HYPO NOE
GRUPPE

SEMI-ANNUAL FINANCIAL REPORT 2017

GROUP FINANCIAL HIGHLIGHTS

EUR '000	30 Jun. 2017	30 Jun. 2016	31 Dec. 2016
Total assets	**15.909.013**	**16.248.359**	**15.392.051**
Total own funds in accordance with CRR/CRD IV	**622.446**	**585.909**	**632.730**
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	17.28%	13.88%	16.34%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR – fully phased in	17.51%	14.29%	16.78%
Total capital ratio in accordance with Art. 92(2)(c) CRR	17.54%	15.12%	17.10%
Total capital ratio in accordance with Art. 92(2)(c) CRR – fully phased in	17.77%	15.52%	17.53%
Return on equity (ROE) before tax	3.5%	5.9%	15.2%
Operating ROE before tax1	8.2%	10.8%	18.5%
ROE after tax [1]	2.8%	4.5%	11.4%
Cost/income ratio (CIR) [2]	87.7%	72.2%	56.0%
Operating CIR [1]	67.7%	56.9%	46.3%

CURRENT RATING

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

[1] Change in calculation in 2016: operating CIR and operating ROE are adjusted to remove the effect of expenses for the financial stability contribution, contributions to the resolution fund and regulatory costs, but do include the cost of contributions to the deposit insurance fund; the figures for the previous year have been likewise adjusted.

[2] CIR as at 30 June 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 76.9% if the contributions had been reported by period.

SEMI-ANNUAL FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2017
HYPO NOE GRUPPE BANK AG

HYPO NOE: THE BANK FOR LOWER AUSTRIA AND VIENNA CONTINUES ITS STRONG PERFORMANCE

The HYPO NOE Group continued to chart a successful course in the first half of 2017. Despite stable economic indicators in the first half of the year, the overall environment has remained challenging for the banking sector. That said, Group net interest income after risk provisions for the period increased year on year by EUR 4.6 million (m), to EUR 57.9m. The statutory contributions to the resolution and deposit insurance funds and the Austrian stability contribution, amounting to EUR 15m for the full year, were recognised in full in the first six months of the year.

Despite all these factors, profit attributable to owners of the parent for the first six months of 2017 reported by HYPO NOE Group amounted to EUR 8.6m. This was thanks to the improvement in net trading income as well as increased fee and commission income, both a result of the expansion of the Group's services business – a process which will continue in the coming years. At the same time, cost savings made a key contribution to improving efficiency. General administrative expenses fell by EUR 2.2m compared with the same period a year earlier, to EUR 67.4m.

The HYPO NOE Group's total assets remained stable at EUR 15.9 billion (bn) as at 30 June 2017. This represents a slight increase of EUR 0.5bn or 3.4% compared with year-end 2016, with new lending of EUR 493.4m making a vital contribution. In light of a return to previous high levels of issuing activity since the beginning of the year, the increase in total assets reflects in particular the timely establishment of an appropriate liquidity buffer in preparation for the maturity of state-government-backed bonds in September 2017 and the resulting rise in bond redemptions.

The quality of the Group's lending portfolio again developed very satisfactorily in the first half of 2017. The non-performing assets ratio fell from 2.01% at year-end 2016 to 1.66% at the end of the reporting period. HYPO NOE Group's already outstanding capital adequacy likewise improved. The core capital ratio as of 30 June 2017 was 17.3% (31 December 2016: 16.3%) and the equity ratio was 17.5% (31 December 2016: 17.1%).

This and other successes once again demonstrate the sustainability of the HYPO NOE Group's strategy and its business model, and strategy, with its strong roots in Lower Austria and Vienna, particularly in unpredictable times.

TOP RATINGS THANKS TO STABILITY, PROXIMITY TO CUSTOMERS AND RELIABLE OWNER

HYPO NOE Group's durable foundation for future growth as a regional bank with a strong owner, the State of Lower Austria, has also been recognised externally: confirmation of an unchanged solid Single A rating with a stable outlook from international rating agency Standard & Poor's is a clear endorsement of the Group's consistent performance, and its role as one of the best-rated banks in Austria.

HYPO NOE Group also reported success when it came to external evaluation of its sustainability efforts. The bank remains among the very best in its sector thanks to a "Prime" rating from leading sustainability rating agency oekom research, and another improvement in the bond ratings issued by imug Investment Research.

OUTLOOK FOR THE SECOND HALF OF 2017

Although difficult conditions persist, HYPO NOE enters the second half of 2017 in a good position and with optimism. The planned merger between HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG is expected to be completed on schedule at the end of September 2017, subject to final approval by the regulatory authorities. Further efficiency gains will follow in its wake thanks to less complex organisational structures and the resulting emergence of operational synergies. In the HYPO NOE Group's real estate business, implementation of the decision in principle to pursue strategic options for the facility management business in the CEE region began in the second quarter of 2017. Work will also continue to push forward Group-wide cost savings as part of the "2020 zukunftsfit" internal efficiency programme.

These activities ensure that HYPO NOE Group is in a position to continue to fulfil its role in future: thanks to continuous strengthening of its market position, further increases in profitability and, consequently, the resulting long-term assurance of its competitiveness, the bank for Lower Austria and Vienna will continue to act as an engine of economic growth.

Peter Harold
Chairman of the Management Board

Dr. Udo Birkner
Member of the Management Board
(from 1 Jan. 2017)

Dipl.-Ing. Wolfgang Viehauser
Member of the Management Board

OPERATIONAL AND FINANCIAL REVIEW

FOR THE SIX MONTHS ENDED 30 JUNE 2017

CONTENTS

ECONOMIC CLIMATE

Global economic and financial market developments

In spite of the somewhat fragile political situation, the global economy continued to pick up speed in the first six months of 2017. European economic growth in particular exceeded expectations. In the first three months of 2017, growth in the eurozone was 0.6% higher than in the previous quarter, and a similar increase seems likely in the second quarter. The French presidential election did not have a significant impact on the eurozone's growth trajectory. Leading indicators for the euro area recently reached their highest levels since 2011, which points to continued solid economic performance in the coming months. Compared with the eurozone, growth in the US was sluggish at the start of the year. This was reflected in an annualised growth rate of 1.2% in the first quarter, although the economy is thought to have picked up again in the second quarter. According to recently published indicators, household and business confidence are both at all-time highs. However, this sentiment is yet to trickle through to the real economy. During his first six months in office, President Trump failed to provide details on any of his campaign promises on economic policy – in particular tax reform, cutting red tape and infrastructure stimulus – or to implement any effective measures in these areas. Statistical base effects resulting from changes in commodity prices led to a sharp increase in inflation until February, when the rate reached an interim high of 2.8% in the US, and 2.0% in the eurozone. Since then, the impact of the aforementioned factors has weakened, leading to a marked slowdown in inflation.

Capital market performance was varied against the positive economic backdrop. The expectation of rising interest rates weighed on fixed-income markets, as reflected in their negative performance, while higher-risk asset classes such as equities and corporate bonds fared well, and in some cases significantly better. In the eurozone, the Austrian and Spanish stock markets were the leading performers, putting on 18.3% and 16.2% respectively in the year to date. The majority of the other leading stock indices posted high-single-digit rises. There were sharp contrasts in developments on the commodities markets. The prices of precious and industrial metals rose significantly in dollar terms (e.g. gold by 8.9% and aluminium by 11.2%), but crude oil prices slipped, with Brent Crude losing 20%. There were a number of surprising developments on the currency markets. Against expectations, the euro strengthened in the first half of 2017, while the US dollar was generally weaker. This was mainly attributable to stronger economic growth in the eurozone compared to that in the US, both in relative and absolute terms. On top of this, perceptions of political risks changed over time. More recently, market participants have attached far less significance to the political risks facing the eurozone; in contrast, factors such as political certainty have given rise to a more downbeat assessment of the risks to which the US is exposed. Following further intervention by the Swiss National Bank (SNB), the exchange rate of the euro to the Swiss franc remained within a narrow band, at between 1.06 and 1.10.

Economic trends in the HYPO NOE Group's core markets

AUSTRIA

So far this year, the Austrian economy has grown considerably quicker than originally forecast by the economic research institutes. According to the latest Oesterreichische Nationalbank (OeNB) estimate, growth is expected to increase by 0.7 percentage points to 2.2% in 2017 – the largest rise in GDP for six years. Growth is expected to reach 1.7% and 1.6% in 2018 and 2019 respectively. Both domestic demand and exports are driving the current upturn.

Unemployment went up to 6.0% in 2016, but is seen falling from this record high to 5.4% in 2019. Recent forecasts predict a rise in inflation to 2.0% in 2017, followed by a decline to 1.8% in both 2018 and 2019.

In June 2017 the European Commission's economic sentiment indicators showed signs of a significant year-on-year improvement in confidence in the services and construction sectors, as well as in industry and among consumers. Retail was the only sector in which sentiment deteriorated between the start of this year and June. Due to specific underlying factors, the aggregated Eurostat Economic Sentiment Indicator for Austria rose sharply, from 99.3 to 112.7 points.

Uncertainty surrounding the economic fallout from the United Kingdom's decision to leave the European Union and the direction of US economic policy following the unexpected presidential election result has not had a negative effect on economic growth in the short term. Both the US and the eurozone are seen as drivers of the global economy in the coming years. Austrian exporters will profit from this, and from the solid performance of the CEE and SEE economies. Export growth is forecast to reach 4.2% this year, compared with 1.8% last year.

At present, it appears that Brexit is unlikely to have any direct negative effects on the Austrian economy. This assessment is based primarily on Austria's limited links to the UK in terms of exports, the financial sector, foreign direct investment and migration. However, 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.

FEDERAL STATES

The pace of growth in the majority of Austria's federal states has picked up thanks to favourable economic conditions. The impetus from export demand, which will mainly have an impact on states with larger industrial sectors – Upper Austria, Styria and Vorarlberg – will strengthen significantly in 2017. By contrast, it can be assumed that the positive effects of the most recent tax reform on the services sector will gradually fade. The prospects for retailers are even more subdued than in 2016. Vorarlberg is forecast to record the highest growth, at 2.4%, and strong growth of 1.5% is expected in Vienna and Lower Austria. The construction sector should benefit from a number of housing initiatives in the course of this year.

In the next few months, industry is likely to return to solid growth, including in Lower Austria, with export-driven segments leading the way. The situation in the Lower Austrian construction sector has steadily improved recently. This is reflected in a sharp increase in order intake compared with the beginning of this year. The previously stagnant building construction sector, as well as the growing civil engineering segment, are expected to expand significantly in 2017.

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

DANUBE REGION

According to the OeNB's most recent economic forecasts, with the exception of Germany, the countries in the Danube region – the HYPO NOE Group's extended core market – will again record growth well above the EU average in 2017. Growth in the region as a whole is expected to quicken from 3.0% to 3.4% in 2017. Romania posted the strongest growth in the Danube region in 2016, at 4.8%, and is again expected to be among the leaders in 2017, with growth of 4.2%, primarily as a result of a reduction in VAT and a significant increase in the minimum wage. Growth in the other economies in the region ranged from 1.8% to 3.4% in 2016. At between 2.7% and 3.8%, these countries are expected to record growth well in excess of current rates in 2017. The Hungarian, Polish and Czech economies in particular are forecast to expand markedly year on year.

Lending to private households – an indicator of macroeconomic sentiment – rose year on year in all countries in the Danube region with the exception of Hungary; the increases ranged from 1.2% in Poland to 14.0% in Slovakia. Corporate lending in the Danube region grew across the board in 2016 – except in Romania – by between 0.1% (in Hungary) and 20.2% (in Poland).

Public-sector investment was generally subdued last year, with the exception of Poland, even though the significant decline in public refinancing costs could have increased the incentives to implement more expansive fiscal policies and invest in infrastructure projects. At present, it is assumed that halting public-sector investment in 2016 was due to the start of the current programming period for EU subsidies. A quicker drawdown of funds is anticipated in 2017, resulting in a pick-up in infrastructure investment.

It is still expected that Brexit will have only a limited direct impact on the Danube region, although the departure of a net contributor to EU funds could trigger discussions on a redistribution of the burden associated with the EU's subsidy system. 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. 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.

Banking sector trends in the eurozone and CEE

The situation in some regional banking markets in the eurozone remained challenging in the first half of 2017. After propping up its banking sector last year, and following marathon negotiations, Italy resolved the difficulties facing Veneto Banca and Banca Popolare di Vicenza. Both institutions failed stress tests in 2014, and in 2016 received equity injections totalling around EUR 3.5bn from the Atlante bank bailout fund. However, this did not prevent a deterioration in equity at both banks. In June 2017, the ECB declared that both banks were failing or likely to fail, in accordance with the Single Resolution Mechanism (SRM). The Single Resolution Board (SRB) then concluded that neither bank posed a threat to Europe's financial stability. Although the main aim of the banking union is to enable the orderly resolution and winding up of systemically important banks without the use of taxpayers' money, a different approach was adopted in this case. The outcome of the Italian banking crisis has sparked discussions because, in contrast to the liquidation of Spain's Banco Popular, which took place in accordance with the banking union regulations, the resolution of the two Italian banks was carried out on the basis of Italian insolvency law. This underlines the need for further action on harmonising bank regulation in Europe.

The OeNB published its report on the consolidated net profits of Austrian banks in April 2017. In the past, earnings have often been impacted by one-off effects, but in 2016 profits were generally unaffected by such factors. The only significant change was UniCredit Bank Austria AG's spin-off of its CEE segment to its Italian parent. The OeNB's analysis showed a 3% decline in adjusted net interest income due to the current low level of interest rates. Broadly speaking, operating profit adjusted for risk provisions was down 4% year on year. Besides interest-related components, there was also a fall in net fee and commission income and income from dividends and investments. The rise in consolidated after-tax profits for the year in spite of the drop in operating profit mainly reflects the 63% decrease in credit provisions. In this regard, two major banks reduced their risk provisions – primarily in Central and Eastern Europe – or recorded income from the recovery of previously impaired receivables. Restructuring by certain banks seems to have been a key driver in improved loan quality. Further improvements in Austrian banks' consolidated capital adequacy are a reflection of the steps taken to strengthen their capitalisation in recent years. Although interest rates remain low, deposits have risen. Corporate demand for loans went up again in the first quarter of 2017, which can be traced back to the current economic upturn. There was also a modest increase in demand in the retail lending business.

The Danube region banking sector has posted solid performance recently on the back of continuing stabilisation. The positive trends in new lending in some countries, including the Czech Republic, Romania and Slovakia, continued in the first half of 2017. There has also been a marked improvement in asset quality – the aggregate non-performing loan (NPL) ratio in the CEE region is now well under 10%. The steady rise in deposits has resulted in a comfortable loan-to-deposit ratio, significantly below the 100% mark in most cases. In terms of profitability, CEE banks have outperformed their West European competitors. The return on equity in the eurozone banking sector stands at around 5-6%, but the average for Danube region banks is close to 10%. Stricter capital regulations and a high degree of regulatory influence remain a significant challenge for the CEE banking sector. That said, there are still opportunities for growth, assuming solid expansion in the banking market as a whole and a continued upturn in the retail segment.

FINANCIAL REVIEW

Key developments in the first half of 2017

EARNINGS (IFRS)

Profit for the period attributable to owners of the parent was EUR 8.6m (H1 2016: EUR 12.9m) in spite of significant non-recurring expenses during the first six months of 2017. Major expenses included the one-off stability contribution for the full year, payable for the first time in 2017, as well as the contributions to the resolution and deposit insurance funds totalling around EUR 15m. As a result, these payments will not affect profit in the second half of this year. The non-recurring expenses in the Landesbank segment include recognition of provisions of EUR 4.1m for interest repayment claims relating to the current reporting period as well as the 2015 and 2016 financial years, as a consequence of the Supreme Court's decision regarding negative interest rates for consumer loans.

The Gruppe Bank, Landesbank and Leasing segments delivered pre-tax profits, while the Other segment reported a loss for the period (details are provided in Note 5.1 Segment profit or loss before tax).

Turning to earnings, net interest income was EUR 56.2m in spite of continued low interest rates and the potential impact of the aforementioned Supreme Court ruling in 2017 (causing a reduction of EUR 1.4m), which was only EUR 6.8m lower than in the like period of 2016 (H1 2016: EUR 63.0m).

Net gains on credit provisions stood at EUR 1.7m (H1 2016: net losses of EUR 9.6m). This improvement of EUR 11.3m was mainly due to increased reversals and a fall in allocations compared with the first half of 2016.

Net interest income after risk provisions was EUR 57.9m, an increase of EUR 4.6m or 8.5% on the EUR 53.3m reported for the first six months of last year.

