of Economic Research (WIFO). This performance is mainly being driven by a favourable climate in the euro area and the Central, Eastern and Southeast European (CESEE) economies, which resulted in a 10% rise in goods exports in the first half, generating significant impetus for domestic industrial companies. The services sector continues to benefit from the large numbers of tourists coming to Austria, and domestic tourism demand also remains robust. Although the positive effects of the most recent tax reform are fading, private consumption is still a key growth driver. The WIFO currently expects growth of 2.8% in 2018, while the Institute for Advanced Studies (IHS) puts the figure at 2.1%.

A steady economy will also help to push down the budget deficit, which will probably fall below 1.0% of gross domestic product (GDP) in 2017. Austria's public debt has risen by EUR 4.7bn in absolute terms, to EUR 295.2bn, but the debt ratio has declined to 83.6% on account of increased economic output. If the ratio was adjusted for the one-time effects of the bank bailout package, it would be over six percentage points lower.

Federal states

Most of Austria's federal states will record higher growth thanks to an upbeat economic environment across the country. Growth in the federal states with large industrial sectors – Upper Austria, Styria and Vorarlberg – is being driven by strong demand for exports. By contrast, the positive effects of the most recent tax reform on the services sector are gradually petering out.

Forecasts for Lower Austrian GDP growth were recently revised upwards, from 1.7% to 2.5%. Lower Austria's industrial output is up 10% year on year, on the back of the global economic upturn. The situation in the state's construction sector has also improved recently.

The winding-up of Heta Asset Resolution AG (Heta), in particular the EUR 1.2bn payment by the State of Carinthia to the Compensation Payment Fund, resulted in a deficit in Carinthia (in accordance with the Maastricht definition) of EUR 1.7bn. In 2016, only Burgenland and Salzburg reported surpluses in accordance with the Maastricht definition. In contrast to the other federal states, Upper Austria and Lower Austria both recorded only minor deficits as at year-end 2016.

The most recent available accounts show a significant fall in total state government guarantees in 2016, to EUR 35.8bn, a drop of 31.5%. This is mainly due to the resolution of the Heta situation and the related fall in the total value of guarantees provided by the State of Carinthia, as well as the scheduled redemption of state-government-backed bond issues. The decrease in liabilities has continued in the year to date – consequently, a considerable proportion of the bonds for which the federal states provided bank guarantees totalling EUR 17.5bn will have been redeemed by the end of 2017.

Danube region

According to the most recent economic forecasts from the Vienna Institute for International Economic Studies (WIIW), the countries in the Danube region, the HYPO NOE Group's extended core market, will again – with the exception of Germany – record growth well above the EU average in 2017. At present, aggregate growth in the region is expected to pick up from 3.0% in 2016 to 3.5% in 2017.

The WIIW's spring forecasts for most of the countries in the region have been revised upwards, significantly so in the case of Bulgaria and Slovenia (up 0.6 percentage points), Hungary (up 0.7 percentage points) and Romania (up 0.8 percentage points). The recent upturn in the Czech economy is also likely to result in an upward revision in its forecast growth. Romania is expected to post the strongest growth in the region in 2017, at 4.8%, followed by Hungary at 4.0%.

With the new EU subsidy period starting to have an effect, it is already evident that 2017 will see a quicker drawdown of funds. As a result, a significant upswing is expected, particularly in infrastructure spending, in the course of this year.

Banking sector trends in the eurozone and CEE

Eurozone banks are still facing a difficult operating environment. Although interest rates remain low, European banks have recently reported satisfactory quarterly results. Banks have still not completed the process of adapting their business models to changing market conditions, and this is continuing to weigh on the profitability of eurozone institutions. The risk appetite of banks and investors, and the regulatory environment have changed substantially as a consequence of the financial crisis, and this has led many banks to restructure their previous business models. Recent figures show that the banking sector has implemented far-reaching measures aimed at boosting stability in the past few years. Banks have pruned their balanced sheets, increased equity and shifted away from higher-risk business in favour of core operations. Improved capitalisation has made European banks more resistant to fluctuations in economic conditions. In Austria, the required process of adaptation is picking up momentum despite the challenging climate. This positive trend was confirmed in an analysis of the country's banking sector by the OeNB, which revealed that structural adjustments have continued this year, raising the prospect of longer-term efficiency gains. Austrian banks' capitalisation ratios have improved appreciably in recent years due to a combination of additional capital and reductions in risk-weighted assets. Loan quality among domestic institutions has also increased markedly. From a peak of 9.1% in 2012, the aggregate non-performing loan (NPL) ratio has fallen to an average of 4.9%, and the trend has continued in 2017.

Stricter capital regulations, a high degree of regulatory influence and persistently low interest rates remain a significant burden on profitability in the CEE banking sector. In 2016, a number of indicators highlighted a recovery in comparison with the muted performance of recent years. The positive trends in new lending in some countries, in particular the Czech Republic, Romania and Slovakia, have carried on into 2017. There has also been a considerable improvement in asset quality, and the aggregate NPL ratio in the CEE region is now well under 10%. The steady increase in deposits has resulted in a solid loan-to-deposit ratio of well under 100%. In view of these positive developments and the stabilisation of NPL ratios, the return on equity in the CEE banking sector is far higher than that of the eurozone.

