SEMI-ANNUAL FINANCIAL REPORT 2020

HYPO NOE

CURRENT RATINGS

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

Moody's: Aa1 mortgage and public-sector covered bond rating

ISS ESG: C+ Prime status sustainability rating

GROUP FINANCIAL HIGHLIGHTS

EUR '000		
Consolidated statement of comprehensive income	**30 Jun. 2020**	**30 Jun. 2019**
Net interest income	63,565	57,295
Administrative expenses	-59,655	-61,600
Impairment losses/gains on financial assets – IFRS 9 ECL	-5,073	3,374
Profit before tax	**14,312**	**19,904**
Income tax expense	-3,266	-4,913
Profit for the period	**11,046**	**14,991**
Consolidated statement of financial position	**30 Jun. 2020**	**31 Dec. 2019**
Total assets	17,273,126	14,571,762
Financial assets – AC	13,143,663	12,417,093
Financial liabilities – AC	15,129,947	12,522,091
Equity (incl. non-controlling interests)	687,981	683,502
Consolidated own funds and own funds requirement	**30 Jun. 2020**	**31 Dec. 2019**
Eligible Tier 1 capital	662,022	666,345
Total eligible capital	662,022	666,345
Minimum capital requirement (Pillar I)	300,226	277,828
Excess equity	361,796	388,517
Total risk exposure amount under Art. 92(3) CRR	3,752,824	3,472,853
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR (fully loaded)	17.64%	19.19%
Total capital ratio in accordance with Art. 92(2)(c) CRR (fully loaded)	17.64%	19.19%
Operational resources	**30 Jun. 2020**	**31 Dec. 2019**
Number of employees at period end	731	742
Number of branches	27	27
Selected payments, levies and other public sector items	**30 Jun. 2020**	**30 Jun. 2019**
Financial stability contribution (bank tax)	-7,366	-7,324
Current income tax	-5,244	-5,183
Deferred income tax	1,979	271
Social security contributions and other pay-related contributions	-7,437	-6,020
Key indicators	**30 Jun. 2020**	**31 Dec. 2019**
Return on equity after tax	3.25%	4.51%
Cost/income ratio	57.87%	59.51%
NPL ratio	0.89%	0.96%
LCR	264.05%	157.14%

The intrayear indicators are annualised on a daily basis. For the details of the calculation see section 3.2 Earnings performance.

FOREWORD BY THE MANAGEMENT BOARD

Dear reader
The past few months have presented humankind, the economy and global politics with an unparalleled challenge. The coronavirus pandemic has halted the world economy in its tracks and transformed our everyday lives at a stroke. Many people have lost their jobs, and the economy will take still longer to make a full recovery.

It has also been a very testing time for HYPO NOE. We were obliged to convert all our employees to home office working in the space of a few days, and to keep our branches open despite the pandemic because they were defined by the government as "critical infrastructure". In order to at least soften the blow from the crisis, the Austrian federal government has launched large support programmes to shore up the economy, ranging from debt moratoriums, guarantees and bridging loans through to short-time working schemes, tax deferrals and direct subsidies. We, too, have offered our customers comprehensive assistance – for instance, by advising companies on how to apply for supported bridging loans and making the related applications. It is still hard to gauge the full extent of the economic downturn.

How have these developments affected our results for the first half of 2020? Due to our low-risk business model and the excellent advance planning work done by the Group in past years, we have been able to operate successfully even in the current crisis. HYPO NOE has again boosted its operating income and further reduced operating expenses, for a solid interim profit of EUR°11 million (m). This puts us around EUR°3.8m down year on year – a shortfall for which the current coronavirus situation and the resultant increase in risk provisions is responsible. The most important earnings component, net interest income, jumped by about 11% to EUR 63.6m. The fact that our NPL ratio has fallen again, to a mere 0.89%, is a direct consequence of our sustainable business policies. Meanwhile, at 17.64% our Common Equity Tier 1 ratio has remained very strong in comparison with other institutions in Austria and abroad. New lending was around EUR°900m in the first half of 2020 – a year-on-year gain of EUR°100m. These figures show that we are recognised as a strong and secure partner at home and abroad. Moreover, international rating agency S&P Global recently confirmed our sound single A rating and left us as one of only two banks in Austria that do not have a negative outlook. Despite the coronavirus pandemic the outlook for HYPO NOE is "stable".