Expansion of services provided by the Group (predominantly in retail banking) was reflected in a 6.2% or EUR 0.4m year-on-year increase in net fee and commission income to EUR 7.5m in the first half.

Net trading income amounted to EUR 1.7m (H1 2016: net expense of EUR 7.8m). 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 1.6m), 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 3.1% or EUR 2.2m year on year, to EUR 67.4m (H1 2016: EUR 69.6m). This was largely due to a EUR 2.1m reduction in staff costs. Other costs savings were almost entirely offset by the one-off 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 was EUR 8.2m [H1 2016: EUR 7.4m]), together with the statutory contributions to the deposit insurance and resolution funds, which are reported under other administrative expenses and are likewise not accrued during the period, and amounted to EUR 8.4m (H1 2016: EUR 8.1m). Operating administrative expenses, which do not include the total expense for the financial stability and resolution fund contributions and regulatory costs, went down considerably year on year, to EUR 52.0m (H1 2016: EUR 54.8m).

Net other operating income was EUR 14.5m (H1 2016: EUR 21.6m), which also includes measurement gains and losses on cash transactions in the current period. The offsetting foreign currency gains and losses on forward exchange operations (EUR 1.6m) 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 2.7m, as a consequence of the Supreme Court rulings on negative interest.

The net gains of EUR 2.3m on investments accounted for using the equity method (H1 2016: EUR 1.4m) primarily resulted from the rise in value in use at the non-profit EWU subgroup (Gruppe Bank segment).

In the first half of 2016, the net gains on available-for-sale financial assets of EUR 13.8m 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 reflected in the net losses of EUR 0.5m in the first half of 2017, a year-on-year fall of EUR 14.3m.

The net losses on hedges increased to EUR 4.7m (H1 2016: EUR 2.6m). This was principally attributable to the different discount rates applied to hedges and the related underlying transactions.

Profit before tax was EUR 11.2m, EUR 6.0m lower than in the same period a year earlier (H1 2016: EUR 17.2m).

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

		Q2 2017	Q2 2016	2016	2015
Return on equity (ROE) before tax**	Profit or loss for the period before tax/ave. equity	3.5%	5.9%	15.2%	2.0%
Operating ROE before tax** ***	ROE before tax excl. financial stability and resolution fund contributions, and regulatory costs/ave. equity adjusted for financial stability and resolution fund contributions, and regulatory costs	8.2%	10.8%	18.5%	5.6%
ROE after tax**	Profit or loss for the period/ave. equity	2.8%	4.5%	11.4%	1.1%
Cost/income ratio (CIR)[1]	Operating expenses/operating income*	87.7%	72.2%	56.0%	92.5%
Operating CIR***	CIR excl. financial stability and resolution fund contributions, and regulatory costs	67.7%	56.9%	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	-3.0%	15.3%	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.

***Change in calculation in 2016: operating CIR and operating ROE are adjusted to remove the effect of expenses for the financial stability contribution, contributions to the resolution fund and regulatory costs, but do include the cost of contributions to the deposit insurance fund; the figures for the previous year have been likewise adjusted.

[1]CIR as at 30 June 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 76.9% if the contributions had been reported by period.

ASSETS AND LIABILITIES (IFRS)

The HYPO NOE Group's total assets increased by 3.4% or EUR 0.5bn compared with year-end 2016, to EUR 15.9bn as at 30 June 2017.

This includes a EUR 1.3bn increase in cash and balances at central banks, which was attributable to pre-funding, in particular for own issues maturing in the second half of 2017, as well as a EUR 0.5bn fall in loans and advances to customers (mainly due to active reduction and diversification of the public sector portfolio), and a decline of EUR 0.2bn in the AFS portfolio.

On the equity and liabilities side, debts evidenced by certificates went up by EUR 0.4bn as a result of further own issues, and deposits from customers rose by EUR 0.3bn.

CHANGES IN EQUITY (IFRS)

IFRS consolidated equity including non-controlling interests was EUR 650.9m as at 30 June 2017, an increase of EUR 3.5m 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 and the improvement in the available-for-sale reserve for remeasurement of financial assets to fair value.

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 622.4m as at 30 June 2017 (31 Dec. 2016: EUR 632.7m). Surplus total capital as at 30 June 2017 was EUR 338.5m (31 Dec. 2016: EUR 336.7m), in comparison with a capital requirement of EUR 284.0m (31 Dec. 2016: EUR 296.0m). The Tier 1 capital ratio in accordance with Article 92(2)(b) CRR was 17.3% as at 30 June 2017 (31 Dec. 2016: 16.3%), and 17.5% 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 17.5% (31 Dec. 2016: 17.1%), and 17.8% assuming a fully phased-in definition of capital (31 Dec. 2016: 17.5%).

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 Business segment information.

Gruppe Bank segment

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

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

A solid 'A/A-1' issuer credit rating with a stable outlook from Standard & Poor's reflects the excellent creditworthiness of HYPO NOE Gruppe Bank AG, which is among the best-rated banks in Austria. Moody's also confirmed its 'Aa1' ratings on HYPO NOE Gruppe Bank AG's public sector and mortgage cover pools.

The Supervisory Board formally approved the merger of the banking operations of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG in an extraordinary meeting on 17 May 2017. Implementation of the related project is progressing according to plan, and the merger is scheduled to take place over the weekend of 23-24 September 2017. Regulatory approval is required for the merger to be executed. The merger will reintegrate the retail and residential construction businesses into HYPO NOE Gruppe Bank AG, the core bank for the State of Lower Austria. It will enable the Group to utilise the operational and strategic strengths of both banks and boost efficiency by simplifying the organisational structure and leveraging operational synergies.

PUBLIC FINANCE

The Public Finance Department is a strong partner to local and regional authorities, public agencies and infrastructure businesses. In the first half of 2017, the department focused on further extending its advisory services for innovative finance models for these customer groups in its core market of eastern Austria, as well as in selected countries and major cities in the Danube region.

The budgetary situation faced by state governments and local authorities is fuelling increased demand for 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 social infrastructure construction projects. The department always sets out to understand customers' special requirements and to deliver risk-aware advice and service.

During the first half, the department began implementing a lease financing project for the state care home in Melk, and the Castellum Schallaburg project was completed. HYPO NOE Gruppe Bank AG also won the tender for renovation of a primary school and a secondary school in the town of Zeltweg, as well as for construction of a kindergarten and community centre in the town of Höflein an der Hohen Wand. Public finance projects in the first six months of 2017 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. Lively, ongoing exchange of information and know-how with customers forms an important part of proactive efforts to maintain dialogue over time. This is especially true against the backdrop of changes in basic parameters and recent trends for local and regional authorities, which relationship managers at HYPO NOE Gruppe Bank AG are able to observe at first hand.

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.

The core markets of Austria and Germany as well as selected CEE countries remained the focus of attention in first half of 2017. The department concentrates in particular on the Czech Republic, Hungary and Slovakia, 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 in Vienna, remained high due to low interest rates and historically low 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 HYPO NOE Group's business model is based on financing on equitable lending terms for the office, shopping centre, retail park, housing, logistics and city hotel asset classes with balanced finance The Bank and its long-standing business partners particularly prize hand-picked, centrally located and highly adaptable properties with blue-chip tenants.

CORPORATE & STRUCTURED FINANCE

The Corporate & Structured Finance Department is responsible for HYPO NOE Gruppe Bank AG's corporate customer business. Its main task is to further enhance the HYPO NOE Group's standing as the bank for Lower Austrian business. The department has prioritised continued, long-term development of a broad customer portfolio that can provide a basis 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. A 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 economic picture brightened significantly in the first half of 2017, although competition on conditions remained fierce, especially regarding loans to customers with good ratings. Corporate & Structured Finance continued to focus on concluding transactions with very good risk-return profiles. Intensive efforts in the corresponding market segments played a major role in this respect. Further expansion of partnerships with existing customers is also a priority.

The department continues to engage selectively with customers in the Danube region and expects a further revival in the market in the second half of 2017; there is currently a noticeable trend towards infrastructure businesses and finance for government-related entities. In addition, Corporate & Structured Finance will further strengthen its focus on providing advice to customers operating across the region.

In the deposits business, optimisation of the maturities structure and granularity was the priority, based primarily on the Bank's excellent liquidity situation.

RELIGIOUS COMMUNITIES, INTEREST GROUPS AND AGRICULTURE

The close links between HYPO NOE Gruppe Bank AG and religious and social institutions and agricultural businesses in Lower Austria and Vienna were again clearly demonstrated in the first six months of 2017.

The customer portfolio includes male and female religious orders, dioceses, abbeys and monasteries, aid initiatives and a wide range of Catholic charitable organisations, as well as other non-profit organisations and agribusinesses.

- The department financing and investment services focus on:
- regional and social infrastructure projects, such as care and social welfare centres, hospitals, schools and nurseries;
- renovation and revitalisation projects at churches, abbeys, monasteries and church buildings;
- finance for agricultural companies and farms;
- money market investments, and
- ethical and sustainable investment.
- The department is also the first point of contact for its customers for the Group's comprehensive real estate service portfolio.

Financing transactions in both the youth and care segments were concluded in the first half of 2017. Investment activity was again dominated by short-term money market transactions, which institutional customers continue to favour due to ongoing caution and HYPO NOE Gruppe Bank AG's unchanged sound ratings.

TREASURY & ALM

Treasury and Funding

As in previous years, the first half of 2017 saw a large number of new issues on the international capital markets. Austrian issuers placed benchmark covered bonds as early as mid-January. HYPO NOE Gruppe Bank AG took advantage of favourable market conditions to conclude a five-year, CHF-denominated senior unsecured benchmark issue, which was further increased to CHF 125m before settlement owing to extremely strong investor demand. Another CHF senior unsecured benchmark issue, valued at CHF 100m, was completed at the end of May.

Following intensive preparation and a two-week, Europe-wide roadshow, HYPO NOE Gruppe Bank AG again proved its credentials as one of Austria's leading issuers of covered bonds at the end of March. Backed by the public sector cover pool, a EUR 500m, six-year covered bond was placed with a low-single-digit premium over mid-swaps. The transaction represented Austria's first benchmark public-sector covered bond issue with a soft-bullet repayment structure, and was heavily oversubscribed, underlining the Bank's international reputation as a leading issuer. The successful deal resulted in an extension of the maturity profile, so that the overall refinancing structure of the Group is now well balanced and sustainable. This was also aided by smoothing of the existing maturity profile, achieved previously, in light of maturing state-government-backed bonds.

At the end of the first half of 2017, a mortgage-backed covered bond issue with a residual maturity of three years was increased by EUR 200m to what is now a more typical overall benchmark size of EUR 500m.

In addition to capital market funding, deposits from institutional investors continued to grow steadily, and are set to stabilise at a high level.

HYPO NOE Gruppe Bank AG has continually expanded its refinancing base over recent years. It makes use of standard repo transactions and ECB tenders, as well as drawing its liquidity from the conventional capital market and deposits business.

The Bank also uses development banks such as the European Investment Bank (EIB) and Kreditanstalt für Wiederaufbau (KfW) as refinancing sources.

Nostro

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

ALM

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

INSTITUTIONAL CUSTOMERS

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 2017. Besides strong business links with numerous banks in Austria and abroad, the Bank is also continuing to actively manage its partnerships with insurance companies, pension funds and asset management companies. Alongside constant interaction with bondholders, engagement with correspondent banks remains an important ingredient in HYPO NOE Gruppe Bank AG's long-term success as a bond issuer. The primary focus is on relations with European partners, although investors from certain countries outside Europe are increasingly paying attention, too.

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, following the publication of the 2016 results, investors were given first-hand insights into the Bank's success over the year in an earnings call and at the traditional investors' luncheon with the Management Board.

In addition to various non-deal roadshows across Europe, the Bank's successful return to the benchmark public sector covered bond market provided the opportunity to organise a deal-related roadshow after an extended market absence. The placement was extremely well received – confirmation of the Group's highly effective communications strategy over the past few years.

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. Additionally, the Sustainability section contains full details of the Group's sustainability reporting, as well as the latest information on sustainability ratings.

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. We provide cheap and efficient loan management services to Lower Austrian owner-builders and the province's numerous housing cooperatives, which are also entitled to apply for such loans. In recent years HYPO NOE Gruppe Bank AG has also given the Lower Austrian state government extensive assistance with the technical and organisational aspects of the change in the large-scale home loan subsidy scheme from direct loans to guaranteed loans, and the Bank acts 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 HYPO NOE Gruppe Bank AG.

Besides its loan management function, the Bank 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 number of loans handled on behalf of the Lower Austrian state government is constantly growing, and HYPO NOE Gruppe Bank AG has over 318,000 direct loans, totalling more than EUR 6.2bn, under management for the state government. Subsidised home loans account for the lion's share of this total, at some EUR 5.8bn.

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 clear 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 2017:

HYPO NOE Gruppe Bank AG divested its 12.00% stake in Niederösterreichisches Landesreisebüro, Gesellschaft mit beschränkter Haftung to majority shareholder Reisewelt GmbH as of 20 June 2017.

FOREIGN BRANCHES, REPRESENTATIVE OFFICES AND BRANCHES

HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG had no foreign branches in the first half of 2017, but operated representative offices in Bucharest, Romania; Budapest, Hungary; Prague, Czech Republic; and Sofia, Bulgaria.

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 has defined "finance and housing", "saving and investment" and "accounts and cards" as its core competences.

26 branches in three different regions provide outstanding service to private, self-employed and business customers in the Group's core market of Lower Austria and Vienna. Branch locations were optimised during the first half of 2017, in order to enhance the flexibility and depth of customer service. Hollabrunn and Landesklinikum Neunkirchen are the locations of the Bank's first service branches, where the main focus is on consultation, based on individual appointments. This is complemented by modern, expanded self-service foyers that can be used 24 hours a day.

With an attractive product range supported by extensive marketing activities, the securities account switching campaign was a major factor in HYPO NOE Landesbank AG's success in the first half of the year. The Bank's insurance business also launched a broad-based sales campaign, based on streamlining the products offered and tailoring them to the customer's individual needs.

Regarding the current issue regarding negative interest rates, following the Supreme Court's rulings in the first half of 2017, as at 30 June 2017 a provision was recognised in an amount that corresponds to the payment obligations under the loan agreements concerned that are subject to the Konsumentenschutzgesetz (Consumer Protection Act). The customers affected will receive transparent information regarding the next steps and repayments.

HYPO NOE Landesbank AG is committed to continuing implementing its growth strategy solely on the basis of customer acquisition by staff in its branches. To support this, customers can obtain advice on home construction finance from specialists in every branch, and learn about the subsidies currently available. Although the market remains challenging, performance in the new lending business was good. At the same time, the continuing reduction in foreign currency liabilities was systematically and successfully implemented.

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 financing and investment business performed particularly well, once again underlining HYPO NOE Landesbank AG's position as the bank for Lower Austria and its role in supporting the regional economy. In view of the strong earnings potential in this segment, the Bank refocused its services along regional lines in 2016. A corporate customer service team is now in place in Lower Austria, with another unit in Vienna, and customers can also meet advisors at any branch.

Targeted measures for payment transactions with non-profit housing developers in HYPO NOE Landesbank AG's residential housing development segment brought success in the first six months of this year, while specific customer advice in connection with selected projects led to growth in the commercial housing development segment. Due to the risk/return ratio, there is strong demand in the non-profit housing association segment, and HYPO NOE Landesbank AG's highly experienced staff create bespoke solutions to meet customers' specific needs as effectively as possible, and to consolidate the Bank's traditionally strong position on the market.

In their meetings on 17 May 2017, the supervisory boards of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG both passed resolutions on the merger of the two institutions. The merger is scheduled to take place over the weekend of 23-24 September 2017. Approval from the regulatory authorities is required for the merger to be executed.

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 company's core competency is complex lease agreements connected with real estate projects. It also offers business management and real estate project management services.

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

Performance in the conventional leasing business was satisfactory in the first half of 2017; for example, the company won various tenders for lease financing for nursing homes.

Other segment

HYPO NOE IMMOBILIEN BETEILIGUNGSHOLDING GMBH

In 2015 the HYPO NOE Group's real estate business, comprising HYPO NOE Real Consult GmbH and HYPO NOE First Facility GmbH, was merged into HYPO NOE Immobilien Beteiligungsholding 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. With a comprehensive, integrated product portfolio that goes beyond the Bank's financing services, the Group acts as a one-stop shop for customers over the entire life cycle of a real estate project.

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 construction management, rapid progress was made on cultural projects in the town of Krems, namely Kunsthalle Krems and Landesgalerie Niederösterreich (including a parking deck). Kunsthalle Krems is set to reopen at the beginning of July, and the topping out of Landesgalerie Niederösterreich will take place in autumn. The largest current project is at the Institute of Science and Technology Austria (IST Austria), where the 2nd Administration Building and the kindergarten will be completed by the end of summer 2017.