Financial review

Key developments in the first three quarters of 2017

Earnings (IFRS)

Despite the high cost of the first instalment of the one-off financial stability contribution – payable for the first time in 2017 – and contributions to the resolution and deposit insurance funds, the Group reported substantial profit attributable to owners of the parent of EUR 19.5m in the first three quarters of the year (Q1-3 2016: EUR 28.6m). In addition, provisions of EUR 4.8m were recognised for the first time for interest repayment claims relating to the current reporting period as well as the 2015 and 2016 financial years, as a consequence of the Austrian Supreme Court's rulings regarding negative interest rates for consumer loans. In this connection it should be noted that pay-outs were made in October 2017.

With regard to earnings, net interest income was EUR 85.3m in the first nine months, only EUR 7.8m lower than in the like period of 2016 (Q1-3 2016: EUR 93.1m) in spite of continued low interest rates and the impact of the aforementioned Supreme Court ruling in 2017 (which resulted in an earnings reduction of EUR 2.2m).

Net gains on credit provisions stood at EUR 3.8m (Q1-3 2016: net losses of EUR 7.5m). This improvement of EUR 11.3m was mainly due to increased reversals and a fall in allocations compared with the first nine months of 2016.

Net interest income after risk provisions was EUR 89.1m, a year-on-year increase of EUR 3.5m or 4.0% on the EUR 85.6m reported for the first three quarters of 2016.

Expansion of the Group's service portfolio was reflected in a 14.9% or EUR 1.5m year-on-year increase in net fee and commission income, to EUR 11.8m.

The Group reported net trading losses of EUR 0.8m (Q1-3 2016: net losses of EUR 2.9m). This was a result of the effects on earnings of CHF- and USD-denominated forward exchange transactions, which were offset by corresponding foreign currency cash transactions recognised in net other operating income (EUR 4.9m), and of earnings contributions from interest rate transactions, largely resulting from the difference between the measurement of customer derivatives and the related hedges.

Administrative expenses fell by 7.5% or EUR 7.5m year on year, to EUR 92.5m (Q1-3 2016: EUR 100.0m). As a result of effective cost management, staff costs and other administrative expenses fell by EUR 6.4m. This was despite the first instalment of the one-off annual financial stability contribution ("bank tax") of EUR 6.8m, which was payable for the first time in 2017 (the total contribution, including the current levy, amounted to EUR 8.9m [Q1-3 2016: EUR 11.2m]), and the statutory contributions to the deposit insurance and resolution funds, which are also reported under other administrative expenses and are likewise recognised in full and not accrued by period, amounting to EUR 8.4 m (Q1-3 2016: EUR 8.1m). This improvement is also reflected in operating administrative expenses, which do not include the total expense for the financial stability and resolution fund contributions and regulatory costs, and went down significantly year on year, by EUR 5.4m, to EUR 76.1m (Q1-3 2016: EUR 81.5m).

Net other operating income was EUR 20.0m (Q1-3 2016: EUR 23.7m), which includes measurement gains and losses on cash transactions in the current period. Offsetting foreign currency gains and losses on forward exchange operations (EUR 4.9m) that were not hedging transactions are included in net trading income. This item also includes increased gains on disposal relating to the sale of a property owned by the Group, lower income from the reversal of provisions, and expenses related to provisions for interest repayment claims for the 2015 and 2016 financial years, amounting to EUR 2.6m, as a consequence of the Supreme Court rulings on negative interest.

The net gains of EUR 3.3m on investments accounted for using the equity method (Q1-3 2016: EUR 1.7m) primarily resulted from the rise in value in use at the non-profit EWU subgroup.

Net gains on available-for-sale financial assets of EUR 20.6m in the first three quarters of 2016 resulted primarily from the write-up of Heta Asset Resolution AG bonds; as of 31 December 2016, the HYPO NOE Group portfolio no longer included such bonds. This was the main reason for the fall of EUR 20.8m in this item in the current reporting period, resulting in net losses of EUR 0.2m.

The net losses on hedges of EUR 5.3m (Q1-3 2016: EUR 1.4m) was principally attributable to the different discount rates applied to hedges and the related underlying transactions.

Profit before tax was EUR 25.5m, EUR 12.5m lower than in the same period a year earlier (Q1-3 2016: EUR 38.0m).

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

		Q3 2017	Q3 2016	2016	2015
Return on equity (ROE) before tax**	Profit or loss for the period before tax/ave. equity	5.2%	8.5%	15.2%	2.0%
Operating return on equity before tax**	ROE before tax excl. financial stability and resolution fund contributions, and regulatory costs/ave. equity adjusted for financial stability and resolution fund contributions, and regulatory costs	8.5%	12.7%	18.5%	5.6%
ROE after tax**	Profit or loss for the period/ave. equity	4.1%	6.4%	11.4%	1.1%
Cost/income ratio (CIR)[1]	Operating expenses/operating income*	81.0%	68.6%	56.0%	92.5%
Operating CIR***	CIR excl. financial stability and resolution fund contributions, and regulatory costs	66.7%	55.9%	46.3%	77.3%
Risk/earnings ratio	Credit provisions/net interest income A negative indicator signifies income and a positive indicator signifies expenses in credit provisions	-4.5%	8.1%	6.3%	-0.9%

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

**Intrayear indicators annualised on a per diem basis.

[1]CIR as at 30 September 2017 includes the entire costs of the annual financial stability contribution, as well as contributions to the deposit insurance fund and resolution fund for 2017. On a pro forma basis, CIR would have amounted to 77.6% if the contributions had been reported by period.