The past few months have been a tough test for all of us, but we are proud of the speed with which the Landesbank and our people have made the changes needed to help our customers through this exceptional situation. At the same time we have been highly successful on the international capital markets. In May, in the midst of the lockdown phase, we floated a EUR 500m *Pfandbrief* issue – only the second European covered bond issue since the start of the global crisis. In just 20 minutes investors bid more than one billion (bn) euro for the EUR°500m covered bond issue. And in only a short space of time bidders attempted to invest six times the issue amount – EUR°3bn – with us. The second big success was also a milestone in terms of sustainability: we became the first Austrian bank to issue a green bond, certified by the Ecolabel for sustainable financial products. This means we are setting a good example as a regional bank, showing that environmental protection, sustainability and finance can be successfully combined and are not a contradiction in terms. Our green bond – another EUR°500m issue – attracted orders from 134 investors in 18 countries totalling one billion euro. About 30% of these investors were subscribing to one of our issues for the first time. This shows that we are on the right track with our focus on sustainability, and that green investments are also playing a growing role in the institutional market. We are particularly encouraged by the upgrade of our sustainability rating. In March 2020 ISS ESG upped our rating from C to C+, making HYPO NOE one of Austria's "star pupils" for sustainability. The ISS ESG rating upgrade has placed HYPO NOE in the forefront of Austrian and foreign public and regional banks, and provides further confirmation of its green credentials.

The Bank is also committed to long-term partnerships in its sponsorship activities. As part of the Lower Austrian *Wir für Bienen* (Backing Bees) initiative, since 2019 five beehives have been living on the roof of the HYPO NOE headquarters building. The bee population has risen to 200,000. It is not just in its immediate surroundings that the Bank contributes to biodiversity. Our support for the Dürrenstein Wilderness in the Scheibbs district, initiated in 2020, enables us to play an active part in maintaining and protecting the largest remaining ancient woodland in the Alpine arc.

Our commitment to the forest symbolises the stability and longevity of our customer relationships. In the first half of 2020 we demonstrated that our customers can rely on us in hard times, and that we are a strong partner at their side.

Wolfgang Viehauser and Udo Birkner

GROUP OPERATIONAL AND FINANCIAL REVIEW

FOR THE SIX MONTHS ENDED 30 JUNE 2020 ACCORDING TO IFRS

1 ECONOMIC CLIMATE

1.1 Global economic and capital market trends

At the beginning of the year, leading indicators and data from the real economy painted a positive picture, and it appeared that expectations of a moderate economic upturn would come to fruition. However, uncertainty began to spread as early as February, following the emergence of the novel coronavirus. During March, a worldwide pandemic was declared, triggering the largest global health crisis in decades. In an effort to contain the pandemic, governments around the world felt compelled to introduce restrictions such as lockdowns, quarantining and social distancing measures. The resulting impacts on social and business life led to the most serious global economic recession of the post-WW2 period. Stock market prices slumped by 30-50% in a matter of just a few weeks, while risk premiums on corporate bonds climbed sharply.

Governments implemented expansive fiscal policies in an attempt to cushion the blow of the looming economic downturn. These included short-time working models, which were introduced across Europe, as well as government contributions to fixed costs for companies and businesspeople, and loans or loan guarantees. Economic support programmes were expanded by means of further measures during the second quarter. The level of aid provided around the world is estimated to be more than USD 10trn. Fiscal policy instruments were backed up by an equally wide-ranging loosening of monetary-policy. Central banks all over the world cut interest rates, pumped significant amounts of liquidity into the financial system and launched substantial securities purchase programmes. In June 2020 alone, the ECB allocated EUR 1.3trn in liquidity to eurozone banks under its TLTRO programme. In addition, the Pandemic Emergency Purchase Programme (PEPP) – another asset purchase programme set up in March – was beefed up from EUR 600bn to EUR 1.35trn. The US Federal Reserve took similar steps, resulting in a USD 3trn increase in its total assets within just a few weeks.