In 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.

Property management developed attractive new consulting service packages in the first half of 2017 in order to increase its opportunities to acquire new projects.

HYPO NOE FIRST FACILITY GMBH

HYPO NOE First Facility GmbH is a 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. 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 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 remains a high priority for HYPO NOE First Facility in Austria, as it seeks to win the trust of new customers with its know-how and the advantages generated by economies of scale, and to convince them of the quality of its services over the long term. This outstanding quality was reflected by certification in accordance with ISO 9001:2015 and the award of the GEFMA 730 ipv® FM Excellence Certificate in 2016, and ISO 14001 (environmental management) certification in June 2017.

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 current efforts to find a strategic partner for foreign operations will bolster competitiveness and market position.

RISK REPORT

The objectives and methods of risk management and the explanations of material risks form part of the notes (see Note 6.5 Risk management).

GROUP OUTLOOK FOR 2017

Economic environment

The global economy has picked up speed and gained in stability, with more broad-based contributions to growth. Assuming that current political crises do not escalate and no significant protectionist measures are introduced, the general economic environment will remain positive for the foreseeable future. Economic growth in the eurozone was 0.6 percentage points higher compared with the previous quarter in the first three months of 2017, and a similar rate is expected in the second quarter. Due to steady improvements in leading indicators, solid increases in growth are anticipated in the next few months. Growth in the US economy was more sluggish at the start of this year, but is expected to pick up in the remainder of 2017 – this pattern has been a recurring feature of the past several years. Numerous indicators of household and business sentiment point to an improvement in the course of the year. All of these indicators are currently at all-time highs. At the beginning of 2017, expectations for the United States were still very optimistic and the political dangers facing the eurozone were seen as significant, but actual events turned out rather differently. Emmanuel Macron's election as President of France sparked fresh hope for a revival in the European integration process, and the perceived risks to the eurozone declined sharply. The euro benefited from the developments outlined above, while the US dollar lost ground after its strong start to the year. The strength of the euro seems set to last, although the pace of its recent appreciation is unlikely to persist. Coupled with the expectation of continued low inflation, this suggests that the ECB will be in no hurry to tighten monetary policy. As a result, interest rates could remain low for a while longer, while the rise in market interest rates may be extremely slow.

The latest OeNB forecast sees Austria's economy growing by 2.2% this year – the fastest increase in GDP for six years. Growth is expected to reach 1.7% and 1.6% in 2018 and 2019 respectively. Both domestic demand and exports are driving the current upturn. The UK's exit from the EU, as well as US economic policy, which has been closely watched by the markets, have not yet had an adverse effect on macroeconomic indicators. This means that Europe and the US can still be seen as mainstays of the global economy. Austrian exporters will profit from this, and from the solid performance of CEE and SEE economies.

Favourable economic conditions are also reflected in faster growth in Austria's federal states. States with larger industrial sectors, such as Upper Austria, Styria and Vorarlberg, which also have large numbers of exporters, have recorded the strongest growth rates. The economies of Lower Austria and Vienna will grow by a substantial 1.5%. The region's construction sector should be one of the biggest winners from increased demand for living space. With a significant increase in order books, unemployment will continue to fall.

According to the OeNB's most recent economic forecasts, the countries in the Danube region, the HYPO NOE Group's extended core market, will again record growth well above the EU average in 2017, with the exception of Germany. Growth in the region as a whole is expected to quicken from 3.0% to 3.4% in 2017.

Further improvements in Austrian banks' consolidated capital adequacy are a reflection of the steps taken by financial institutions to strengthen their capitalisation in recent years. Although interest rates on savings remain low, there has been a significant increase in deposits. Corporate demand for loans went up again at the start of this year, which can be traced back to the economic upturn. There was also a modest increase in demand in the retail lending business. Given solid expansion in the banking sector as a whole, it can be assumed that the improvement in the retail sector will continue.

Outlook for Group performance

The HYPO NOE Group enjoyed a profitable first half of 2017 and succeeded in fully offsetting expenses related to regulatory requirements in the first few months of the year. The half-yearly results include expenses for the contributions to the resolution fund and the European deposit insurance fund, as well as the full-year value of the additional financial stability contribution, which is spread across four years (around EUR 15m in total). Expenses related to negative market interest rates and the required repayments to consumer borrowers are also included. Profit for the first six months of 2017 was EUR 8.6m.

The Gruppe Bank segment's core business is servicing large customers – chiefly state and local government clients – in Austria and selected Danube region countries. For the past few years, the segment has focused on its home market whilst cautiously diversifying by means of exposures in its extended core market, a strategy that has generated stable operating profit. Active reduction and diversification of the exposure in relation to public sector customers continued. As part of this, in the leasing segment partial refinancing of NÖVV was achieved by means of an international placement.

The Landesbank segment optimised its branches during the first few months of 2017. This has enabled its highly qualified sales staff to concentrate more closely on customer advice, and to identify and satisfy customers' financial needs even more effectively. In the housing association business, the Bank developed bespoke solutions aimed at meeting customer requirements as effectively as possible, further consolidating its traditionally strong position in the market.

Advances in digitalisation are also having an impact on the HYPO NOE Group's business model and processes. Following on from the successful implementation of the HYPO NOE TAN app and the redesigned electronic banking platform, customers will also have access to a new app with additional payment functions in the next few months.

The project to pave the way for the merger of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG is the Group's leading priority. Preparations are proceeding according to plan, and the merger is scheduled to take place on the weekend of 23 and 24 September 2017 on the basis of the closing financial statements of the transferor company (HYPO NOE Landesbank AG) for the year ended 31 December 2016. Approval from the regulatory authorities is required for the merger to be executed.

The merger will reintegrate the retail and residential construction businesses into HYPO NOE Gruppe Bank AG, the core bank for the State of Lower Austria. It will also enable the Group to utilise the operational and strategic strengths of both banks, and boost efficiency by simplifying the organisational structure and leveraging operational synergies.

HYPO NOE Gruppe Bank has initiated discussions to sell HYPO First Facility GmbH's foreign subsidiaries, and at the same time to find a partner to support faster growth of the business in Austria.

The HYPO NOE Group will apply IFRS 9 Financial Instruments to its consolidated financial statements for the first time in 2018. A comprehensive project to adapt processes and preparation of the accounts to the new standard has been in progress for some time. A preliminary analysis of the potential effects of IFRS 9 was carried out in the first half of 2017; however, the final results will depend on the future portfolio of financial instruments and whether certain options are exercised.

Extensive progress has been made on the debt issues planned for the current financial year. The steady expansion of the deposits business, focusing primarily on corporate customers, has contributed to continued broadening of the refinancing base. The HYPO NOE Group is very well positioned to repay the bonds backed by the State of Lower Austria that fall due this autumn, and to meet future capital adequacy requirements.

Thanks to a prudent, forward-looking management approach, the HYPO NOE Group is well equipped to deal with future challenges.

St Pölten, 9 August 2017

The Management Board

Peter Harold Chairman of the Management Board	**Udo Birkner** Member of the Management Board (from 1 Jan. 2017)	**Wolfgang Viehauser** Member of the Management Board

INTERIM FINANCIAL STATEMENTS
30.06.2017

STATEMENT OF COMPREHENSIVE INCOME

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

Profit or loss (EUR '000)	Notes	H1 2017	H1 2016
Interest and similar income	(3.1)	262,762	285,489
Interest and similar expense	(3.2)	-206,586	-222,534
Net interest income		**56,176**	**62,955**
Credit provisions	(3.3)	1,698	-9,627
Net interest income after risk provisions		**57,874**	**53,328**
Fee and commission income		8,888	8,448
Fee and commission expense		-1,407	-1,404
Net fee and commission income	(3.4)	**7,481**	**7,044**
Net trading income	(3.5)	1,698	-7,836
Administrative expenses	(3.6)	-67,418	-69,595
Net other operating income	(3.7)	14,471	21,563
Net gains or losses on investments accounted for using the equity method	(3.8)	2,280	(*) 1,439
Net gains or losses on available-for-sale financial assets	(3.9)	-520	13,828
Net gains or losses on financial assets designated as at fair value through profit or loss		65	-35
Net gains or losses on hedges	(3.10)	-4,703	-2,635
Net gains or losses on other financial investments		-32	118
Profit before tax		**11,196**	**17,219**
Income tax expense	(3.12)	-2,239	-4,150
Profit for the period from continuing operations		**8,957**	**13,069**
Earnings from discontinued operations		46	(*) 5
Profit for the period		**9,003**	**13,074**
Non-controlling interests	(3.13)	-395	-140
Profit attributable to owners of the parent		**8,608**	**12,934**

Other comprehensive income (EUR '000)	H1 2017	H1 2016
Profit attributable to owners of the parent	**8,608**	**12,934**
Items that will not be reclassified to profit or loss		
Change in actuarial gains or losses (before tax)	*-192*	*0*
Change in deferred tax	*48*	*0*
Items that may be reclassified subsequently to profit or loss		
Change in available-for-sale financial instruments (before tax)	*2,217*	*8,059*
Change in non-current assets held for sale and discontinued operations (before tax)	*0*	*-1*
Change in deferred tax	*-554*	*-2,015*
Total other comprehensive income	**1,519**	**6,044**
Total comprehensive income attributable to owners of the parent	**10,126**	**18,978**

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)	Notes	30 Jun. 2017	31 Dec. 2016
Cash and balances at central banks	(4.1)	1,494,020	164,587
Loans and advances to banks	(4.2)	995,574	998,347
Loans and advances to customers	(4.3)	10,358,218	10,854,932
Risk provisions	(4.4)	-83,052	-97,462
Assets held for trading	(4.5)	490,339	555,293
Positive fair value of hedges (hedge accounting)	(4.6)	381,804	483,215
Available-for-sale financial assets	(4.7)	1,746,041	1,967,148
Financial assets designated as at fair value through profit or loss	(4.8)	19,859	20,340
Investments accounted for using the equity method	(4.9)	30,410	(*) 28,470
Investment property		53,267	54,117
Intangible assets	(4.10)	708	918
Property, plant and equipment	(4.11)	71,125	77,525
Current tax assets	(4.12)	20,273	20,333
Deferred tax assets	(4.12)	1,914	1,443
Other assets	(4.13)	327,014	261,393
Disposal groups held for sale (IFRS 5)	(4.14)	1,499	(*) 1,452
Total assets		**15,909,013**	**15,392,051**

Equity and liabilities (EUR '000)		30 Jun. 2017	31 Dec. 2016
Deposits from banks	(4.15)	1,421,801	1,462,298
Deposits from customers	(4.16)	4,190,331	3,847,855
Debts evidenced by certificates	(4.17)	8,098,170	7,698,831
Liabilities held for trading	(4.18)	443,106	502,954
Negative fair value of hedges (hedge accounting)	(4.19)	699,131	793,697
Provisions	(4.20)	41,886	50,155
Current tax liabilities	(4.21)	19,760	20,127
Deferred tax liabilities	(4.21)	33,961	36,955
Other liabilities	(4.22)	107,620	129,430
Subordinated capital	(4.23)	202,357	202,381
Equity (incl. non-controlling interests)**	(4.24)	650,890	647,368
Equity attributable to owners of the parent – share capital		51,981	51,981
Equity attributable to owners of the parent – reserves		590,095	586,968
Non-controlling interests		8,814	8,419
Total equity and liabilities		**15,909,013**	**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 Jun. 2017, EUR '000	Balance at 1 Jan. 2017	Profit/loss for the year	Capital increase	Dividends paid	Other comprehen-sive income	Transfers	Balance at 30 Jun. 2017
Share capital	51,981	-	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	-	191,824
Retained earnings	359,380	8,608	-	-7,000	-	-	360,988
IAS 19 reserve	-5,484	-	-	-	-144	-	-5,628
Available-for-sale reserve	41,301	-	-	-	1,663	-	42,964
IFRS 5 reserve	-53	-	-	-	-	-	-53
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**638,949**	**8,608**	**-**	**-7,000**	**1,519**	**-**	**642,076**
Non-controlling interests	8,419	395	-	-	-	-	8,814
TOTAL EQUITY	**647,368**	**9,003**	**-**	**-7,000**	**1,519**	**-**	**650,890**

30 Jun. 2016, EUR '000	Balance at 1 Jan. 2016	Profit/loss for the year	Capital increase	Dividends paid	Other comprehen-sive income	Transfers	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	-	-5	304,196
IAS 19 reserve	-4,393	-	-	-	-	-	-4,394
Available-for-sale reserve	40,246	-	-	-	6,044	-	46,290
IFRS 5 reserve	-70	-	-	-	-1	-	-71
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**572,855**	**12,934**	**-**	**-2,000**	**6,043**	**-5**	**589,826**
Non-controlling interests	8,624	140	294	-261	-	5	8,802
TOTAL EQUITY	**581,479**	**13,074**	**294**	**-2,261**	**6,043**	**-**	**598,628**

See Note 4.24 Equity for more detailed information on the 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 1,368thsd in after-tax gains on available-for-sale (AFS) financial instruments (30 Jun. 2016: EUR 2,204thsd) were recycled from other comprehensive income to profit or loss.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	30.06.2017	31.12.2016
Profit for the year (before non-controlling interests)	**9,003**	**69,998**
Non-cash comprehensive income items		
Amortisation, depreciation, impairment and write-ups	4,393	-14,965
Allocations to and reversals of provisions and risk provisions	-111	8,010
Gains on disposal of financial assets and property, plant and equipment	-2,041	-41,073
Other adjustments	-29,199	5,309
Changes in assets and liabilities due to operating activities after adjustments for non-cash components		
Loans and advances to banks	4,092	-71,971
Loans and advances to customers	396,199	748,815
Available-for-sale financial assets	222,623	163,022
Other operating assets	-92,872	-163,730
Deposits from banks	-40,705	-753,086
Deposits from customers	349,987	595,004
Debts evidenced by certificates	503,167	-457,005
Other operating liabilities	912	30,995
CASH FLOWS FROM OPERATING ACTIVITIES	**1,325,447**	**119,323**
Proceeds from sale of/redemption of:		
Other investments	128	0
Property, plant and equipment, intangible assets and investment property	11,167	3,399
Purchase of:		
Other investments	0	-92
Property, plant and equipment, intangible assets and investment property	-1,221	-17,861
Cash flows from the disposal of subsidiaries	0	-807
CASH FLOWS FROM INVESTING ACTIVITIES	**10,074**	**-15,361**
Dividends paid	-7,000	-2,261
Subordinated debt – outflows	0	-1,598
CASH FLOWS FROM FINANCING ACTIVITIES	**-7,000**	**-3,860**

EUR '000	30.06.2017	31.12.2016
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**912**	**-4,501**
CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD	**164,587**	**68,986**
Cash flows from operating activities	1,325,447	119,323
Cash flows from investing activities	10,074	-15,361
Cash flows from financing activities	-7,000	-3,860
Effect of exchange rate changes on cash and cash equivalents	912	-4,501
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,494,020**	**164,587**
PAYMENTS FOR TAXES, INTEREST AND DIVIDENDS		
Income taxes refunded/paid	-5,601	-11,228
Interest received	259,474	558,087
Interest paid	-206,111	-444,431
Dividends on AFS investments received	595	2,170
Dividends received from associates	490	697
Dividends received from joint ventures	144	271

NOTES
TO THE INTERIM FINANCIAL STATEMENTS AS AT 30 JUNE 2017

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 2017 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 this interim report of the HYPO NOE Group as to the annual report as at 31 December 2016, taking account of new standards which entered into effect on 1 January 2017.

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 2016. The interim financial statements were neither audited nor reviewed by independent auditors.

DISCLOSURES ON IFRS 9 – MATERIAL IFRS STANDARD WHICH HAS ALREADY BEEN ISSUED BUT IS 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.

The effects of the application of IFRS 9 to the 2018 consolidated financial statements are not yet totally clear, and cannot be reliably estimated, because such estimates depend on financial instruments that the HYPO NOE Group will hold at a future point in time, and on the Group's choice of accounting method and the judgements it makes. The new standard requires the adaptation of processes related to the presentation and classification of financial instruments, and these adaptations have not yet been completed. During the first half of 2017, preliminary assessments of the potential impacts of IFRS 9 were carried out based on the portfolio of financial instruments held at the end of the reporting period.

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 (FVTPL), and at fair value through other comprehensive income (FVOCI). 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 portfolio, the effect of the change amounts to EUR -4m.

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.

The Group has yet to reach a final decision on the impairment methods it will employ under IFRS 9. A number of projects were launched at the computer centre in 2016 with a view to developing the technical infrastructure for impairment calculations under the new approach. Work on these projects continued in the first half of 2017. In parallel, a project for the integrated presentation of modifications was also initiated.