Assets and liabilities (IFRS)

The HYPO NOE Group's total assets increased by 4.9% or EUR 0.8bn compared with year-end 2016, to EUR 14.6bn as at 30 September 2017.

This includes a EUR 0.2bn rise in cash and balances at central banks, and of EUR 0.1bn in other assets due to increased financing of assets under construction in connection with future lease receivables. Loans and advances to customers fell by EUR 0.5bn (mainly due to the steps taken towards reducing and diversifying the public sector portfolio), and there were declines of EUR 0.3bn in the AFS portfolio and EUR 0.1bn in the positive fair value of hedges.

On the equity and liabilities side, deposits from customers rose by EUR 0.5bn. Substantial maturing own debt issues guaranteed by the State of Lower Austria were repaid in the period under review. Debts evidenced by certificates decreased by EUR 0.8bn and subordinated capital by EUR 0.2bn as a result. In addition, the negative fair value of hedges fell by EUR 0.1bn.

Changes in equity (IFRS)

IFRS consolidated equity including non-controlling interests was EUR 660.4m as at 30 September 2017, an increase of EUR 13.0m on year-end 2016. This came in spite of the dividend distribution of EUR 7.0m, and was mainly due to the profit attributable to owners of the parent in the reporting period.

Changes in consolidated eligible capital (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 own funds in accordance with the CRR were EUR 613.4m as at 30 September 2017 (31 Dec. 2016: EUR 632.7m). Surplus capital as at 30 September 2017 was EUR 342.7m (31 Dec. 2016: EUR 336.7m), in comparison with a capital requirement of EUR 270.7m (31 Dec. 2016: EUR 296.0m). The Tier 1 capital ratio in accordance with Article 92(2)(b) CRR was 18.1% as at 30 September 2017 (31 Dec. 2016: 16.3%), and 18.4% assuming a fully phased-in definition of capital (31 Dec. 2016: 16.8%). The total capital ratio in accordance with Article 92(2)(c) CRR was 18.1% (31 Dec. 2016: 17.1%), or 18.4% assuming a fully phased-in definition of capital (31 Dec. 2016: 17.5%).

Operational review

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

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

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

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

Public Sector

Public Finance

The Public Finance unit is a strong partner to local and regional authorities, public agencies and infrastructure businesses. In 2017, the unit has retained its focus on increasing the provision of advice on bespoke finance solutions to these customer groups – in its target market of eastern Austria, especially the core markets of Lower Austria and Vienna, as well as in selected countries and major cities in the Danube region.

There is increasing demand from state governments and local authorities for special financing models for public building construction projects, such as rental models and PPP-like arrangements. The unit's prime objectives are to develop sustainable, integrated solutions for customers, in collaboration with other parts of the Group, and increasingly to act as a provider of expertise and services. Public Finance offers risk-aware advice and services based on knowledge of customers' specific needs, in line with HYPO NOE Group's philosophy. The Group also collaborates with the Lower Austria Community Management Academy to promote training and development in municipalities in the state.

In the third quarter of 2017 the unit concluded the implementation of a lease financing project for the Lower Austrian care and support centre in Türnitz, and the extension and upgrade of the Bundesschulzentrum multi-school campus in Eisenstadt was completed. The HYPO NOE Group also won several tenders for financing of new kindergartens, and construction, extension and renovation projects in the schools segment.

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

Performance in the first three quarters of 2017 was very satisfactory in terms of earnings and the value of contracts concluded. This trend is expected to continue for the remainder of the year. HYPO NOE Leasing GmbH is currently participating in efficient financing models aimed at boosting public-sector compliance with Maastricht criteria in its core markets of Lower Austria and Vienna.

Religious Communities, Interest Groups and Agriculture

In the Religious Communities, Interest Groups and Agriculture unit, a number of long-term financing projects for church and social infrastructure – in particular in elderly care – were agreed in the third quarter of 2017. Another focus during the quarter was continued expansion of expertise in the agriculture sector.

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

In the time deposits business, deposits remained high and in isolated cases increased, despite the low level of interest rates.

Real Estate & Large Corporates

Real Estate Finance

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

In the third quarter of 2017 the unit continued to focus on its defined target markets, in particular Austria, the Czech Republic, Germany, Poland, Romania and Slovakia. With lending conditions rapidly becoming more and more borrower-friendly, leading analysts in Germany are still predicting a sharp increase in permitted lending limits, and anticipate the emergence of 100% mortgages on certain properties as early as this year. Real Estate Finance will therefore concentrate on expanding its activities in other target markets where funding parameters for comparable projects can still be brought into line with the balanced risk profile of the overall portfolio.

Low interest rates and record low returns on alternative investments have led to sharp increases in demand across most real estate categories, especially city centre rental apartment buildings. Central Europe’s commercial and residential property markets are still among the most attractive in the world for foreign investors. The unit pays particular attention to earnings potential and achieving an adequate risk-return ratio, and selectively acquires new customers among institutional investors, funds and property developers. Due to the prevailing market environment, an increasing number of early repayments are currently being made on financing for inventories.