At the end of the reporting period, the picture was mixed in terms of national health data. Europe broadly seemed to have brought the pandemic under control and governments continued to lift restrictions, while other countries – especially Brazil and the United States – reported sharp increases in new infections. In its June forecasts, the International Monetary Fund (IMF) put the fall in global economic output as a result of the pandemic at 4.9% over the year. GDP in the eurozone is expected to decrease by 10%, with the USA seeing an 8% decline. That said, economic data were relatively strong at the end of the first half, raising hopes that the world economy would not be hit as badly as feared. A strong recovery is predicted in 2021.

After the massive turbulence in March, performance on the financial markets varied widely. International stock markets began to rebound as early as the end of March and have already recouped a significant proportion of the losses suffered earlier in the year, thanks mainly to the steps taken by governments and central banks to shore up their economies. The spread of the coronavirus slowed considerably in China, in other parts of Asia and in Europe. Intensive research efforts aimed at finding an effective cure and a suitable vaccine against the virus are also grounds for hope that Covid-19 will have less of an impact on society and the economy in future. Central banks' quantitative easing programmes had a major impact on the bond markets, pushing capital market yields down to all-time lows.

1.2 Economic trends in the HYPO NOE Group's core markets

1.2.1 Austria and Germany

Due to the Covid-19 outbreak and the resulting lockdown measures, the Austrian and German economies shrank in the first half of 2020. The low point was reached in April. Employees, freelancers and businesses were hit by falling incomes and revenue due to the downturn, and unemployment jumped sharply. The Austrian central bank (Oesterreichische Nationalbank, OeNB) predicts that the Austrian and German economies will contract by 7.2% and 7.0% respectively in 2020. Eurostat's economic sentiment indicator slumped by 24 points in Austria and 20 points in Germany, although the mood brightened somewhat in May and June.

The economic downturn in Austria was due mainly to lower demand for exports (2020f: down 11.6%), falling gross fixed capital formation (2020f: down 6.7%) and subdued private consumption (2020f: down 5.8%). The most heavily affected industries were hotels and catering, travel agencies, sports and entertainment, aviation, goods and textile manufacturing, and the automotive sector.

In response, the Austrian government passed fiscal measures worth some EUR 50bn, or 12% of GDP. These primarily included support for short-time working, tax deferrals, a crisis management fund, emergency aid, state loan guarantees and other support measures. The package of fiscal measures implemented by the German federal government in response to Covid-19 was just as sizeable, amounting to EUR 1,640bn or 46% of GDP, with guarantees accounting for around half of the total. This is expected to provide significant impetus for the recovery of the German economy – Austria's main export market.

Both countries' fiscal policy packages will inflate their budget deficits as well as their debt ratios. After reporting a budget surplus for the past two years, Austria is forecast to run a deficit of 7.9% in 2020. Germany's run of budget surpluses will also come to an end, with its deficit forecast at 6.4% in 2020. Public debt in Austria will increase from about 70% to 84% in 2020, with Germany seeing a rise from 60% to 65%, although this is still relatively low. The two countries will continue to benefit from low interest rates thanks to the interest and monetary policy measures adopted by the ECB.