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 IFRS 9.

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

Amendments to IFRS 9 will be applied retrospectively, unless:

the HYPO NOE Group intends to make use of the exception under which it may choose not to adjust comparative figures from previous periods 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.

2. CHANGES IN THE SCOPE OF CONSOLIDATION

The scope of consolidation of the HYPO NOE Group includes all the subsidiaries that are directly or indirectly controlled by the parent, and are material to the presentation of the Group's assets, finances and earnings. The scope of consolidation is reviewed on an ongoing basis. As was the case at year-end 2016, apart from the parent, HYPO NOE Gruppe Bank AG, the Group comprises a total of 68 Austrian subsidiaries in which the parent meets the criteria for control.

As of 30 June 2017, 36 Austrian companies and one foreign company (31 Dec. 2016: 31 Austrian companies and five foreign companies) were accounted for in the Group's consolidated financial statements using the equity method.

Four of the five foreign subsidiaries of HYPO NOE First Facility GmbH accounted for using the equity method in 2016 (those in Bulgaria, Hungary, Romania and Slovakia) were reclassified under IFRS 5 in the interim financial statements for the six months to 30 June 2017, and the comparative figures for the same period in the previous year have been adjusted accordingly (see note 4.14 Disposal groups held for sale (IFRS 5)). Active soundings of the market in relation to the planned disposal of HYPO NOE First Facility GmbH's foreign subsidiaries located in Central and Eastern Europe (CEE) have already begun. The Group intends to dispose of the foreign part of the business in the coming months and at the same time bring a partner on board, in a structure yet to be determined, for the Austrian market.

3. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

The following tables, in notes 3.1 Interest and similar income, and 3.2 Interest and similar expense, show a net decline of EUR 6,799thsd in comparison with the first half of 2016. This is due to the further reductions in market interest rates, with negative rates in some cases. Negative interest on pre-funding for redemption of bonds backed by the State of Lower Austria that fall due in September (see note 4.1 Cash and balances at central banks) and recognition of one-time effects in the Landesbank segment due to the Austrian Supreme Court's rulings on negative interest rates (see also note 5.1 Segment profit or loss before tax) weighed on earnings.

3.1 Interest and similar income

3.1.A INTEREST AND SIMILAR INCOME

EUR '000	H1 2017	H1 2016
Interest income from:		
Cash and balances at central banks	0	2
Loans and advances to banks	2,783	1,217
Loans and advances to customers	91,033	97,139
Bonds	23,031	26,141
Hedges (hedge accounting)	80,370	90,173
Other interest income (incl. negative interest)	52,239	57,127
of which income from investment property	407	495
Rental income	*1,258*	*1,491*
Depreciation	*-851*	*-996*
Current income from:		
Leases	12,712	11,586
Shares and other variable-income securities	574	346
Other investments	20	1,758
Total	**262,762**	**285,489**

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

EUR '000	H1 2017	H1 2016
Interest and similar income from:		
Loans and receivables (LAR)	94,812	99,842
Available-for-sale (AFS) assets	23,625	28,047
Assets measured using the fair value option (FVO)	145	170
Assets held for trading (HFT)	50,605	52,853
Impaired loans and advances (unwinding)	1,201	1,408
Hedges (hedge accounting)	80,370	90,173
Interest income attributable to other periods	72	119
Net gains or losses on investment property:	407	495
Rental income	*1,258*	*1,491*
Depreciation	*-851*	*-996*
Current lease income	12,712	11,586
Current origination and commitment fees	2,719	1,853
Balances at central banks and receivables subject to negative interest rates	-3,906	-1,057
Total	**262,762**	**285,489**

3.2 Interest and similar expense

3.2.A INTEREST AND SIMILAR EXPENSE

EUR '000	H1 2017	H1 2016
Interest expense on:		
Liabilities to central banks	0	-32
Deposits from banks	-5,925	-6,082
Deposits from customers	-11,390	-12,811
Debts evidenced by certificates	-81,063	-91,373
Subordinated capital	-442	-931
Hedges (hedge accounting)	-56,377	-60,287
Other interest expense (incl. negative interest)	-51,389	-51,018
Total	**-206,586**	**-222,534**

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

EUR '000	H1 2017	H1 2016
Interest expense on:		
Financial liabilities measured at amortised cost (LAC)	-101,604	-111,693
Financial liabilities held for trading (HFT)	-48,825	-50,596
Hedges (hedge accounting)	-56,377	-60,287
Deposits with negative interest rates	220	42
Total	**-206,586**	**-222,534**

3.3 Credit provisions

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

EUR '000	H1 2017	H1 2016
Allocations	**-8,267**	**-16,743**
Individual impairment allowances	-6,923	-15,035
Collective impairment allowances	-1,333	-1,028
Other credit provisions	-11	-680
Reversals	**8,193**	**4,699**
Individual impairment allowances	6,306	3,559
Collective impairment allowances	1,610	1,114
Other credit provisions	277	26
Receipts from impaired assets	**1,815**	**2,477**
Direct write-offs	**-43**	**-60**
Total	**1,698**	**-9,627**

The increase in the reporting period compared with the first half of 2016 was the result of decreased recognition of individual impairment allowances and higher reversals.

3.4 Net fee and commission income

EUR '000	H1 2017	H1 2016
Fee and commission income	**8,888**	**8,448**
Loans and advances	593	772
Securities and custody account business	2,901	2,373
Payment transactions	2,890	2,888
Foreign exchange, foreign notes and coins, and precious metals	108	114
Other services	2,084	1,921
Diversification	309	377
Other fee and commission income	3	3
Fee and commission expense	**-1,407**	**-1,404**
Loans and advances	-34	-37
Securities and custody account business	-647	-652
Payment transactions	-506	-488
Other services	-10	-7
Diversification	-210	-220
Total	**7,481**	**7,044**

3.5 Net trading income

EUR '000	H1 2017	H1 2016
Interest rate transactions	3,176	-6,035
Foreign exchange transactions	-1,575	-1,836
Equity transactions	9	-
Other transactions	88	35
Total	**1,698**	**-7,836**

The contributions of interest rate transactions largely reflect the difference between the present value of customer derivatives and the related hedges. The change was attributable to the interest rate situation, which had a negative impact in the comparative period. The impact on earnings of foreign exchange transactions was mainly due to CHF- and USD-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 2017	H1 2016
Staff costs	-31,833	-33,909
Other administrative expenses	-32,658	-32,363
Depreciation, amortisation and impairment	-2,928	-3,323
Total	**-67,418**	**-69,595**

3.6.1 STAFF COSTS

EUR '000	H1 2017	H1 2016
Wages and salaries	-24,398	-26,050
Social security costs	-5,295	-5,709
Cost of voluntary employee benefits	-543	-584
Retirement benefit costs	-722	-818
Termination benefit costs	-875	-748
of which expenses for provident fund	*-291*	*-324*
Total	**-31,833**	**-33,909**

	H1 2017	H1 2016
Average number of employees (incl. staff on parental leave)	844	915

The figures for the first half of 2017 were shaped by a reduction in the number of employees, as well as the continuation of measures implemented in 2016 with a view to reducing staff costs. As a result, staff costs fell by around EUR 2,076thsd or 6.12% year on year, to EUR 31,833thsd.

3.6.2 OTHER ADMINISTRATIVE EXPENSES

EUR '000	H1 2017	H1 2016
Premises	-2,480	-2,846
Office and communication expenses	-632	-718
IT expenses	-5,064	-4,886
Legal and consultancy costs	-2,116	-2,315
Advertising and entertainment costs	-2,464	-2,720
Other administrative expenses	-19,902	-18,878
of which financial stability contribution (bank tax)	*-8,217*	*-7,441*
of which deposit insurance fund and resolution fund	*-8,385*	*-8,083*
of which expenses for FMA and AFREP	*-162*	*-143*
Total	**-32,658**	**-32,363**

The reductions in the individual items were largely offset by increases in other administrative expenses, in particular the financial stability contribution and contributions to the deposit insurance fund and the resolution fund.

The amount of the financial stability contribution increased in 2014 as a result of the amendments to the Stabilitätsabgabegesetz (Stability Contribution Act) that came into force on 1 April 2014. In combination with the contributions to the deposit insurance fund and the resolution fund, which came into effect in 2015, this had a negative effect on the HYPO NOE Group's earnings.

In addition to the statutory financial stability contribution, in 2016 all banks were required to pay a one-off stability contribution.

At year-end 2016, the HYPO NOE Group resolved to make the one-off contribution spread across the four years up to 2020, in accordance with section 5 Stability Contribution Act. As this payment is recognised in full at the beginning of the year and is not accrued by quarter, the contributions significantly impact reported administrative expenses, especially during the first half of the year.

3.6.3 DEPRECIATION, AMORTISATION AND IMPAIRMENT

EUR '000	H1 2017	H1 2016
Depreciation and amortisation	**-2,928**	**-2,895**
Intangible assets	-333	-325
Buildings used by Group companies	-969	-940
Equipment, fixtures and furnishings (incl. low value assets)	-1,626	-1,630
Impairment	-	**-428**
Intangible assets	-	*-428*
of which goodwill	-	*-428*
Total	**-2,928**	**-3,323**

The impairment losses in 2016 relate to a goodwill item that was written off in full in the first half of 2016.

3.7 Net other operating income/expenses

EUR '000	H1 2017	H1 2016
Other rental income	**163**	**160**
Gains/losses on:	**2,018**	**28**
Disposal of intangible assets, and property, plant and equipment	2,018	28
Net gains or losses on recognition and reversal of provisions	**225**	**2,572**
Sundry other operating income	**12,065**	**18,803**
Sundry other income	19,701	20,426
Sundry other expenses	-7,636	-1,623
Total	**14,471**	**21,563**

Gains on the disposal of intangible assets and property, plant and equipment increased by EUR 1,990thsd, mainly as a result of the sale of a property.

Net gains or losses on recognition and reversal of provisions fell by EUR 2,347thsd due to the reversal of provisions for litigation costs in 2016.

"Sundry other operating income" includes a net gain of EUR 2,593thsd (2016: EUR 5,163thsd) on currency translation (see Note 3.11 Net gains and losses on financial assets and liabilities). This item also includes net gains of EUR 3,053thsd (2016: EUR 3,229thsd) in administrative and intermediation fees, a net loss on debt repurchases of EUR 162thsd (2016: net gain of EUR 2,224thsd) and an expense of EUR 2,635thsd for recognition of a provision for repayment claims relating to negative interest for consumers in previous periods.

3.8 Net gains or losses on investments accounted for using the equity method

This item includes net gains or losses relating to 37 associates and joint ventures (36 in Austria and one abroad) accounted for using the equity method. The comparative figures from the first half of 2016 have been adjusted for presentation in accordance with IFRS 5 (see the statement of comprehensive income).

EUR '000	H1 2017	H1 2016
Net gains or losses on investments accounted for using the equity method	2,280	1,439
of which NOE Immobilien Development AG (consolidated financial statements)	*-404*	*-*
of which EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft (consolidated financial statements)	*2,452*	*988*
of which Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	*255*	*129*
Total	**2,280**	**1,439**

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

EUR '000		H1 2017	H1 2016
Income from financial assets		**53**	**13,828**
Gains on disposal	(3.11)	53	96
Write-ups		-	13,732
Expenses arising from financial assets		**-573**	**-**
Depreciation, amortisation and impairment		-573	-
Total		**-520**	**13,828**

The write-ups in the comparative period of 2016 primarily relate to Heta Asset Resolution AG bonds, as measured using the internal valuation model. As at end-2016, the HYPO NOE Group no longer held any Heta debt instruments.

3.10 Net gains or losses on hedges

EUR '000	H1 2017	H1 2016
Hedge accounting	**-4,703**	**-2,635**
Net gains or losses on underlying transactions	5,615	71,717
Net gains or losses on hedging instruments	-10,318	-74,352
Total	**-4,703**	**-2,635**

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.

3.11 Net gains or losses on financial assets and liabilities

EUR '000		H1 2017	H1 2016
Net realised gains or losses on financial assets and liabilities not measured at fair value through profit or loss		**23**	**201**
Available-for-sale financial assets	(3.9)	53	96
Loans and receivables (incl. finance leases)		-30	105
Net gains or losses on financial assets and liabilities held for trading	(3.5)	**1,698**	**-7,836**
Interest rate instruments and related derivatives		3,175	-6,036
Foreign exchange trading		-1,575	-1,836
Other (incl. hybrid derivatives)		89	36
Gains or losses on financial assets and liabilities measured at fair value through profit or loss		**65**	**-35**
Gains or losses on hedge accounting	(3.10)	**-4,703**	**-2,635**
Net gains on currency translation	(3.7)	**2,593**	**5,163**
Total		**-324**	**-5,142**

3.12 Income tax expense

EUR '000	H1 2017	H1 2016
Current income tax	-6,610	-3,870
Deferred income tax	4,371	-280
Total	**-2,239**	**-4,150**

3.13 Non-controlling interests

EUR '000	H1 2017	H1 2016
FORIS Grundstückvermietungs Gesellschaft m.b.H.	-5	-5
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	-4	-44
LITUS Grundstückvermietungs Gesellschaft m.b.H.	-4	-3
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	-14	-17
Adoria Grundstückvermietungs Gesellschaft m.b.H.	-19	3
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	-3	-8
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	-116	-72
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	-4	23
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	-226	-15
Hauptplatz 18 Entwicklungs- und Verwertungs GmbH	-	-1
Total	**-395**	**-140**

4. NOTES TO THE STATEMENT OF FINANCIAL POSITION

4.1 Cash and balances at central banks

The increase in balances at central banks reflects pre-funding, especially for own issues maturing in the second half of 2017.

EUR '000	30 Jun. 2017	31 Dec. 2016
Cash on hand	11,816	12,924
Balances at central banks	1,482,204	151,663
Total	**1,494,020**	**164,587**

4.2 Loans and advances to banks

4.2.1 GEOGRAPHICAL ANALYSIS

EUR '000	30 Jun. 2017	31 Dec. 2016
Domestic banks	120,150	112,712
Foreign banks		
CEE	845	421
Rest of the world	874,579	885,214
Total	**995,574**	**998,347**

Loans and advances to banks as at 31 December 2016 include "genuine" repurchase agreements (entered into by the Group as the transferee).

4.2.2 "GENUINE" REPURCHASE AGREEMENTS (AS THE TRANSFEREE)

EUR '000	30 Jun. 2017	31 Dec. 2016
Loans and advances to banks under repo agreements	-	49,961

4.3 Loans and advances to customers

4.3.1 CUSTOMER GROUP ANALYSIS

EUR '000	30 Jun. 2017	31 Dec. 2016
Public sector customers	4,772,568	5,150,341
Business customers	1,787,255	1,778,604
Housing developers	1,529,896	1,540,216
Retail customers	2,208,577	2,325,131
Professionals	59,922	60,640
Total	**10,358,218**	**10,854,932**

4.3.2 GEOGRAPHICAL ANALYSIS

EUR '000	30 Jun. 2017	31 Dec. 2016
Domestic customers	9,245,728	9,661,128
Foreign customers		
CEE	463,988	469,121
Rest of the world	648,502	724,683
Total	**10,358,218**	**10,854,932**

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. 2017	Exchange differences	Alloca-tions	Utilisa-tion	Reversals	Unwinding	Other changes	30 Jun. 2017
Risk provisions for customers: individual impairment allowances	**-92,927**	**-**	**-6,923**	**13,550**	**6,306**	**1,200**	**-**	**-78,794**
Public sector customers	-5,352	-	-9	-	-	10	-	-5,351
Business customers	-61,558	-	-3,989	10,934	3,078	820	-	-50,715
Housing developers	-124	-	-82	-	2	-	-	-204
Retail customers	-24,144	-	-2,832	2,616	3,106	345	-	-20,909
Professionals	-1,749	-	-11	-	120	25	-	-1,615
Risk provisions for customers: collective impairment allowances	**-4,535**	**-**	**-1,333**	**-**	**1,610**	**-**	**-**	**-4,258**
Subtotal: risk provisions for customers	**-97,462**	**-**	**-8,256**	**13,550**	**7,916**	**1,200**	**-**	**-83,052**
Credit provisions	-3,377	-	-11	-	277	-	-	-3,111
Total	**-100,839**	**-**	**-8,267**	**13,550**	**8,193**	**1,200**	**-**	**-86,163**

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

4.4.2 GEOGRAPHICAL ANALYSIS OF RISK PROVISIONS

EUR '000	30 Jun. 2017	31 Dec. 2016
Domestic	-49,165	-58,715
Foreign		
CEE	-10,510	-11,096
Rest of the world	-23,377	-27,651
Total risk provisions	**-83,052**	**-97,462**

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. 2017	31 Dec. 2016
Positive fair value of financial instruments (banking book)		
Interest rate derivatives	475,617	545,164
Foreign exchange derivatives	14,722	7,026
Other assets held for trading	-	3,103
Total	**490,339**	**555,293**

4.6 Positive fair value of hedges (hedge accounting)

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

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

EUR '000	30 Jun. 2017	31 Dec. 2016
Assets	**2,653**	**1,660**
Loans and advances to banks	87	452
Loans and advances to customers	1,171	537
Financial assets	1,395	671
Liabilities	**379,151**	**481,555**
Deposits from banks	595	1,871
Deposits from customers	13,349	23,363
Debts evidenced by certificates	365,207	456,321
Total	**381,804**	**483,215**

4.7 Available-for-sale financial assets

EUR '000	30 Jun. 2017	31 Dec. 2016
Other equity instruments	44,882	48,063
Bonds	1,698,333	1,916,170
Interests in unconsolidated subsidiaries (over 50%)	106	106
Interests in associates (20-50%)	485	492
Other investments	2,235	2,317
Total	**1,746,041**	**1,967,148**

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

EUR '000	30 Jun. 2017	31 Dec. 2016
Loans	19,859	20,340
Total	**19,859**	**20,340**

4.9 Investments accounted for using the equity method

Comparative figures from the end of the previous year have been adjusted for presentation in accordance with IFRS 5 (see note 4.14 Disposal groups held for sale (IFRS 5)).