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

Housing Development

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

Operations in the first nine months of 2017 focused on the core markets of Lower Austria and Vienna, although latterly the non-profit housing association segment has pursued selective expansion into Upper Austria and Styria.

There is increasing demand for apartments – especially due to a growing population – in urban areas. Vienna's population is growing faster than that of any other federal state in Austria, while Lower Austria is around mid-table.

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

The volume of financing relating to commercial housing construction will remain roughly unchanged year on year in 2017. The unit will maintain a strong focus on optimising earnings potential and achieving a balanced risk-return ratio. Finance for non-profit housing associations is expected to grow in 2017 as a whole.

Corporate & Structured Finance

This unit provides corporate finance and structured finance solutions to the HYPO NOE Group's large customers.

The market for these products is currently subject to strong competition on financing conditions. The Corporate & Structured Finance unit has responded to the challenging developments in the market by systematically following a niche strategy, focusing on structured corporate finance in its efforts to win new business. It is now firmly established in the market, in particular for M&A finance, for instance in connection with business succession. The unit aims to increase the volume of financing between Germany and Austria, assisting German companies in both countries that have interests in Austria. Especially in Germany, there is currently stronger interest in working with the HYPO NOE Group, on the back of existing long-term customer relationships.

The time deposits business with corporate customers has also continued its positive development.

Real Estate Services

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

HYPO NOE Real Consult GmbH is currently implementing construction projects with combined costs of around EUR 320m. Work is continuing on cultural projects in the town of Krems, namely Kunsthalle Krems and Landesgalerie Niederösterreich (including a parking deck). Kunsthalle Krems reopened at the beginning of July. Regarding HYPO NOE Real Consult GmbH's largest current project, at the Institute of Science and Technology Austria (IST Austria), the addition of a kindergarten at the facility was completed at the end of September.

IN 2017 HYPO NOE First Facility GmbH's unswerving focus on quality management was reflected in ISO 9001:2015 certification, the award of the GEFMA 730 ipv® FM Excellence Certificate (the highest rating), and ISO 14001 environmental management certification. The market situation in the CEE countries is largely unchanged. Fierce price competition is accelerating the consolidation process in asset, property and facility management. Cost reduction measures, as well as efforts to find a strategic partner for foreign operations, will bolster the company's competitiveness and market position.

Retail & Corporate Customers

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

The segment has defined "finance and housing", "saving and investment" and "accounts and cards" as its core competences. Among these strategic pillars of the Group's retail business, saving and investment performed particularly well, thanks to the consolidated and attractive product portfolio offered in this area.

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

Services for small and medium-sized enterprises (SMEs) in Lower Austria and Vienna have been further expanded this year with the introduction of regional corporate relationship managers based at larger branches. Segmentation between Corporate & Structured Finance and the Retail & Corporate Customers segment has been optimised.

The Group's insurance service, HYPO NOE Versicherungsservice GmbH (HVS), acts as an independent broker and advises HYPO NOE customers on all matters relating to insurance. The company draws up risk management strategies for municipalities and businesses, and supports customer relationship managers at the branches with regard to insurance products for retail customers. HVS offers end-to-end service for anyone taking out insurance, from preparing quotes to processing claims.

Treasury & ALM

There was a renewed flurry of issuance on the capital markets at the end of July. Against this backdrop the HYPO NOE Group sustained its own issuing activities. This included increasing a mortgage-backed sub-benchmark issue by EUR 200m to EUR 500m in June, as well as a focus on private placements. In comparison with the preceding quarters, strong demand for senior unsecured bonds with short-term and medium-term maturities returned.

As expected, the third quarter was also shaped by comparatively high repayments of maturing bonds amounting to about EUR 1.2bn, for which the State of Lower Austria was still liable as guarantor. The Bank's strong liquidity position in relation to these maturing issues was more than sufficient, supported by the highly successful EUR 500m public sector covered bond issue in March 2017.

Since credit spreads were not sufficiently attractive and interest rates remained low, only a small quantity of securities – as replacement investments for those that were maturing – were purchased for the banking book. The focus was again on securities with very good ratings (Aa1 or Aaa).

Institutional Customers

The HYPO NOE Group's services to institutional customers comprise management of business links with numerous banks in Austria and abroad, as well as long-term direct relationships with insurance companies, pension funds and investment companies.

While a wide and varied range of roadshow appearances shaped activities in the first half – in line with significantly increased activity on the capital markets – in the third quarter of 2017 there was a stronger focus on continuous dialogue with investors, in collaboration with capital market partners inside and outside Austria. Ongoing communication with correspondent banks is another key aspect of the Bank's financial market communications.

Corporate Center

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

Foreign branches, representative offices and branches

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

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

Risk report

The objectives and methods of risk management and explanations of material risks can be found in the section on risk management, below.