1.2.2 Federal states

As expected, the growth trend at the federal level will be reflected in the federal states' economies. Heavily industrialised, export-oriented states like Upper Austria, Styria and Vorarlberg will be hit hardest by slackening export demand and supply chain interruptions. States where tourism makes a major contribution to the economy, such as Tyrol, Salzburg and Vorarlberg, will also suffer as foreign tourists stay at home, leading to a collapse in revenue. Although Lower Austria will not come through the recession unscathed, the state's diversified economy is clearly a mitigating factor in the current recovery phase. The most badly affected federal states have already recorded double-digit declines in economic growth, while the Institute for Advanced Studies (IHS) estimates that Lower Austria will see a comparatively mild downturn, with a 5% fall in gross regional product.

In view of the current economic situation and the federal government's fiscal package, state coffers will also have less income at their disposal. At the same time, the crisis has prompted a rise in investment and some investments slated for the coming years have been brought forward, with a view to cutting unemployment and stimulating the economy. This will result in higher budget deficits and debt ratios in all federal states, although they will continue to feel the benefits of historically low interest rates.

1.3 Banking sector trends in the eurozone

Today, a little more than a decade after the outbreak of the financial crisis, the European banking industry has been fundamentally transformed. The regulatory requirements to which banks are subject at European level have been considerably tightened in order to boost the sector's resilience in the event of another crisis. However, the regulatory measures taken have often added to banks' internal costs – notably in respect of overall management control.

The prevailing low-interest-rate environment has continued to pose a challenge for the entire European financial sector, and there is no change in sight this year. Nevertheless, most European banks have reported more stable or even increased net interest income. Recently, the equity ratios of banks in the European Union have stabilised at high levels. Another key trend has been the ongoing digitalisation of customer services. The multi-channel approaches adopted by universal banks – which still include branches, augmented by digital offerings – remained the standard strategy in Europe.

The Austrian banking sector is among those deemed to have made progress. The OeNB stressed this in its December 2019 Financial Stability Report. According to the report, Austria's banks are benefiting from the restructuring efforts of recent years. As a result of this concentration process, the number of banks (main institutions) has decreased by around a quarter since 2012. Although this trend decelerated in 2019, it is likely to be prolonged. According to figures from the

EBA, Europe's banking regulator, the non-performing loan (NPL) ratio decreased to 2.3% as at 31 December 2019 (31 Dec. 2018: 2.8%).

At the moment, it is not possible to assess the impact of the Covid-19 pandemic on the international banking system. Many banks have increased their credit risk provisions, but at the same time NPL ratios have not risen significantly, due to wide-ranging statutory payment deferral programmes. European banks can still call on sufficient liquidity, thanks to the ECB's support measures and fully functioning capital markets. Banking sector profitability could dip below the levels recorded in previous periods for a short time, but at present there are no indications of a sustained downturn.

2 COMPANY PROFILE

This report on the HYPO NOE Group was prepared by the Group's parent, HYPO NOE Landesbank für Niederösterreich und Wien AG (HYPO NOE Landesbank).

HYPO NOE Landesbank is the largest and oldest-established Austrian state mortgage bank[1], and has been a dependable commercial bank, stable state bank and specialist mortgage lender for over 130 years. Using its strong position in Lower Austria and Vienna as a springboard, the Bank operates primarily in Austria and Germany, as well as in selected markets elsewhere in the European Union.

The HYPO NOE Group serves as a one-stop shop, providing a comprehensive range of financial services for public sector, real estate and corporate customers, in line with its business model as a mortgage bank. The product portfolio is centred on funding for hard and social infrastructure, non-profit and commercial housing construction and other large property development projects. Retail customers benefit from the expert personal service provided by the branch network in the Group's Lower Austria/Vienna home market, with its focus on housing finance.

The Group concentrates on five business segments that play to its core competences: Public Sector, Real Estate Customers, Retail and Corporate Customers, Treasury & ALM, and Real Estate Services. The Group also includes HYPO NOE Leasing, which works with large state and local government customers, as well as HYPO NOE Real Consult and HYPO NOE First Facility, which look after real estate customers. This allows the Group to provide services across the entire real estate management value chain. Figures for the individual segments, as well as supplementary narrative information, can be found in the Note 2 SEGMENT INFORMATION.