EUR '000	30 Jun. 2017	31 Dec. 2016
Banks	2,570	2,632
Non-banks	27,840	25,838
Total	**30,410**	**28,470**

4.10 Intangible assets

EUR '000	30 Jun. 2017	31 Dec. 2016
Intangible assets		
Software	708	918
Total intangible assets	**708**	**918**

4.11 Property, plant and equipment

EUR '000	30 Jun. 2017	31 Dec. 2016
Property, plant and equipment		
Land and buildings	62,427	68,137
IT equipment	637	740
Equipment, fixtures and furnishings	7,866	8,588
Other property, plant and equipment	195	60
Total property, plant and equipment	**71,125**	**77,525**

The carrying amount of land as at 30 June 2017 was EUR 12,983thsd (2016: EUR 17,392thsd). The reduction in property, plant and equipment was mainly due to disposals (see Note 3.7 Net other operating income).

The fair value of land and buildings as at 30 June 2017 was EUR 71,125thsd (2016: EUR 78,480thsd); the fall was the result of the disposal of land.

4.12 Tax assets

EUR '000	30 Jun. 2017	31 Dec. 2016
Current tax assets	20,273	20,333
Deferred tax assets	1,914	1,443
Total	**22,187**	**21,776**

No deferred tax assets were recognised in respect of tax loss carryforwards of EUR 19,420thsd (2016: EUR 20,120thsd).

4.13 Other assets

EUR '000	30 Jun. 2017	31 Dec. 2016
Accruals and deferrals	1,132	1,332
Other receivables and assets	325,882	260,061
of which future finance lease assets	*306,187*	233,618
of which value added tax (VAT) and other tax credits (other than income tax)	*6,954*	8,461
of which trade receivables	*7,281*	3,995
Total	**327,014**	**261,393**

4.14 Disposal groups held for sale (IFRS 5)

Assets are recognised under this item if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset or disposal group must be available for immediate sale in its present condition, and its sale must be highly probable.

EUR '000	30 Jun. 2017	31 Dec. 2016
Disposal groups held for sale (IFRS 5)	1,499	1,452
Total	**1,499**	**1,452**

As of 30 June 2017, four of the five foreign subsidiaries of HYPO NOE First Facility GmbH previously accounted for using the equity method were reclassified as disposal groups held for sale in accordance with IFRS 5.

Implementation of the decision in principle to pursue strategic options for the facility management business in the CEE region began in the second quarter of 2017, and market soundings were taken during the period. It can be assumed that the fair value less costs to sell exceeds the carrying amount of the investments accounted for using the equity method, and hence no impairments were recognised on reclassification. Management expects disposal to take place within one year.

Discontinued operations will not make any contribution to net cash flows in 2017. Net cash flows of EUR 107thsd were recognised as dividends received from associates as at 31 Dec. 2016.

4.15 Deposits from banks

4.15.1 GEOGRAPHICAL ANALYSIS

EUR '000	30 Jun. 2017	31 Dec. 2016
Domestic banks	356,473	257,591
Foreign banks		
CEE	62,266	33,755
Rest of the world	1,003,062	1,170,952
Total	**1,421,801**	**1,462,298**

The deposits from banks as at 30 June 2017 include "genuine" sale and repurchase agreements entered into by the Group (as the transferor).

4.15.2"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.

This transaction was related to an ECB/OeNB tender.

EUR '000	30 Jun. 2017	31 Dec. 2016
Liabilities to banks under repo agreements	100,000	-

4.16 Deposits from customers

4.16.1 CUSTOMER GROUP ANALYSIS

EUR '000	30 Jun. 2017	31 Dec. 2016
Savings deposits	**938,582**	**948,739**
Demand and time deposits	**3,251,749**	**2,899,116**
Public sector customers	1,039,940	889,296
Business customers	1,431,356	1,377,405
Housing developers	178,441	126,604
Retail customers	540,596	451,250
Professionals	61,416	54,561
Total	**4,190,331**	**3,847,855**

4.16.2 GEOGRAPHICAL ANALYSIS

EUR '000	30 Jun. 2017	31 Dec. 2016
Domestic customers	3,580,176	3,135,646
Foreign customers		
CEE	106,664	114,055
Rest of the world	503,491	598,154
Total	**4,190,331**	**3,847,855**

4.17 Debts evidenced by certificates

EUR '000	30 Jun. 2017	31 Dec. 2016
Covered and municipal bonds	4,880,030	4,268,363
Other bonds	3,217,875	3,430,202
Profit-sharing certificates	265	266
Total	**8,098,170**	**7,698,831**

Debts evidenced by certificates included new issues, floated during the reporting period, of EUR 929,252thsd (2016: EUR 305,052thsd). The Group repurchased issued debt amounting to EUR 24,539thsd (2016: EUR 102,816thsd).

4.18 Liabilities held for trading

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

EUR '000	30 Jun. 2017	31 Dec. 2016
Negative fair value of financial instruments (banking book)		
Interest rate derivatives	431,028	500,148
Foreign exchange derivatives	12,078	2,806
Total	**443,106**	**502,954**

4.19 Negative fair value of hedges (hedge accounting)

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

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

EUR '000	30 Jun. 2017	31 Dec. 2016
Assets	**656,725**	**765,681**
Loans and advances to customers	544,283	631,647
Available-for-sale financial assets	112,442	134,034
Liabilities	**42,406**	**28,016**
Deposits from banks	123	109
Debts evidenced by certificates	42,283	27,907
Total	**699,131**	**793,697**

4.20 Provisions

EUR '000	30 Jun. 2017	31 Dec. 2016
Employee benefit provisions	**37,514**	**37,722**
Provisions for pensions	24,056	24,644
Provisions for termination benefits	11,512	11,220
Provisions for jubilee benefits	1,946	1,858
Credit provisions	**3,111**	**3,377**
Other provisions	**1,261**	**9,056**
Total	**41,886**	**50,155**

The fall in other provisions was mainly attributable to reversal of provisions related to a debtor warrant.

4.21 Tax liabilities

EUR '000	30 Jun. 2017	31 Dec. 2016
Current tax liabilities	19,760	20,127
Deferred tax liabilities	33,961	36,955
Total	**53,721**	**57,082**

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

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

4.22 Other liabilities

EUR '000	30 Jun. 2017	31 Dec. 2016
Accruals and deferrals	19,762	27,555
Sundry other liabilities	87,857	101,875
of which trade payables	*24,475*	*28,270*
of which outstanding invoices	*37,754*	*47,227*
of which VAT and other tax liabilities (other than income tax)	*3,249*	*6,919*
of which legal and consultancy costs	*657*	*1,230*
of which phantom-share-based cash incentives	*201*	*1,339*
Total	**107,619**	**129,430**

4.23 Subordinated capital

EUR '000	30 Jun. 2017	31 Dec. 2016
Subordinated capital	202,357	202,381
of which subordinated loans	*1,453*	*1,453*

4.24 Equity

EUR '000	30 Jun. 2017	31 Dec. 2016
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	37,283	35,764
Retained earnings	360,988	359,380
Equity attributable to owners of the parent	**642,076**	**638,949**
Non-controlling interests	8,814	8,419
Total	**650,890**	**647,368**

4.25 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 Jun. 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	489,680	489,801
of which retained earnings	*348,792*	*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	*36,024*	*36,024*
Prudential filter: adjustments based on the requirements for prudential measurement	-3,807	-4,350
Other adjustments to CET1 capital	-8,315	-16,631
Intangible assets	-616	-834
CET1 capital	613,488	604,533
Additional Tier 1 (AT1) capital	-	-
Tier 1 (T1) capital	**613,488**	**604,533**
Holdings subject to deductions pursuant to Art. 36 and Art. 89 CRR	-	-
Eligible T1 capital	**613,488**	**604,533**
Paid-up capital instruments and subordinated loans	6,824	21,692
Instruments issued by subsidiaries and recognised in Tier 2 (T2) capital	2,134	6,504
of which grandfathering	*32*	*476*
T2 capital	**8,958**	**28,196**
Holdings subject to deductions pursuant to Art. 36 and Art. 89 CRR	-	-
Eligible T2 capital	**8,958**	**28,196**
Total own funds	**622,446**	**632,730**
Capital requirement	**283,969**	**295,994**
Surplus total capital	**338,477**	**336,736**
Capital ratios	219.20%	213.76%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	17.28%	16.34%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR – fully phased in	17.51%	16.78%
Total capital ratio in accordance with Art. 92(2)(c) CRR	17.54%	17.10%
Total capital ratio in accordance with Art. 92(2)(c) CRR – fully phased in	17.77%	17.53%

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

EUR '000	CRR/CRD IV 30 Jun. 2017	CRR/CRD IV 31 Dec. 2016
Risk-weighted exposure for credit risk	3,128,556	3,265,067
of which 8% minimum capital requirement	250,284	261,205
Capital requirement for position, foreign exchange and commodities risk	-	-
Capital requirement for operational risk	24,557	23,704
Capital requirement for CVA	9,128	11,085
Total capital requirement	**283,969**	**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 June 2017 was EUR 284.0m – a reduction of EUR 12.0m or 4.1% 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 10.3m, to EUR 622.4m (31 Dec. 2016: EUR 632.7m). The main changes chiefly related to:

the decrease of EUR 19.2m in Tier 2 capital (reductions in eligibility due to shorter residual maturities), which was mostly not offset by

the increase of EUR 9.0m in Tier 1 capital. The AFS reserve (financial assets measured at fair value), which is not creditable under the "Other adjustments to CET1 capital" item, decreased by EUR 8.3m owing mainly to the rise in eligibility from 60% (2016) to 80% (2017).

5. BUSINESS SEGMENT INFORMATION

Presentation has been adjusted for the reclassification of assets in application of IFRS 5 (see note 2 Changes in the scope of consolidation and note 4.14 Disposal groups held for sale (IFRS 5)).

5.1 SEGMENT PROFIT OR LOSS BEFORE TAX

H1 2017, EUR '000	Gruppe Bank	Landesbank	Leasing	Other	Consolidation	Total
Net interest income	37,727	16,704	2,213	-468	-	56,176
Credit risk provisions	758	123	790	27	-	1,698
Net interest income/expense after risk provisions	**38,485**	**16,827**	**3,003**	**-441**	**-**	**57,874**
Net fee and commission income/expense	213	7,271	-3	-	-	7,481
Net trading income	1,720	-	-	-	-22	1,698
Net gains or losses on hedges	-4,648	-55	-	-	-	-4,703
Net gains or losses on financial assets measured using the fair value option	65	-	-	-	-	65
Net gains or losses on available-for-sale financial assets	-520	-	-	-	-	-520
Net gains or losses on other financial investments	-30	-	-	642	-644	-32
Net other operating income	11,359	746	1,969	7,432	-7,035	14,471
Operating income after credit risk provisions	**46,644**	**24,790**	**4,969**	**7,633**	**-7,701**	**76,334**
Staff costs	-14,567	-10,904	-1,418	-4,944	-	-31,833
Other administrative expenses	-24,138	-12,981	-828	-2,412	7,701	-32,658
Depreciation and amortisation (excl. investment properties)	-905	-872	-52	-1,100	-	-2,928
Operating expense	**-39,609**	**-24,757**	**-2,298**	**-8,456**	**7,701**	**-67,419**
Net gains or losses on investments accounted for using the equity method	2,717	-	-11	-426	-	2,280
Profit/loss for the period before tax	**9,752**	**33**	**2,660**	**-1,249**	**-**	**11,196**
Income tax expense	8,957					-2,239
Profit for the period from continuing operations						**8,957**
Earnings from discontinued operations	-	-	-	46	-	46
Profit for the period						**9,003**
Non-controlling interests						-395
Profit attributable to owners of the parent						**8,608**

H1 2016, EUR '000	Gruppe Bank	Landesbank	Leasing	Other	Consolidation	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/expense after risk provisions	**29,311**	**22,540**	**2,043**	**-305**	**-261**	**53,328**
Net fee and commission income/expense	464	6,606	-7	-19	-	7,044
Net trading loss	-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/expense	17,664	1,751	1,528	7,936	-7,316	21,563
Operating income/expense 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 disposal of consolidated subsidiaries	-	-	-	-	-	-
Net gains or losses on investments accounted for using the equity method	1,225	-	-26	240	-	1,439
Profit/loss for the period before tax	**10,787**	**6,861**	**1,445**	**-1,614**	**-261**	**17,219**
Income tax expense	13,069					-4,150
Profit for the period from continuing operations						**13,069**
Earnings from discontinued operations	-	-	-	5	-	5
Profit for the period						**13,074**
Non-controlling interests						-140
Profit for the period from continuing operations						**12,934**

GRUPPE BANK

The Gruppe Bank segment's pre-tax profit was virtually unchanged year on year in the first half of 2017. The increase in net interest income after credit provisions, largely due to net income from credit risk provisions, compensated for falls in other items of operating income, including net gains or losses on available-for-sale financial assets (mainly caused by write-ups of Heta debt instruments in the previous year). Staff costs were slightly lower year on year. Despite the burden of the statutory contributions to the resolution fund and the financial stability contribution ("bank tax"), which must be recognised in their full amount for the year in the interim accounts, other administrative expenses increased only moderately overall.

LANDESBANK

Due to lower net interest income (including the non-recurring effect of EUR 1.4 m in expenses occasioned by the Austrian Supreme Court's decision on negative interest rates for consumers) and lower net gains from credit risk provisions, net interest income after risk provisions in the Landesbank segment declined by EUR 5.7m year on year during the reporting period. Net fee and commission income rose year on year, while staff costs fell by EUR 1.1m or 9.5%. Additional expenses related to a provision of EUR 2.7m for negative interest for consumers in previous periods, recognised in net other operating income, and the statutory contributions to the resolution fund and the financial stability contribution ("bank tax"), which must be recognised in their full amount for the year in the interim accounts, led to significantly lower pre-tax profit.

LEASING

Initiated in 2016, the strategy of broadening the investor base was continued in the first half of 2017. In the area of forfaiting for lease receivables, a further lease receivable was successfully placed on the Austrian market. Negotiations on the placement of an international loan via a special purpose leasing entity are still in progress and should be concluded in the third quarter of this year.

Earnings as at 30 June 2017 were largely on budget. Staff costs were almost unchanged at EUR 1.4m. Protracted legal proceedings were settled out of court, meaning that an impairment allowance of approximately EUR 0.7m, recognised some time ago, was reversed. Profit was higher in the first half year on year, principally due to this one-time effect.

OTHER

The loss for the period before tax recorded by the Other segment fell by EUR 0.4m year on year in the first half of 2017. Key contributing factors were:

- Positive effects in the first half of 2017 were offset by, among other things, start-up losses at project companies owned by NID AG (in which the Group has a 48% stake). These are currently recognised in net gains or losses on investments accounted for using the equity method, while in the previous year they were included in consolidation and recognised in individual items in the consolidated financial statements.
- Staff costs fell by EUR 0.7m.
- In the like period in 2016 goodwill impairments of EUR 0.4m recognised in respect of HYPO NOE First Facility GmbH (HFF) affected the segment's profit for the period.

CONSOLIDATION

The amounts in the column that reconciles the segment results with 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.