Group outlook for 2017

Economic environment

The current economic situation gives cause for optimism going forward. At present, growth is broad-based and the economic environment is favourable, while risks and opportunities appear well balanced. Fiscal policy measures in the US and Europe could also have a positive impact. However, with sentiment at all-time highs, the scope for further improvements may be limited. Risk factors include various geopolitical threats – the war of words with North Korea has escalated sharply – and the prospect of a fundamental shift in monetary policy. Muted inflation should initially give central banks the time they need to gradually move away from the loose monetary policies of recent years. This process may be disrupted by a number of factors, though. China remains a source of risk in the medium term owing to its rapidly increasing debt, although the worries surrounding the country's growth that emerged at the start of 2016 seem to have subsided.

Generally speaking, the prospects for stock markets are bright, but the outlook for bond markets may be clouded by the expected – albeit modest – increases in interest rates. Foreign exchange markets may remain volatile, although the exchange rate fluctuations of recent weeks may have brought about the necessary corrections to a large extent, and rates now appear to be on a more even keel.

The latest forecasts for the Austrian economy, which see growth reaching 2.8% in 2017, suggest far quicker expansion than originally assumed by the OeNB and the WIFO. This is mainly being driven by a favourable climate in the euro area and the CESEE economies. The WIFO currently expects growth of 2.8% in 2018, while the Institute for Advanced Studies (IHS) puts the figure at 2.1%.

According to the most recent economic forecasts from the WIIW, the countries in the Danube region – with the exception of Germany – will again record growth well above the EU average in 2017. At present, aggregate growth in the region is expected reach 3.5% in 2017, up from 3.0% a year earlier. Most of Austria's federal states will record higher growth thanks to an upbeat economic environment across the country. Growth in the federal states with large industrial sectors – Upper Austria, Styria and Vorarlberg – is being driven by strong demand for exports. By contrast, the positive effects of the most recent tax reform on the services sector are gradually fading.

Forecasts for Lower Austrian GDP growth were recently revised upwards, from 1.7% to 2.5% Lower Austria's industrial output is up 10% year on year, on the back of the global economic upturn. The situation in the Lower Austrian construction sector has also steadily improved recently.

Outlook for Group performance

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

The Group has traditionally focused on finance for the public sector, an area that is still its core line of business. Nevertheless, the ongoing reduction and diversification of the public sector portfolio will remain a key focus of the Bank's activities in coming reporting periods.

Throughout 2017, there has been a clear emphasis on further extending the Group's sources of income. This will be reflected in continued efforts to strengthen the fee and commission-based services business. In addition, the Group will address the strong demand from the residential construction segment by further expanding operations in the Housing Development unit. The Group plans to respond to the rapid growth in Lower Austria and Vienna by supporting business based in the region. In parallel, the Group will maintain its policy of active cost management in the coming periods, with the aim of creating a resilient, long-term basis for its operating activities. The new, lean organisational structure created in the course of the merger will play a part in this process. In this regard, the Group again recorded a number of successes in the third quarter of 2017: administrative expenses dropped sharply year on year, to EUR 92.5m, a fall of EUR 7.5m or 7.5% compared with the first three quarters of 2016.

By the third quarter, the Group was close to achieving its target for the year of EUR 1.15bn in new debt issues, with a primary focus on benchmark covered bonds and private placements. Initial forecasts suggest that issuance will hold steady in 2018. The Group will remain true to its strategy of creating a broad, diversified funding structure. Alongside capital market operations in the form of benchmark issues and private placements, the deposits business will continue to be a key pillar of the Group’s refinancing strategy.

The Group will address advances in digitalisation through the systematic expansion of IT architecture, and further steps will be taken in this direction in the future. HYPO NOE’s successful online banking service will continue to be regularly optimised in future, with additional functionality, improved usability and options for personalising the service. The new HYPO NOE PLUS app, which enables real-time, nationwide, person-to-person payment transactions via the Zoin interbank mobile solution without the need to enter an IBAN or account number, will be extended next year to include additional modules.

As far as the adoption of new accounting standards is concerned, the first-time application of IFRS 9 Financial Instruments in the 2018 consolidated financial statements will be a key development. A comprehensive project to adapt processes and the preparation of the accounts to the new standard has been in progress for some time. The preliminary assessment of the potential effect of IFRS 9 has been fine-tuned in recent months.

Customers’ confidence in the Bank, its dependable ownership structure and solid ratings are testimony to the fact that the HYPO NOE Group’s strategy, which is based on a regional focus, proximity to customers and sustainability, is not only firmly established, but also well received. Thanks to its continued commitment to reducing costs and opening up new income sources, the Group is heading optimistically into the future.

Accounting and measurement policies

Essentially the same accounting policies were applied to this quarterly report as to the consolidated financial statements of the HYPO NOE Group (HYPO NOE Landesbank für Niederösterreich und Wien AG Group) prepared in accordance with the International Financial Reporting Standards (IFRSs) for the year ended 31 December 2016.

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

The Group is under no legal obligation to publish interim reports. This report does not fully comply with, and was not drawn up in accordance with the IFRSs.

In particular, paragraphs 8d (statement of cash flows) and 8e (disclosures) IAS 34 were not fully applied and this report should therefore be read in conjunction with the 2017 semi-annual financial report and consolidated annual financial statements as at 31 December 2016.

Disclosures on IFRS 9 – material IFRS standard already issued but not yet mandatory

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

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

Projections of the expected effects of applying IFRS 9 to the 2018 consolidated financial statements will be validated during the remainder of this year, and the calculation system used will undergo extensive testing.