HYPO NOE Landesbank is one of Austria's leading covered bond issuers and is a regular participant on the capital markets through the flotation of secured and unsecured benchmark bonds. Based on the solid foundations provided by customer deposits, and on its closer cooperation with development banks, HYPO NOE Landesbank also takes steps aimed at diversifying its sources of refinancing. Standard & Poor's currently gives the Bank a solid single A rating with a stable outlook, while Moody's ratings on the public sector and mortgage cover pools are also unchanged at Aa1.

HYPO NOE Landesbank is backed by a stable and reliable sole owner in the shape of Austria's largest state, Lower Austria. The Bank's owner takes a long view and ensures that it stays true to its strategy of organic growth in its core business, best-in-class digital solutions in its mortgage lending, and further improvements in profitability, whilst maintaining a conservative risk and capital profile.

The Bank's sustainable approach to its core operations is underpinned and promoted by its clear ethical principles and business policies. Its portfolio leans strongly towards sustainability due to the large proportion of lending that creates social value added. ISS ESG Prime status underlines the Bank's commitment to environmental and social responsibility.

[1] In terms of total assets (2019 consolidated financial statements) and foundation dates

3 FINANCIAL REVIEW

3.1 Highlights

- Another strong set of core earnings figures: "Net interest income" up by 10.94% on H1 2019; "Net fee and commission income" virtually unchanged despite reduced personal service due to Covid-19
- Further efficiency gains: "Administrative expenses" down by 3.16% year on year
- Sound risk position: NPL ratio down to 0.89% as at 30 June 2020 (31 Dec. 2019: 0.96%), expected credit loss (ECL) effects at normal levels despite provisioning for Covid-19 impacts
- Refinancing for 2020 largely completed: two successful benchmark bond issues
- CET1 ratio at a healthy 17.64% (pro forma figure incl. interim result: 18.07%) at the end of the reporting period

3.2 Earnings performance

		Q2 2020	Q4 2019	Q2 2019	Q4 2018
Return on equity before tax	Profit before tax/ave. consolidated equity	4.21%	5.60%	6.01%	7.01%
Return on equity after tax	Profit for the period/ave. consolidated equity	3.25%	4.51%	4.53%	5.33%
Cost/income ratio	Operating expenses/operating income	57.87%	59.51%	61.42%	66.96%
NPL ratio	Carrying amounts of non-performing financial assets – AC (excl. banks)/financial assets – AC (excl. banks)	0.89%	0.96%	1.28%	1.42%

The HYPO NOE Group kept up its strong operating performance in an environment shaped by the unprecedented health and economic crisis caused by Covid-19. The most important income component, "Net interest income", again rose significantly, climbing by 10.94% to stand at EUR 63.6m. Despite the fall-off in personal service, "Net fee and commission income" held up well at EUR 9.0m, compared to EUR 9.2m in the first half of 2019. The ongoing digitalisation of the product range and the expansion of multi-channel sales over the past few years supported this trend.

Robust core earnings more than offset temporary measurement effects, raising operating income[2] by 1.17% to EUR 79.0m. Meanwhile, ongoing action to enhance efficiency was stepped up, resulting in a 3.16% reduction in administrative expenses[3] to EUR 59.7m. This led to a 17.27% surge in operating profit (before risk costs) to EUR 19.4m. The cost/income ratio (CIR) improved to 57.87% (H1 2019: 61.42%).

"Profit before tax" was a solid EUR 14.3m (H1 2019: EUR 19.9m). The high pre-tax profit for the previous year was due to a particularly favourable risk situation driven by EUR 3.4m in reversals. During the first half of 2020, the ECL effects ran at a normal level of EUR 5.1m, despite the fact that the ECL models proactively accommodate future potential Covid-19 impacts. This should anticipate both macroeconomic changes and potential implications for the loan portfolio.