5.2 Segment assets and liabilities

30 Jun. 2017, EUR '000	Gruppe Bank	Landesbank	Leasing	Other	Consolidation	Total
Assets						
Cash and balances at central banks	1,473,596	20,420	-	4	-	1,494,020
Loans and advances to banks	1,198,154	460,089	57,989	16,533	-737,191	995,574
Loans and advances to customers	8,405,208	2,058,749	1,999,158	13,971	-2,118,868	10,358,218
Risk provisions	-41,136	-41,880	-	-36	-	-83,052
Assets held for trading	494,218	138	-	-	-4,017	490,339
Positive fair value of hedges (hedge accounting)	403,189	21,293	-	-	-42,678	381,804
Available-for-sale financial assets	1,709,274	236,559	7,383	136	-207,311	1,746,041
Financial assets designated as at fair value through profit or loss	19,859	-	-	-	-	19,859
Investments accounted for using the equity method	13,771	-	2,284	14,355	-	30,410
Investment property	-	-	10,663	42,604	-	53,267
Intangible assets	367	212	1	128	-	708
Property, plant and equipment	4,107	5,885	559	60,574	-	71,125
Tax assets	19,299	259	2,268	361	-	22,187
Other assets	7,314	2,378	354,742	5,536	-42,956	327,014
Disposal groups held for sale (IFRS 5)	-	-	-	1,499	-	1,499
Total assets	**13,707,220**	**2,764,102**	**2,435,047**	**155,665**	**-3,153,021**	**15,909,013**
Equity and liabilities						
Deposits from banks	1,773,637	210,771	2,118,281	87,078	-2,767,966	1,421,801
Deposits from customers	2,183,100	1,956,770	122,562	166	-72,267	4,190,331
Debts evidenced by certificates	7,761,417	376,417	265	-	-39,929	8,098,170
Liabilities held for trading	443,106	138	-	-	-138	443,106
Negative fair value of hedges (hedge accounting)	716,604	25,205	-	-	-42,678	699,131
Provisions	29,371	10,574	1,096	845	-	41,886
Tax liabilities	34,218	80	17,719	1,704	-	53,721
Other liabilities	22,893	18,390	58,655	25,003	-17,321	107,620
Subordinated capital	190,797	50,106	2,907	-	-41,453	202,357
Equity (incl. non-controlling interests)	552,077	115,651	113,562	40,869	-171,269	650,890
Equity attributable to owners of the parent	552,077	115,651	104,748	40,869	-171,269	642,076
Non-controlling interests	-	-	8,814	-	-	8,814
Total equity and liabilities	**13,707,220**	**2,764,102**	**2,435,047**	**155,665**	**-3,153,021**	**15,909,013**

31 Dec. 2016, EUR '000	Gruppe Bank	Landesbank	Leasing	Other	Consolidation	Total
Assets						
Cash and balances at central banks	134,988	29,594	-	5	-	164,587
Loans and advances to banks	1,228,396	325,155	41,073	8,832	-605,109	998,347
Loans and advances to customers	8,754,467	2,093,808	2,131,982	13,159	-2,138,484	10,854,932
Risk provisions	-52,500	-42,634	-2,265	-64	1	-97,462
Assets held for trading	555,293	80	-	-	-80	555,293
Positive fair value of hedges (hedge accounting)	506,320	26,446	-	-	-49,551	483,215
Available-for-sale financial assets	1,926,787	240,159	7,435	136	-207,369	1,967,148
Financial assets designated as at fair value through profit or loss	20,340	-	-	-	-	20,340
Investments accounted for using the equity method	11,415	-	2,295	16,212	-	29,922
Investment property	-	-	10,846	43,271	-	54,117
Intangible assets	562	248	2	105	1	918
Property, plant and equipment	4,505	6,456	511	66,053	-	77,525
Tax assets	19,359	295	1,737	385	-	21,776
Other assets	7,274	4,870	283,665	10,740	-46,608	259,941
Disposal groups held for sale (IFRS 5)	-	-	-	1,452	-	1,452
Total assets	**13,117,206**	**2,684,477**	**2,477,281**	**160,286**	**-3,047,199**	**15,392,051**
Equity and liabilities						
Deposits from banks	1,676,080	236,757	2,140,089	104,304	-2,694,932	1,462,298
Deposits from customers	1,950,282	1,827,028	120,315	1,191	-50,961	3,847,855
Debts evidenced by certificates	7,337,019	397,600	266	53	-36,107	7,698,831
Liabilities held for trading	502,954	80	-	-	-80	502,954
Negative fair value of hedges (hedge accounting)	815,008	28,240	-	-	-49,551	793,697
Provisions	37,656	10,420	1,075	1,004	-	50,155
Tax liabilities	30,671	4,831	19,742	1,758	80	57,082
Other liabilities	26,530	14,575	82,628	8,624	-2,928	129,429
Subordinated capital	190,807	50,120	2,907	-	-41,453	202,381
Equity (incl. non-controlling interests)	550,199	114,826	110,259	43,352	-171,267	647,369
Equity attributable to owners of the parent	550,199	114,826	101,840	43,352	-171,267	638,950
Non-controlling interests	-	-	8,419	-	-	8,419
Total equity and liabilities	**13,117,206**	**2,684,477**	**2,477,281**	**160,286**	**-3,047,199**	**15,392,051**

5.3 Segment key indicators

Due to the consolidation of the segments, reconciliation with the Group-level key indicators is not possible.

30 Jun. 2017, EUR '000		Gruppe Bank	Landesbank	Leasing	Other	Total
Cost/income ratio**	Operating expenses/operating income*	[1] 81.5%	[2] 100.4%	55.1%	117.8%	87.7%

30 Jun. 2016, EUR '000		Gruppe Bank	Landesbank	Leasing	Other	Total
Cost/income ratio**	Operating expenses/operating income*	[1] 63.6%	[2] 84.8%	59.1%	118.8%	72.2%

* 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] The year-on-year increase in the cost/income ratio for the Gruppe Bank segment in the first half of 2017 is mainly due to income from write-ups on recognition of Heta Asset Resolution AG (HETA) bonds as at 30 June 2016. Operating expense was almost unchanged year on year.

[2] The high cost/income ratio for the Landesbank segment in the first half of 2017 is principally attributable to the recognition of a provision for negative interest rates for consumers. The cost/income ratio excluding this effect is 86.1%. The low ratio in the comparative period was mainly due to income from write-ups on recognition of Heta Asset Resolution AG (HETA) bonds. Operating expense fell by EUR 1.1m year on year in the first half.

6. SUPPLEMENTARY INFORMATION

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 6.5 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. 2017		31 Dec. 2016	
EUR '000	Fair value	Carrying amount	Fair value	Carrying amount
Assets				
Loans and advances to banks	992,711	995,574	992,739	998,347
Loans and advances to customers[1]	10,611,196	10,279,424	10,863,776	10,762,005
Assets held for trading	490,339	490,339	555,293	555,293
Positive fair value of hedges	381,804	381,804	483,215	483,215
Available-for-sale financial assets	1,746,041	1,746,041	1,967,148	1,967,148
Financial assets designated as at fair value through profit or loss	19,859	19,859	20,340	20,340
Investments accounted for using the equity method	30,410	30,410	28,470	28,470
Investment property	55,614	53,267	55,872	54,117
Sundry other assets (inc. IFRS 5)	328,513	328,513	262,848	262,845
Total assets	**14,656,487**	**14,325,231**	**15,229,701**	**15,131,780**
Equity and liabilities				
Deposits from banks	1,424,923	1,421,801	1,464,085	1,462,298
Deposits from customers	4,185,834	4,190,331	3,844,685	3,847,855
Debts evidenced by certificates	8,233,158	8,098,170	7,850,003	7,698,831
Liabilities held for trading	443,114	443,106	502,954	502,954
Negative fair value of hedges	699,131	699,131	793,697	793,697
Other liabilities	107,620	107,620	129,692	129,429
Subordinated capital	202,365	202,357	182,434	202,381
Total equity and liabilities	**15,296,145**	**15,162,516**	**14,767,550**	**14,637,445**

[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. 2017, EUR '000	Total fair value	Fair value measurement Level 1	Level 2	Level 3
Assets				
Loans and advances to banks	992,711	-	988,058	4,653
Loans and advances to customers	10,611,196	-	45,724	10,565,472
Assets held for trading	490,339	-	50,013	440,326
Positive fair value of hedges	381,804	-	381,804	-
Available-for-sale financial assets	1,746,041	1,550,967	60,376	134,698
Financial assets designated as at fair value through profit or loss	19,859	-	-	19,859
Investments accounted for using the equity method	30,410	-	-	30,410
Investment property	55,614	-	-	55,614
Sundry other assets (inc. IFRS 5)	328,513	-	-	328,513
Total assets	**14,656,487**	**1,550,967**	**1,525,975**	**11,579,545**
Equity and liabilities				
Deposits from banks	1,424,923	-	1,318,786	106,137
Deposits from customers	4,185,834	-	-	4,185,834
Debts evidenced by certificates	8,233,158	4,220,225	3,999,265	13,668
Liabilities held for trading	443,114	-	443,098	16
Negative fair value of hedges	699,131	-	699,131	-
Other liabilities	107,620	-	-	107,620
Subordinated capital	202,365	-	180,912	21,453
Total equity and liabilities	**15,296,145**	**4,220,225**	**6,641,192**	**4,434,728**

The fair value of properties in accordance with IAS 16 was EUR 71,125thsd – well above the carrying amount of EUR 62,427thsd (31 Dec. 2016: fair value EUR 78,480thsd, carrying amount EUR 68,137thsd).

Detailed information on Level 3 financial assets measured at fair value is shown in Note 6.1.3 Fair value hierarchy: Level 3 disclosures.

As in 2016, there were no transfers of individual financial instruments between the different levels of the fair value hierarchy in the first half of 2017.

31 Dec. 2016, EUR '000	Total fair value	Fair value measurement Level 1	Level 2	Level 3
Assets				
Loans and advances to banks	992,739	-	989,861	2,878
Loans and advances to customers	10,863,776	-	45,542	10,818,234
Assets held for trading	555,293	-	53,448	501,845
Positive fair value of hedges	483,215	-	483,215	-
Available-for-sale financial assets	1,967,148	1,766,239	64,442	136,467
Financial assets designated as at fair value through profit or loss	20,340	-	-	20,340
Investments accounted for using the equity method	28,470	-	-	28,470
Investment property	55,872	-	-	55,872
Sundry other assets (inc. IFRS 5)	262,848	-	-	262,848
Total assets	**15,229,701**	**1,766,239**	**1,636,508**	**11,826,954**
Equity and liabilities				
Deposits from banks	1,464,085	-	1,354,791	109,294
Deposits from customers	3,844,685	-	-	3,844,685
Debts evidenced by certificates	7,850,003	3,584,859	4,251,455	13,689
Liabilities held for trading	502,954	-	502,954	-
Negative fair value of hedges	793,697	-	793,697	-
Other liabilities	129,692	-	-	129,692
Subordinated capital	182,434	-	180,981	1,453
Total equity and liabilities	**14,767,550**	**3,584,859**	**7,083,878**	**4,098,813**

6.1.3 FAIR VALUE HIERARCHY: LEVEL 3 DISCLOSURES

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

EUR '000	1 Jan. 2017	Gains or losses: In profit or loss	Gains or losses: In other comprehensive income	Purchases	Settlements	Reclassification	30 Jun. 2017	Gains/losses recognised in statement of profit or loss for assets held as at 30 Jun. 2017
Assets								
Assets held for trading	501,845	-61,519	-	-	-	-	440,326	-60,498
Available-for-sale financial assets	136,467	-1,957	1,736	-	-1,549	-	134,698	-1,957
Financial assets designated as at fair value through profit or loss	20,340	65	-	-	-546	-	19,859	65
Total assets	**658,652**	**-63,411**	**1,736**	**-**	**-2,095**	**-**	**594,883**	**-62,390**
Equity and liabilities								
Liabilities held for trading	-	16	-	-	-	-	16	-108
Total equity and liabilities	**-**	**16**	**-**	**-**	**-**	**-**	**16**	**-108**

The gains or losses on Level 3 assets are largely composed of the losses of EUR 60,498thsd on assets held for trading (2016: losses of EUR 15,024thsd) discussed in Note 3.5.

EUR '000	1 Jan. 2016	Gains or losses: In profit or loss	Gains or losses: In other comprehensive income	Purchases	Settlements	Reclassification	31 Dec. 2016	Gains/losses recognised in statement of profit or loss for assets held as at 31 Dec. 2016
Assets								
Assets held for trading	525,386	-23,541	-	-	-	-	501,845	-15,024
Available-for-sale financial assets	275,309	26,395	-515	10,092	-174,794	-20	136,467	1,472
Financial assets designated as at fair value through profit or loss	-	311	-	20,465	-437	-	20,340	318
Total assets	**800,695**	**3,165**	**-515**	**30,557**	**-175,231**	**-20**	**658,652**	**-13,234**
Equity and liabilities								
Liabilities held for trading	-	-	-	-	-	-	-	-
Total equity and liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

6.1.4 LEVEL 3 SENSITIVITY ANALYSIS

The disclosures below present the potential impact of the relative uncertainty involved in determining the fair value of financial instruments for which measurement is largely based on unobservable parameters (Level 3). Sensitivity indicators are used to analyse the level of uncertainty associated with measurement. The following parameters are taken into account in the sensitivity analysis:

- CDS spreads used to determine the CVA/DVA when measuring derivatives without collateral agreements;
- Credit spreads in the measurement of illiquid securities forming part of the AFS portfolio, and
- Upward valuation adjustments to reflect credit risk and liquidity costs when measuring loans contained in the fair value portfolio.

On the basis of this framework a range of 10 basis points (bp) for changes in the aforementioned parameters was used in the analysis presented in the table below.

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

	30 Jun. 2017		31 Dec. 2016	
EUR '000	Positive changes in fair value	Negative changes in fair value	Positive changes in fair value	Negative changes in fair value
Derivatives	-	-1,792	-	-2,135
Securities	-	-1,321	-	-1,420
Loans measured using the FVO	-	-49	-	-58
Total	**-**	**-3,161**	**-**	**-3,613**

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. 2017, EUR '000	Financial assets/ liabilities (gross)	Reported amounts offset (gross) (-)	Financial assets reported (net)	Not offset: Effect of master netting agreements (-)	Not offset: Collateral in the form of financial instruments (-)	Net amount
	(a)	(b)	(c)=(a)+(b)	(d)(i), (d)(ii)	(d)(ii)	(e)=(c)+(d)
Assets						
Assets held for trading	490,339	-	490,339	-119	-	490,220
Positive fair value of hedges	381,804	-	381,804	-307,943	-62,326	11,535
Total assets	**872,143**	**-**	**872,143**	**-308,062**	**-62,326**	**501,755**
Equity and liabilities						
Liabilities held for trading	443,106	-	443,106	-119	-	442,987
Negative fair value of hedges	699,131	-	699,131	-307,943	-	391,188
Total equity and liabilities	**1,142,237**	**-**	**1,142,237**	**-308,062**	**-**	**834,175**

31 Dec. 2016, EUR '000	Financial assets/ liabilities (gross)	Reported amounts offset (gross) (-)	Financial assets reported (net)	Not offset: Effect of master netting agreements (-)	Not offset: Collateral in the form of financial instruments (-)	Net amount
	(a)	(b)	(c)=(a)+(b)	(d)(i), (d)(ii)	(d)(ii)	(e)=(c)+(d)
Assets						
Assets held for trading	555,293	-	555,293	-36,747	-106	518,440
Positive fair value of hedges	483,215	-	483,215	-386,293	-76,165	20,757
Total assets	**1,038,508**	**-**	**1,038,508**	**-423,040**	**-76,271**	**539,197**
Equity and liabilities						
Liabilities held for trading	502,954	-	502,954	-36,747	-	466,207
Negative fair value of hedges	793,697	-	793,697	-386,293	-	407,404
Total equity and liabilities	**1,296,651**	**-**	**1,296,651**	**-423,040**	**-**	**873,611**

6.2 Derivatives

	30 Jun. 2017			31 Dec. 2016		
		Fair value			Fair value	
EUR '000	Nominal value	Positive	Negative	Nominal value	Positive	Negative
Derivatives held for trading						
Interest rate	5,543,697	475,617	431,028	5,999,574	545,164	500,148
Foreign currencies and gold	940,617	14,722	12,078	994,489	7,026	2,806
Total	**6,484,314**	**490,339**	**443,106**	**6,994,063**	**552,190**	**502,954**
Fair value hedges						
Interest rate	11,163,496	373,094	684,659	11,213,219	469,229	785,519
Foreign currencies and gold	253,582	8,710	14,472	289,724	13,986	8,178
Total	**11,417,078**	**381,804**	**699,131**	**11,502,943**	**483,215**	**793,697**