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

Classification project

IFRS 9 specifies three categories for the classification of financial assets: measured at amortised cost, at fair value through profit or loss, and at fair value through other comprehensive income. The IAS 39 categories of held to maturity (HTM), loans and receivables (LAR) and available for sale (AFS) are not included in IFRS 9. Embedded derivatives where the underlying is a financial asset are never recognised separately under IFRS 9. Instead, the entire hybrid contract is assessed for the purpose of classification.

In the period under review, a preliminary classification was made for the IAS 39 portfolios on this basis. With a few exceptions, loans and advances to banks and to customers will be measured at amortised cost. During the classification project, a small proportion of such loans and advances were identified that do not meet the classification criteria (solely payments of principal and interest, SPPI) or, in the case of fixed interest rates that deviate from the standard, do not pass the internally applied benchmark test, and consequently cannot be recognised at amortised cost.

Other debt instruments such as AFS bonds will be classified in accordance with a defined strategy, which is yet to be finalised. AFS investments (equities) will be classified on the basis of their fair value. These can be recognised either at fair value through other comprehensive income without being recycled (meaning only dividends are recognised in profit) or at fair value through profit or loss. The final classification in accordance with IFRS 9 has not yet been determined.

In view of the effects of the new classification and measurement criteria under IFRS 9, the HYPO NOE Group expects application of the standard to have a predominantly negative effect on equity. This currently amounts to EUR 18m related to the reclassification and measurement of investments, assets that do not meet the SPPI criteria, and reclassification of AFS assets. A final decision on the classification of securities that are currently mainly categorised as available for sale has not yet been taken. Without reclassification of the AFS nostro portfolio, the loss incurred from applying IFRS 9 is EUR 5m.

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

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

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

Impairment project

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

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

Impairment is measured on the basis of the following principles:

- Stage 1: 12-month credit losses: expected credit losses resulting from default events on a financial instrument that are possible within the 12 months after the reporting date, based on the expected 12-month risk of default and the actual expected loss in the event of default.

- Stage 2: Lifetime expected credit losses: the expected credit losses that result from all possible default events over the expected residual life of a financial instrument, also taking into account expected deteriorations in creditworthiness due to expected macroeconomic conditions.

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

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

The Group carried out analyses in the course of the impairment project, and assumes that impairments will increase and become more volatile following application of IFRS 9. Initial analysis, which is still to be completed, points to a negative effect from first-time application. Taking into account the impact of the new impairment requirements under IFRS 9, the latest simulations suggest that the HYPO NOE Group can expect a negative effect on equity of up to EUR 25m due to application of the standard.

Hedges

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

Steps must be taken to ensure that hedge accounting aligns with the Group's risk management goals and strategy, and that a qualitative and forward-looking approach is adopted when assessing hedge effectiveness.

Preliminary appraisal under the IFRS 9 project suggests that the Group's current hedge accounting methods will most likely meet the requirements of the standard.

Notes and regulatory reporting

IFRS 9 requires extensive supplementary disclosures in the notes, in particular regarding hedge accounting, credit risk and expected credit losses.

The preliminary assessment includes an analysis to identify the additional data that will be required. The HYPO NOE Group plans to introduce a number of systemic changes that are essential for capturing the necessary data. From a regulatory perspective, the increased workload resulting from implementation of IFRS 9 will mainly be connected with preparing information for the supervisory reporting and completing the amended FINREP IFRS 9 templates. The final FINREP EBA ITS validation rules are due to be released at the end of November 2017.

The application of requirements for risk provisions under IFRS 9 will lead to a reduction in own funds in accordance with IFRS. Due to the additional disclosure requirements relating to loss allowances, significant effects on the Group's supervisory reporting (e.g. solvability, large exposures, leverage ratio and net stable funding ratio) are expected, although these may be mitigated by transitional arrangements for the initial application of the new impairment rules under the CRR. The option of making use of transitional arrangements is currently being assessed.

Transitional provisions

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Earnings are reported as positive amounts and expenses as negative amounts in the consolidated statement of comprehensive income. Figures from the previous year marked * have been adjusted for presentation in accordance with IFRS 5.

Profit or loss (EUR '000)	Q1-Q3 2017		Q1-Q3 2016
Interest and similar income	388,269		425,969
Interest and similar expense	-302,999		-332,824
Net interest income	**85,270**		**93,145**
Credit provisions	3,796		-7,537
Net interest income after risk provisions	**89,066**		**85,608**
Fee and commission income	14,295		12,370
Fee and commission expense	-2,483		-2,088
Net fee and commission income	**11,812**		**10,282**
Net trading income	-826		-2,859
Administrative expenses	-92,458		-100,016
Net other operating income/expense	20,020		23,731
Net gains on investments accounted for using the equity method	3,283	*	1,699
Net gains/losses on available-for-sale financial assets	-161		20,559
Net gains/losses on financial assets designated as at fair value through profit or loss	72		-7
Net losses on hedges	-5,280		-1,350
Net gains/losses on other financial investments	-49		365
Profit before tax	**25,480**		**38,012**
Income tax expense	-5,549		-9,557
Profit for the period from continuing operations	**19,931**		**28,455**
Earnings from discontinued operations	-37	*	179
Profit for the period	**19,894**		**28,634**
Non-controlling interests	-392		-8
Profit attributable to owners of the parent	**19,502**		**28,626**