6.3 Analysis of assets and liabilities by IAS 39 measurement categories

30 Jun. 2017, EUR '000	Loans and receivables (LAR)	Liabilities measured at amortised cost (LAC)	Assets held for trading (HFT)	Designated as at fair value through profit or loss (FVTPL)	Available-for-sale (AFS) assets	Fair value hedges	Financial assets/ liabilities at cost (amortised cost)	Total
Cash and balances at central banks	-	-	-	-	-	-	1,494,020	1,494,020
Loans and advances to banks	995,574	-	-	-	-	-	-	995,574
Loans and advances to customers	10,358,218	-	-	-	-	-	-	10,358,218
Risk provisions	-83,052	-	-	-	-	-	-	-83,052
Assets held for trading	-	-	490,339	-	-	-	-	490,339
Positive fair value of hedges	-	-	-	-	-	381,804	-	381,804
Available-for-sale financial assets	-	-	-	-	1,746,041	-	-	1,746,041
Financial assets designated as at fair value through profit or loss	-	-	-	19,859	-	-	-	19,859
Investments accounted for using the equity method	-	-	-	-	-	-	30,410	30,410
Investment property	-	-	-	-	-	-	53,267	53,267
Other financial assets[1]	325,882	-	-	-	-	-	-	325,882
Total financial assets	**11,596,622**	**-**	**490,339**	**19,859**	**1,746,041**	**381,804**	**1,577,697**	**15,812,362**
Deposits from banks	-	1,421,801	-	-	-	-	-	1,421,801
Deposits from customers	-	4,190,331	-	-	-	-	-	4,190,331
Debts evidenced by certificates	-	8,098,170	-	-	-	-	-	8,098,170
Liabilities held for trading	-	-	443,106	-	-	-	-	443,106
Negative fair value of hedges	-	-	-	-	-	699,131	-	699,131
Subordinated capital	-	202,357	-	-	-	-	-	202,357
Other financial liabilities[1]	-	87,858	-	-	-	-	-	87,858
Total financial liabilities	**-**	**14,000,517**	**443,106**	**-**	**-**	**699,131**	**-**	**15,142,754**

31 Dec. 2016, EUR '000	Loans and receivables (LAR)	Liabilities measured at amortised cost (LAC)	Assets held for trading (HFT)	Designated as at fair value through profit or loss (FVTPL)	Available-for-sale (AFS) assets	Fair value hedges	Financial assets/ liabilities at cost (amortised cost)	Total
Cash and balances at central banks	-	-	-	-	-	-	164,587	164,587
Loans and advances to banks	998,347	-	-	-	-	-	-	998,347
Loans and advances to customers	10,854,932	-	-	-	-	-	-	10,854,932
Risk provisions	-97,462	-	-	-	-	-	-	-97,462
Assets held for trading	-	-	555,293	-	-	-	-	555,293
Positive fair value of hedges	-	-	-	-	-	483,215	-	483,215
Available-for-sale financial assets	-	-	-	-	1,967,148	-	-	1,967,148
Financial assets designated as at fair value through profit or loss	-	-	-	20,340	-	-	-	20,340
Investments accounted for using the equity method	-	-	-	-	-	-	28,470	28,470
Investment property	-	-	-	-	-	-	54,117	54,117
Other financial assets[1]	260,061	-	-	-	-	-	-	260,061
Total financial assets	**12,015,878**	**-**	**555,293**	**20,340**	**1,967,148**	**483,215**	**248,626**	**15,290,500**
Deposits from banks	-	1,462,298	-	-	-	-	-	1,462,298
Deposits from customers	-	3,847,855	-	-	-	-	-	3,847,855
Debts evidenced by certificates	-	7,698,831	-	-	-	-	-	7,698,831
Liabilities held for trading	-	-	502,954	-	-	-	-	502,954
Negative fair value of hedges	-	-	-	-	-	793,697	-	793,697
Subordinated capital	-	202,381	-	-	-	-	-	202,381
Other financial liabilities[1]	-	101,874	-	-	-	-	-	101,874
Total financial liabilities	**-**	**13,313,239**	**502,954**	**-**	**-**	**793,697**	**-**	**14,609,890**

[1] Shown under other assets or other liabilities in the statement of financial position (excl. IFRS 5)

6.4 Disclosures on related-party relationships

30 Jun. 2017, EUR '000	Investors with influence over the Group's parent	Non-consolidated subsidiaries (greater than 50%)	Associates accounted for using the equity method	Joint ventures in which the Company is a joint venturer, accounted for using the equity method	Other related parties	Key management personnel
Loans and advances to customers	2,602,880	112,253	218,419	31,249	8,146	2,842
of which lease receivables	*1,901,314*	-	-	-	-	-
Equity instruments (shareholdings, etc.)	-	106	27,556	2,855	496	-
Positive fair value of derivatives	93,093	-	-	-	-	-
Other assets	219,819	-	13	-	-	-
Deposits from banks	-	-	-	345	-	-
Deposits from customers	60,513	719	30,100	938	10,859	5,930
Other liabilities	-	-	716	-	-	-
Interest income	10,602	227	6,289	366	21	5
Dividend income	-	-	581	144	-	-
Fee and commission income	-	-	92	-	1	-
Guarantees provided by the Group	-	-	5,684	-	-	-
Other obligations incl. unused credit lines	492,173	43,556	31,185	18,667	11,452	96
Guarantees received by the Group	2,716,679	-	-	-	-	-

30 Jun. 2016, EUR '000	Investors with influence over the Group's parent	Non-consolidated subsidiaries (greater than 50%)	Associates accounted for using the equity method	Joint ventures in which the Company is a joint venturer, accounted for using the equity method	Other related parties	Key management personnel
Loans and advances to customers	2,852,241	111,291	241,699	25,096	9,267	5,395
of which lease receivables	*2,011,442*	-	-	-	-	-
Equity instruments (shareholdings, etc.)	-	106	25,683	2,917	502	-
Positive fair value of derivatives	92,517	-	-	-	-	-
Other assets	174,367	-	-	-	-	-
Deposits from banks	-	-	-	291	-	-
Deposits from customers	49,954	445	38,467	771	7,039	6,591
Other liabilities	-	-	6	501	-	-
Interest income	18,724	458	5,127	436	61	22
Dividend income	-	-	591	271	10	-
Fee and commission income	-	2	218	1	4	24
Guarantees provided by the Group	-	-	2,675	-	-	7
Other obligations incl. unused credit lines	458,158	44,729	27,674	24,813	10,457	86
Guarantees received by the Group	2,812,970	-	-	-	-	-

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

The HYPO NOE Group also maintains a healthy balance between risk-bearing capacity and the risks incurred. The eligible risk coverage capital is very carefully defined, and the confidence level for risk quantification (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 (in accordance with the four-eye principle) at every level up to the Management Board. The front office functions originate business and give initial clearance to transactions, while the back office functions cast an independent vote that confers final approval. The internal control regulations require the unanimous approval of the front and back office functions for all business decisions that would alter the risk profile. There is also a structured process for the approval of exposures requiring resolutions of the HYPO NOE Group Supervisory Board. The workout management and strategic risk management units perform back office risk control functions. Non-performing loans and loans with a high probability of default are handled exclusively by workout management and monitored daily.

In principle, all quantifiable risks throughout the HYPO NOE Group are subject to the Group-wide, uniform limit system, which is constantly monitored. No risk may be assumed unless a corresponding limit is in place. The Group-wide risk reporting system ensures that reporting of all risks is regular, timely and comprehensive. In addition to the monthly risk management report, which provides an aggregated summary of all risks and their capital coverage, the Management and Supervisory Boards receive separate, regular risk reports for each risk category. These provide comprehensive information on current risk-related developments.

The disclosures required 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.

As at 30 June 2017 the Group utilised 55.7% of the aggregate risk limit (including an adequate buffer), an improvement on the figure as at 31 December 2016 (64.1%).

RECOVERY PLAN

Under the Bundesgesetz über die Sanierung und Abwicklung von Banken (Federal Act on the Recovery and Resolution of Banks), which came into force on 1 January 2015, the HYPO NOE Group is required to prepare a recovery plan. When incorporated into day-to-day operations, the details of the plan will form an integral part of the Group's risk and capital management framework.

At the core of the expanded risk management and overall control processes resulting from the recovery plan, specific indicators, restructuring measures and communication procedures will be established, as well as robust escalation and decision-making processes within the internal governance structure that supplement the existing control measures in the event of an impending or unfolding crisis.

The changes in restructuring indicators are an essential aspect of reports by the relevant management bodies. The 2017 review of the Group's restructuring plan is currently in progress, with a focus on assessing the selected indicators including the defined threshold values, as well as updating the overall restructuring capacity and the defined scenarios.

Together with the HYPO NOE Group's stable business model, which is geared towards maintaining profitability over the long term, and dictates that risks can only be assumed on the basis of an overall risk strategy that is in line with the Group's regional roots in Lower Austria, the restructuring plan forms an additional key element in protecting the HYPO NOE Group's assets, as well as the Group's business partners and shareholders.

BANK-WIDE STRESS 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. weak economic growth, the phasing out of unconventional monetary policies, or possible effects of new regulations). The impact of the scenarios on credit, investment, interest rate and liquidity risk at subsidiary and Group level are simulated, in terms of both regulatory and economic risk-bearing capacity. The results of the stress test and the possible countermeasures identified are discussed by the Management Board and presented to the Supervisory Board.

BASEL III/IV

While ongoing reporting improvements to meet revised reporting standards have now become routine, preparations for implementing future measures (currently known as Basel IV) and analysing their effects are also under way. Analysis shows that the revisions made by the Basel Committee on Banking Supervision (BCBS) to rules for all significant types of risk, and the amendments to the Capital Requirements Regulation (CRR II) and Capital Requirements Directive (CRD V) outlined in consultation papers published by the European Commission, present a major challenge for banks. The objective here is not merely to achieve regulatory compliance, but also to evaluate the effects on all areas of the Bank, so as to be able to initiate any necessary corrective measures in areas such as planning and business strategy in good time.

SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

Phase 1 of the SREP – collection of qualitative and quantitative data based on a questionnaire – was concluded in the first half of 2017 and the completed questionnaire was sent to the OeNB on time.

On 28 July 2017, HYPO NOE Gruppe Bank AG received the notice from the FMA determining the SREP ratio based on data as at 31 December 2015 and setting out the new minimum capital requirements in Pillar II. The Bank's capitalisation is more than sufficient to meet and exceed the new requirements.

RISK MANAGEMENT SYSTEMS

In 2017 the HYPO NOE Group will again be further enhancing its IT infrastructure, as well as processes and methodologies, in order to be able to comply with future regulatory requirements (Basel IV, IFRS 9, MREL, leverage ratio). This will also ensure that risk control systems remain compatible with the authorised levels of risk tolerance and the Group's business objectives.

At present, methodologies are being harmonised, risk reporting unified and limit management systems and risk documentation adapted as part of the merger planned for the third quarter of this year.

Credit risk

Credit risk is the risk of deterioration in creditworthiness – ultimately, the risk of a counterparty or guarantor defaulting. Credit risks are of various different types, depending on the products involved: loans involve classic credit risk (counterparty risk), for derivatives there is replacement risk, and for securities issuer risk. There is also investment risk, customer foreign exchange risk, endowment loan risk and country risk, for all of which the corresponding limits are monitored.

Principles derived from the strategic objectives provide the framework for 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 environmental conditions
- Establishing management's risk tolerance and appetite
- Limiting and monitoring credit risks on the basis of the risk tolerance established
- Appropriate reporting
- Determining processes and procedures for risk-related allocation of credit costs

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

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

HYPO NOE Group master scale			Corresponding external ratings	
Grade	Description	Rating grade	Moody's	S&P
Investment	Top grade	1A - 1E	Aaa - A1	AAA - A+
	Excellent or very good	2A - 2E	A2 - Baa3	A - BBB-
Non-investment	Good, medium or acceptable	3A - 3E	Ba1 - B2	BB+ - B+
	Unsatisfactory	4A - 4B	B3 - Caa1	B
	Watch list	4C - 4E	Caa2 - C	B- - C
	Default	5A - 5E	D	D

For private customers, the Group currently employs an applications rating procedure together with behaviour rating for on-going 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 specialised lending are carried out using the slotting approach based on income-producing real estate (IPRE) and project finance ratings. A rating tool is used evaluate the creditworthiness of condominium apartments under the Wohnungseigentumsgesetz (Condominium Act). Other customer categories are currently rated internally on the basis of expert analyses and external information.

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

CREDIT RISK 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-balance-sheet and off-balance-sheet lending at the individual customer level.

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

In addition, the operational credit risk management 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 (payment arrears, warnings from the rating system, deterioration in the quality of information provided, etc.) means that the loan is designated a watch loan, with intensified customer service and monitoring.

Primary responsibility for loans subject to intensified service (i.e. on the watch list) lies with the respective market unit and corresponding operational credit risk unit. The Group's Workout Management Unit can provide support in individual cases, for example by putting together action plans and participating in meetings with the customer. The objective of intensified service is to eliminate uncertainty regarding the risk situation and to reach a decision on whether the loan can be returned to normal service or needs to be transferred to workout management due to elevated risk.

If the increased risk factors are considered lasting, so that there is an acute threat to the continued existence of the debtor, or if the loan is liable to significantly affect the Bank's risk position due to its size, the Workout Management Unit is informed immediately by the responsible market unit.

The Workout Management Department is responsible for the management of non-performing loans and provisioning (recognition of individual impairment allowances). A provision is not recognised until management of the loan is transferred to Workout Management.

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

COUNTRY ANALYSIS

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, especially in Ireland, Slovenia and Spain, and improvements in certain local banking and real estate sectors, attention is increasingly turning to political risks such as new elections in Italy and rising populism. The Group is continuing to keep a close watch on the troubled Italian banking sector. 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 analysis by region – Austria, Central and Eastern Europe (CEE) and the rest of the world (ROW) – is shown in the detailed tables in Notes 4.2 Loans and advances to banks and 4.3 Loans and advances to customers.

RISK PROVISIONS

Individual and collective impairment allowances and general provisions are recognised for identifiable lending risks.

The individual impairment allowances are determined on the basis of an assessment of the customer's financial situation, with close attention paid to the current valuations of collaterals, repayment structures and maturities.

In recognising individual impairment allowances, as a first step the unsecured portion of the loan is calculated on the basis of the current value of authorised tangible collaterals applicable under Group guidelines (category 1 collaterals). If, as a result, it is found that a portion of the loan is not covered by the value of collaterals, in a second step it must be determined whether there are sources of funds in addition to the category 1 collaterals which would reduce the default amount and thus the need to recognise an impairment.

Collective impairment allowances are recognised at individual Group bank level, on the basis of internal risk management, taking account of the current risk profile for all non-consolidated loans and advances to banks and customers (including nostro positions and derivatives) with internal ratings from 2A to 4E according to the master scale referred to above.

In calculating these risk provisions, all exposures affected by credit risk and all committed lines of credit and contingent liabilities of HYPO NOE Gruppe Bank AG are included. Housing construction loans backed by the Lower Austrian state government are excluded.

Collective impairment allowances are recognised on the basis of expected losses, taking into account: (a) the risk volume; (b) the historical probability of default (PD); (c) loss given default (LGD) ratios; (d) personal securities for individual customers; and (e) the regulatory risk weightings of special financing arrangements and the period of time between occurrence of the loss and its identification, i.e. the loss identification period (LIP, currently four months). The collective impairment allowance is calculated as the expected loss multiplied by the LIP factor.

The Group's non-performing asset (NPA) ratio was 1.66% as at 30 June 2017.

Individual impairment allowances are calculated to take account of all expected recoveries, fully covered exposures and a Level 3 coverage ratio of 100%. The Level 1 coverage ratio of 1 (disregarding expected returns from liquidation of collateral and anticipated recoveries) is 38.3%. After including recoveries from collaterals, coverage increases to 69.0% (Level 2 coverage ratio). The other expected recoveries bring provisioning to 100%.

The analysis of risk provisions and provisions broken down by customer, region and term is shown in notes 4.4 Risk provisions and credit risk provisions, 4.4.2 Risk provisions by region and 4.4.1 Risk provisions and credit provisions by customer group.

CREDIT RISK MONITORING AND PORTFOLIO MANAGEMENT

For individual customers, risk monitoring is the responsibility of the operational credit risk management units concerned, which check credit ratings, monitor blacklists drawn up by Credit Services and process loan applications that potentially entail significant risks. In addition, relationship managers are required to prepare comprehensive reviews of the current situation for each customer when necessary, and at least once a year, irrespective of the amount of the exposure and the credit rating. The reviews are submitted to the managers with the requisite decision-making authority. Customers who give cause for concern (where significant risk is involved) are monitored by the operational credit risk management units. Where there is a significant deterioration in the risk situation, the exposures are transferred to the specialists in the Workout Management Department, who are not involved in front office approval.

Impairment triggers in accordance with IAS 39 apply to initial recognition of an individual impairment allowance. Where necessary, the provisioning process is carried out as soon as an individual impairment allowance is recognised, and it is assessed and adjusted on a quarterly basis, applying the four-eye principle. Customers with a rating of 5a or lower are transferred to workout 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, changes in overdrawn balances, etc.). Management is comprehensively briefed on the Group's risk situation, including in-depth analysis of selected issues, at meetings of the Risk Management Committee (RICO).

CREDIT RISK SITUATION IN 2017

The Group's loan and investment portfolio largely consists of low-risk loans to public sector borrowers such as sovereigns, the Austrian federal government, state governments and local authorities (and their associated enterprises) – mainly in Lower Austria – as well as loans to banks with good external ratings (predominantly own investments, derivatives and money market investments), and generally well collateralised loans to housing construction companies (both large housing associations and private sector builders). 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.

HYPO NOE Gruppe Bank AG also finances real estate projects with excellent or good credit ratings, as well as infrastructure enterprises and 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. Public sector financing in Lower Austria accounts for the bulk of business activities.

The non-performing loan (NPL) ratio, defined as total exposure on default customers divided by total loans and advances to customers, is also calculated at Group level. As at 30 June 2017 the NPL ratio was 1.74% (31 Dec. 2016: 1.94%).

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
- Credit valuation adjustment (CVA)/debt valuation adjustment (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 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 underlying value of a particular portfolio as a result of interest-rate-induced changes in present values.

As a priority, the HYPO NOE Group monitors and manages interest rate risks in respect of net interest income and sub-portfolios relevant to IFRS earnings and equity, since these are primary indicators of performance in the accounts for a given period. The present value of the interest rate risk on the entire banking book is 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 managed separately, using an equity book.

Interest rate risks on structured positions and fixed-interest positions in the retail business (loans, securities, issues, etc.) are – to the extent that is possible and efficient – microhedged from the outset and accounted for using hedge accounting. Medium to long-term open positions taken by the Bank in expectation of future changes in interest rates must reflect the product-specific risk profile, and must be in authorised products and within the approved limits. If there are as yet no appropriate limits defined for a desired position, 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 carried out for the banking book as a whole and for sub-portfolios.

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

BANKING BOOK

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

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

Interest rate risk is assessed using gap analysis and interest rate sensitivity (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 management of the banking book as a whole, limits are also set and monitored in the control system for the nostro portfolio and IFRS earnings-related or equity-related sub-portfolios, 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 various variable reference rates (three-month Euribor, six-month Euribor, etc.) or of the same reference rates due to different interest fixing dates.

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

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

INTEREST RATE RISK IN 2017

Based on the OeNB statistics, interest rate risk was low relative to the regulatory limit (20% of eligible capital). The decline in the level of risk was mainly due to a reduction in open interest rate risk positions. The following table shows the results of the OeNB regulatory interest rate risk statistics as at 30 June 2017 and 31 December 2016:

OeNB regulatory interest rate risk statistics	30 Jun. 2017	31 Dec. 2016
OeNB interest rate risk indicator	1.20%	1.80%

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 (VAR) approach based on historical credit spread scenarios, taking into account correlations between historical credit spreads (by using the 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 limits (2017: EUR 80m), earnings limits (2017: EUR 8m) and corresponding escalation processes were set for fund investments. Fund price risk is also included in the calculation of the Bank's total risk-bearing capacity, using a VAR approach based on price changes over time. To determine VAR, potential future losses are calculated on the basis of daily changes in market prices over the two years prior to the measurement date. Time series feed into the analysis and are given an equal weighting (decay factor of 1). The square root of time formula is used to scale VAR to a holding period of one year.

FOREIGN EXCHANGE RISK

The HYPO NOE Group's conservative risk policies are reflected in the 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 2017 the Group was not subject to the own funds requirement for foreign exchange positions, as the total position for the Group as a whole was less than 2% of eligible capital. The internal limit for foreign exchange positions as a whole is below this figure.

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.

The key risks for the Bank are:

- Basis risks arising from differing discount curves (CSA swaps with OIS discounting vs. underlying with IBOR discounting)
- FX basis risks

Basis risks arising from differing discount curves are in principle purely valuation risks that result from current market practice for valuation in hedge accounting. Derivatives with CSAs are discounted using the risk-free (OIS) curve, while the hedged underlyings (generally loans or securities) are discounted using the IBOR yield curve, which incorporates the interbank liquidity spread as well as risk-free interest rates.

FX basis risks arise because the FX basis components in the hedged underlying do not qualify for hedge accounting, but are included in the valuation of the hedge instrument. This leads to the contradictory situation that when the FX basis risk is adequately hedged by a cross-currency swap with matching maturity, there is a risk of earnings fluctuations over the term in response to changes in the FX basis spread, due to their inclusion in the valuation of the FX derivative. In economic terms, over the entire term of such FX hedges there is no such risk, as the periodic earnings effects cancel each other out.

CVA/DVA RISK

When calculating the fair value of derivative instruments, a credit valuation adjustment (CVA) must be taken into account for counterparty risk and a debt valuation adjustment (DVA) for the Bank's own credit risk. Refinement of the valuation methodology has resulted in a move towards a market-based valuation process, and the effects of the CVA and DVA are recognised in consolidated profit or loss. These effects are regularly analysed.

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

These objectives define the core elements of the Group's liquidity risk management processes:
- Identifying and regularly evaluating liquidity risks
- Identifying and regularly reviewing the suitability of models and processes for measuring liquidity risks
- Quantifying liquidity risks on the basis of the established processes
- Identifying and complying with statutory regulations and environmental conditions
- Establishing 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 and appropriate
- 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 in the case of operational risk also 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 the ALM Committee and RICO.

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

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

The HYPO NOE Group's operational liquidity capacity is evaluated and monitored on a monthly basis in terms of the length of time the Bank is able to survive. 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 survival period as at 30 June 2017 was a respectable 35 weeks (31 Dec. 2016: 39 weeks). In addition to the survival period, the regulatory liquidity coverage ratio (LCR) is an important control metric for operational liquidity. The LCR is reported monthly and is integrated into operational liquidity management and planning processes. The LCR reported to the regulator was 202% as at 30 June 2017 (31 Dec. 2016: 190%). A regulatory limit of 80% and an internal limit of 105% were set for 2017. Volume limits based on maturities are also in place, in order to control unsecured bank money market exposures. Daily monitoring and reporting is the responsibility of the Group Strategic Risk Management Department. The 30-day limit of EUR 500m, the 90-day limit of EUR 800m and the up to one year limit of EUR 1,000m were all observed throughout the first half of 2017.

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 5.2m as at 30 June 2017 (31 Dec. 2016: EUR 8.6m). In addition to the economic capital, there is a structural one-year gap limit of EUR 1bn (2016: EUR 1bn).

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

CONTINGENCY PLAN

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

LIQUIDITY RISK IN 2017

The HYPO NOE Group is well positioned in terms of refinancing options and draws its liquidity from conventional capital market transactions and deposits, as well as from standard repo transactions and ECB tenders. Deposits from institutional investors have increased consistently.

The first half of 2017 started with a large number of issues on the international capital markets, including benchmark covered bond issues from Austrian issuers as early as mid-January. The HYPO NOE Group took advantage of favourable market conditions to conclude a five-year, CHF-denominated senior unsecured benchmark issue, which was increased to CHF 125m owing to extremely strong investor demand. A further CHF senior unsecured benchmark issue, valued at CHF 100m, was completed at the end of May. At the end of the first half of 2017, a mortgage-backed covered bond issue with a residual maturity of three years was increased by EUR 200m to a typical benchmark value of EUR 500m. There was also a successful benchmark covered bond issue, in the shape of a six-year, EUR 500m covered bond from the public sector cover pool. The final order book value was around EUR 1.4bn. Follow-up refinancing has already been secured for the majority of the substantial repayments of state-guaranteed bonds that fall due in the second and third quarters of 2017, so there is no longer any significant additional liquidity risk associated with these positions.

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.

Operational risk

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

Operational risks in the HYPO NOE Group are subject to a consistent Group-wide system of controls. The following processes and procedures are used to identify, evaluate and reduce operational risks:

- Ongoing identification and analysis of operational risk events, including introducing measures to avoid similar events in future and regular reporting to the Management Board
- Ongoing monitoring of the measures until implementation is complete, and submission of a quarterly status report to the Management Board
- Monitoring the potential future operational risk profile using key risk indicators
- Evaluating factors that could alter the risk profile, such as the introduction of new products or outsourcing
- Ongoing adaptation and improvement of existing guidelines
- Using the emergency plans that form part of the business continuity management (BCM) system to manage risks that threaten business continuity
- Strict observance of the four-eye management principle to reduce the likelihood of the occurrence of risks
- Continuing education and training as part of staff development
- Insurance against various risks

There is also a particular emphasis on continuous improvements in the effectiveness and efficiency of operational risk management processes. The operation and adaptation of an integrated internal control system (ICS) is intended to reduce the probability 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 2017

Detailed information on operational risk events in the year under review was collected in a database. Improvements are seen as an important means of controlling operational risk: as operational risk events and near-miss incidents occur, appropriate improvements must be defined and implemented. The new database for operational risk, which was rolled out in summer 2016, incorporates best practice and provides more flexible options for recording and evaluating events. Training courses were held in parallel with the rollout in order to raise awareness of the importance of operational risk management.

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

The ICS was updated in the course of the annual review, with a particular focus on the transparency of key controls.

A major focus of BCM activities in 2016 was functional testing of virtual emergency PCs, which are designed to ensure that time-critical applications continue to run. In addition, the process of updating BCM plans began towards the end of the year, following the completion of various site relocations.

The risk content of new products is regularly assessed using a standard risk evaluation application, which is an integral part of the product launch process.

Reputational risk

The HYPO NOE Group attaches great importance to avoiding reputational risk, and it is therefore treated as a separate risk category. Avoiding potential damage to the reputation of the HYPO NOE Group is a vital consideration when making business decisions, and a process for evaluating reputational risk is in place.

Reputational risk is the danger of direct or indirect harm to the Group's reputation, and the opportunity costs entailed by such damage. Damage to the HYPO NOE Group's reputation can compromise its standing and undermine the confidence of stakeholders such as customers, providers of finance, staff, business partners and the community in the Bank. The reasons may lie in a failure to live up to stakeholders' expectations.

Fulfilling those expectations is essentially a matter of putting effective business processes in place, and of sound risk monitoring and management. The Group's code of conduct sets out the common values and principles shared by all HYPO NOE employees. The HYPO NOE Group also takes care to avoid business policies and activities associated with unusual tax or legal risks, or with major environmental risks. The Group has implemented clear ethics guidelines and business principles for its financing activities, so that it can follow its comprehensive sustainability approach in respect of environmental and social considerations to the letter when extending loans. In this way, the Bank ensures that loans are only extended for purposes that are consonant with its philosophy and its sustainability strategy. The ethical and business principles comprise inclusion and exclusion criteria, which are the basis for initiating new business throughout the Group. Potential reputational risks are also taken into account in a "reputational risk questionnaire" that forms part of the credit application, and serves as an essential filter within the process.

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

Other risks

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

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 can 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 takes negative changes into account in its budgeting and medium-term planning as early as possible.

Legal risks

Generally, provisions are recognised for legal proceedings for which the outcome or any potential losses can be reliably predicted. In such cases, the provisions are recognised at a level deemed appropriate in the circumstances, in accordance with the applicable accounting principles.

In the past few months, the Austrian Supreme Court has made a number of rulings related to variable-interest loans. These rulings go against banks' interpretations of the law. As a result, lenders will be obliged to pass on negative market interest rates – in particular the EURIBOR and CHF LIBOR rates – to consumers. The floor for the interest paid by customers is 0%. In light of the Court's rulings on the subject of negative interest rates for consumers, a liability of EUR 4.1m was recognised for the period from 2015 to 30 June 2017 (including EUR 1.4m for the first half of 2017), an amount that corresponds to the payment obligations under the loan agreements concerned that are subject to the Konsumentenschutzgesetz (Consumer Protection Act). The customers affected will receive transparent information regarding the next steps and repayments.

The criminal proceedings against current and former employees and members of management bodies of HYPO NOE Gruppe Bank AG have not yet been terminated.

Information on the provisions against legal risks arising from pending proceedings can be found in the note on movements in provisions.

6.6 Contingent liabilities and credit risk

6.6.1 CONTINGENT LIABILITIES

EUR '000	30 Jun. 2017	31 Dec. 2016
Acceptances and endorsements	109	109
Liabilities arising from guarantees and provision of collateral	119,675	114,884

6.6.2 CREDIT RISK

EUR '000	30 Jun. 2017	31 Dec. 2016
Unutilised facilities	1,165,724	1,235,099

6.7 Events after the reporting period

On 28 July 2017, HYPO NOE Gruppe Bank AG received the notice from the FMA determining the SREP ratio based on data as at 31 December 2015 and setting out the new minimum capital requirements in Pillar II. The Bank's capitalisation is more than sufficient to meet and exceed the new requirements.

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
- Udo Birkner, Member of the Management Board (from 1 Jan. 2017)
- Wolfgang Viehauser, Member of the Management Board

Supervisory Board
- Günther Ofner, Chairman
- Michael Lentsch, Deputy Chairman
- Karl Fakler
- Gottfried Haber
- Ulrike Prommer
- Karl Schlögl
- Hubert Schultes
- Engelbert J. Dockner (until 16 Apr. 2017)

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

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

St Pölten, 9 August 2017

The Management Board

Peter Harold
Chairman of the Management Board

Udo Birkner
Member of the Management Board
(from 1 Jan. 2017)

Wolfgang Viehauser
Member of the Management Board

DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES

We hereby confirm that to the best of our knowledge the condensed 2017 interim consolidated financial statements of the HYPO NOE Group 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 2017 interim consolidated financial statements. Essentially the same accounting policies were applied as to the financial statements for the year ended 31 December 2016.

The 2017 semi-annual financial report was neither audited nor reviewed by independent auditors.

St Pölten, 9 August 2017

The Management Board

Peter Harold
Chairman of the Management Board

responsible for

Group Communications & PR; Group Treasury & ALM; Group Strategic Planning; Internal Auditing[1]; Financial Institutions & Group Sales Support; Group General Secretariat & Investments[2]; Real Estate Finance; Corporate & Structured Finance; Housing Development; Real Estate Services

Dr. Udo Birkner
Member of the Management Board
(from 1 Jan. 2017)
Head of Back Office Operations

responsible for

Group Legal & Compliance[3]; Group IT/Organisation; Reviews & Analysis; Real Estate Reviews & Analysis; Intensive Care Management; Group Human Resources; Back Office Processing, Securities Services & Payment Administration; Group Credit Services; Group Treasury Services; Group Facility Management & Security; Group Strategic Risk Management; Group Finance, Regulatory Reporting & Tax Advisory; Group Controlling; HYPO NOE Valuation & Advisory

Dipl.-Ing. Wolfgang Viehauser
Mitglied des Vorstands
Vorstand Vertrieb

responsible for

Public Finance; Religious Communities, Interest Groups and Agriculture; Corporate Finance Austria; Sales Management & Marketing; Ombudsman; Group Private Customers; Public Loan Management

[1] Reports directly to the Group Management Board
[2] Investments administration reports to the Member of the Management Board responsible for Sales Management.
[3] The Compliance Officer and Anti-Money Laundering Compliance Officer report directly to the Group Management Board, and an initial report is sent to the Management Board Member responsible for Back Office Processing.

IMPORTANT INFORMATION:

The greatest possible care has been taken in preparing this extract from the annual report. However, transmission, material and printing errors cannot be ruled out. Minor rounding differences may occur in connection with totals of rounded amounts and percentages.

The forecasts and forward-looking statements contained in this report are based on current estimates and information available at the time this report was compiled. They should not be taken as a guarantee that results expressed in forecasts and forward-looking statements will actually occur; actual results are subject to risks and other factors, and could therefore differ materially from results contained in forecasts or forward-looking statements. The Group is not obliged to update its forecasts and forward-looking statements.

The German version of this report is definitive. The English version is a translation of the German report. Formulations referring to people are intended to be gender-neutral.

IMPRESSUM

Publisher: HYPO NOE Gruppe Bank AG

Editorial content: HYPO NOE Gruppe Bank AG

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Design: Goldegg Verlag GmbH, Vienna, www.goldegg-verlag.com

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