Other comprehensive income (EUR '000)	Q1-Q3 2017		Q1-Q3 2016
Profit attributable to owners of the parent	**19,502**		**28,626**
Items that will not be reclassified to profit or loss			
Change in actuarial gains or losses (before tax)	*-468*		*-*
Change in deferred tax	*117*		*-*
Items that may be reclassified subsequently to profit or loss			
Change in available-for-sale financial instruments (before tax)	*637*		*17,547*
Exchange differences on translation of non-current assets held for sale (before tax)	*-4*	*	*17*
Change in deferred tax	*-158*		*-4,391*
Total other comprehensive income	**124**		**13,173**
Total comprehensive income attributable to owners of the parent	**19,625**		**41,799**

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. Figures from the previous year marked * have been adjusted for presentation in accordance with IFRS 5.

Assets (EUR ’000)	30 Sep. 2017		31 Dec. 2016
Cash and balances at central banks	375,691		164,587
Loans and advances to banks	940,071		998,347
Loans and advances to customers	10,314,593		10,854,932
Risk provisions	-80,535		-97,462
Assets held for trading	470,622		555,293
Positive fair value of hedges (hedge accounting)	357,172		483,215
Available-for-sale financial assets	1,673,113		1,967,148
Financial assets designated as at fair value through profit or loss	19,637		20,340
Investments accounted for using the equity method	31,193	*	28,470
Investment property	52,841		54,117
Intangible assets	766		918
Property, plant and equipment	70,216		77,525
Current tax assets	20,066		20,333
Deferred tax assets	1,709		1,443
Other assets	385,349		261,393
Disposal groups held for sale (IFRS 5)	1,412	*	1,452
Total assets	**14,633,916**		**15,392,051**

Equity and liabilities (EUR ’000)	30 Sep. 2017	31 Dec. 2016
Deposits from banks	1,414,029	1,462,298
Deposits from customers	4,299,532	3,847,855
Debts evidenced by certificates	6,937,361	7,698,831
Liabilities held for trading	426,985	502,954
Negative fair value of hedges (hedge accounting)	677,055	793,697
Provisions	40,977	50,155
Current tax liabilities	25,369	20,127
Deferred tax liabilities	33,332	36,955
Other liabilities	117,437	129,430
Subordinated capital	1,453	202,381
Equity (incl. non-controlling interests)**	660,386	647,368
Equity attributable to owners of the parent – share capital	51,981	51,981
Equity attributable to owners of the parent – reserves	599,594	586,968
Non-controlling interests	8,811	8,419
Total equity and liabilities	**14,633,916**	**15,392,051**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Figures from the previous year have been adjusted for presentation in accordance with IFRS 5.

30 Sep. 2017, EUR '000	Balance at 1 Jan. 2017	Profit/loss for the year	Capital increase	Dividends paid	Other comprehensive income	Transfers	Balance at 30 Sep. 2017
Share capital	51,981	-	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	-	191,824
Retained earnings	359,380	19,502	-	-7,000	-	-	371,882
IAS 19 reserve	-5,484	-	-	-	-351	-	-5,835
Available-for-sale reserve	41,301	-	-	-	478	-	41,779
IFRS 5 reserve	-53	-	-	-	-3	-	-56
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**638,949**	**19,502**	**-**	**-7,000**	**124**	**-**	**651,575**
Non-controlling interests	8,419	392	-	-	-	-	8,811
TOTAL EQUITY	**647,368**	**19,894**	**-**	**-7,000**	**124**	**-**	**660,386**

30 Sep. 2016, EUR '000	Balance at 1 Jan. 2016	Profit/loss for the year	Capital increase	Dividends paid	Other comprehensive income	Transfers	Balance at 30 Sep. 2016
Share capital	51,981	-	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	-	191,824
Retained earnings	293,267	28,626	-	-2,000	-	-5	319,888
IAS 19 reserve	-4,393	-	-	-	-	-	-4,393
Available-for-sale reserve	40,246	-	-	-	13,160	-	53,406
IFRS 5 reserve	-70	-	-	-	13	-	-57
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**572,855**	**28,626**	**-**	**-2,000**	**13,173**	**-5**	**612,649**
Non-controlling interests	8,624	8	499	-261	-	5	8,876
TOTAL EQUITY	**581,479**	**28,634**	**499**	**-2,261**	**13,173**	**-**	**621,525**

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

No after-tax gains on available-for-sale (AFS) financial instruments (30 Sep. 2016: EUR 3,629thsd) were recycled from other comprehensive income to profit or loss.

Consolidated capital resources and regulatory capital adequacy requirements

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

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

EUR '000	**CRR/CRD IV 30 Sep. 2017**	**CRR/CRD IV 31 Dec. 2016**
Capital instruments eligible as Common Equity Tier 1 (CET1) 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	489,489	489,801
of which retained earnings	*348,766*	*348,792*
of which other reserves	*104,744*	*104,744*
of which transitional adjustments due to additional minority interests	*121*	*242*
of which accumulated comprehensive income	*35,859*	*36,024*
Prudential filter: adjustments based on the requirements for prudential measurement	-3,627	-4,350
Other adjustments to CET1 capital	-8,315	-16,631
Intangible assets	-692	-834
CET1 capital	613,402	604,533
Additional Tier 1 (AT1) capital	-	-
Tier 1 (T1) capital	**613,402**	**604,533**
Holdings subject to deductions pursuant to Art. 36 and Art. 89 CRR	-	-
Eligible T1 capital	**613,402**	**604,533**
Paid-up capital instruments and subordinated loans	-	21,692
Instruments issued by subsidiaries and recognised in Tier 2 (T2) capital	-	6,504
of which grandfathering	-	*476*
T2 capital	**-**	**28,196**
Holdings subject to deductions pursuant to Art. 36 and Art. 89 CRR	-	-
Eligible supplementary capital (after deductions)	**-**	**28,196**
Total own funds	**613,402**	**632,730**
Capital requirement	**270,694**	**295,994**
Surplus total capital	**342,708**	**336,736**
Capital ratios	226.60%	213.76%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	18.13%	16.34%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR - fully loaded	18.37%	16.78%
Total capital ratio in accordance with Art. 92(2)(c) CRR	18.13%	17.10%
Total capital ratio in accordance with Art. 92(2)(c) CRR - fully loaded	18.37%	17.53%

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

EUR '000	**CRR/CRD IV 30 Sep. 2017**	**CRR/CRD IV 31 Dec. 2016**
Risk-weighted exposure for credit risk	2,977,438	3,265,067
of which 8% minimum capital requirement	238,195	261,205
Capital requirement for position, foreign exchange and commodities risk	-	-
Capital requirement for operational risk	24,557	23,704
Capital requirement for CVA	7,943	11,085
Total capital requirement	**270,694**	**295,994**

In 2017, the Group again exceeds the regulatory Tier 1 and total capital ratios (including the expected additional SREP requirements).

The total capital requirement as at 30 September 2017 was EUR 270.7m – a reduction of EUR 25.3m or 8.6% on year-end 2016 (31 Dec. 2016: EUR 296.0m), mainly reflecting the decrease in risk-weighted assets (RWAs) for credit risk.

Total eligible capital fell by EUR 19.3m, to EUR 613.4m (31 Dec. 2016: EUR 632.7m). The main changes chiefly related to:

- the decrease of EUR 28.2m in Tier 2 capital (fully redeemed), which was mostly not offset by
- the increase of EUR 8.9m in Tier 1 capital. The AFS reserve (financial assets measured at fair value), which is not eligible for inclusion under the “Other adjustments to CET1 capital” item, decreased by EUR 8.3m owing mainly to the rise in eligibility from 60% in 2016 to 80% in 2017.

Risk management

Significant risk-related developments in the third quarter of 2017

The HYPO NOE Group’s liquidity situation remains stable. A broad funding portfolio and sufficient assets eligible as collateral for tenders and GC Pooling refinancing transactions are available. The Group redeemed its significant portfolio of state-guaranteed senior unsecured issues as planned at the end of the period under review. The necessary refinancing adjustments have been implemented over recent years. Deposits remained high, and increased once more during the quarter. The liquidity coverage ratio (LCR) was again well above 100% in the third quarter, and the long-term forecast, which is produced regularly, shows that under normal market conditions, the Group will remain in compliance with the statutory requirements.

Owing to the HYPO NOE Group’s strategic focus and business model, public finance is the largest line of business, so low-risk loans make up a large proportion of the lending portfolio. A considerable proportion of the Group’s total lending relates to the purchase of subsidised home loans from the Lower Austrian state government, which are fully secured by a guarantee from the State of Lower Austria. As a result, the Group’s NPL ratio is low, at less than 2%.

Risk management processes focus primarily on the Group’s remaining exposures (almost exclusively government bonds) in countries on Europe’s extended periphery; these exposures fell year on year. Developments in those countries are being monitored closely. In spite of clear indications of easing in economic fundamentals, and improvements in certain local banking and real estate sectors, attention is increasingly turning to political risks such as new elections and rising populism. Heightened geopolitical tensions and the potential implications of Britain’s eventual exit from the EU for the HYPO NOE Group’s overall portfolio are also being monitored. The Group’s limited UK exposures have again fallen considerably in the past 12 months as instruments in the portfolio have matured.

In the third quarter of 2017, particular attention was paid to continuing implementation of integrated financial architecture in order to meet the requirements of IFRS 9 and those for regulatory reporting by 2018.

A number of essential steps were also taken in connection with the merger, which was completed as planned.

During the quarter, the Group received the FMA notice determining the Supervisory Review and Evaluation Process (SREP) ratio. The Bank’s capitalisation is sufficient to meet the new minimum capital requirements in Pillar II.

The annual review of the recovery plan for the Bank and all material subsidiaries pursuant to the *Bundesgesetz über die Sanierung und Abwicklung von Banken* (Federal Act on the Recovery and Resolution of Banks) was completed on schedule.

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

Events after the reporting period

There have been no material events since the end of the reporting period.

St. Pölten, 14 November 2017
The Management Board

Peter Harold	**Udo Birkner**	**Wolfgang Viehauser**
Chairman of the Management Board	Member of the Management Board	Member of the Management Board