3.3 Balance sheet movements

New lending put in another strong showing at EUR 900m (H1 2019: EUR 800m), and was on target in terms of both volumes and margins despite the Covid-19 pandemic. "Financial assets – AC" advanced correspondingly, by 5.85% in comparison to year-end 2019, to EUR 13.1bn. The non-performing loan (NPL) ratio remained at a historically low level,

[2]After exceptional effects (measurement of the contingent additional HETA purchase price, and allocation to the provision for negative interest rates payable by corporate customers): EUR 79.6m (H1 2019: EUR 77.9m).
[3]After exceptional effects (allocation to the resolution and deposit insurance fund, and financial stability contribution instalment payments): EUR 46.1m (H1 2019: EUR 47.9m).

standing at 0.89% at the end of the first half (31 Dec. 2019: 0.96%), reflecting the consistently high quality of the HYPO NOE Group's lending portfolio.

The Group succeeded in carrying out its refinancing activities as planned, despite facing a challenging environment characterised by increased market volatility. In May, the Bank launched the first European benchmark covered bond issue outside France since the start of the Covid-19 crisis, and June saw the debut benchmark issue of a senior preferred green bond. Both transactions were heavily oversubscribed. This meant that HYPO NOE Landesbank had unlimited access to the capital markets even during the crisis.

Nevertheless, there is still a high degree of uncertainty as to the duration of the pandemic and hence the extent of the economic fall-out. Because of this, HYPO NOE Landesbank took part in the European Central Bank (ECB) TLTRO III programme in June. Thanks to this additional option for one-to-three-year refinancing on attractive terms, the Bank will once again remain true to its long-term approach. It is well placed to continue to meet its responsibilities as a state bank to the full, even if the crisis takes a more adverse turn. Due to the take-up of TLTRO III finance, "Total assets" temporarily rose to EUR 17.3bn, and "Financial liabilities – AC" to EUR 15.1bn (EUR 13.5bn excluding TLTRO III), compared to EUR 12.5bn at year-end 2019.

3.4 Segment information

In line with the mortgage bank business model, the largest earnings contribution came from the Real Estate Customers segment, which reported profit before tax of EUR 9.7m (H1 2019: EUR 6.2m), ahead of the Public Sector segment. The performance of the Real Estate Customers segment was down to a further improvement in operating profit, which permitted a significant gain in operating income to EUR 20.1m (H1 2019: EUR 13.5m). In particular, net interest income rose sharply due to the increased asset volume and above-budget margins. With administrative expenses continuing to fall, the Public Sector segment posted a sturdy operating profit of EUR 8.1m (H1 2019: EUR 9.8m). The relative decline in the earnings contribution of the Public Sector segment is explained by the initiation of action to diversify its sources of income. This was also the reason behind a further upturn in the net interest income returned by the Retail and Corporate Customers segment, due to a larger loan book, mainly driven by private, mortgage-backed housing finance. This segment provided the lion's share of Group "Net fee and commission income" at EUR 6.7m (H1 2019: EUR 7.0m). During the first half of 2020 the segment's income contribution almost held steady, despite a fall-off in the frequency of personal interaction with customers due to Covid-19. This success was partly due to further growth in the net fee and commission income generated by consumer finance. The latter can be handled by TeamBank Österreich, using a digital lending process. Following the reversal of risk provisions in the previous year, the segment's profit for the first half of 2020 went down to EUR 5.9m (H1 2019: EUR 6.9m), reflecting the return to normal of the ECL effects. Higher core earnings were the most notable feature of the Treasury & ALM segment's performance. The income contribution, in the shape of profit before tax, dropped to EUR 5.9m from EUR 6.9m in the comparative period, depressed by the lower measurement gains in the current environment. The Real Estate Services segment was confronted with lower orders due to Covid-19, but its results were boosted year on year by further adjustments to its investments.

3.5 Equity

Regulation (EU) No 575/2013 (Capital Requirements Regulation [CRR]), which came into effect on 1 January 2014, requires the calculation of consolidated equity and the consolidated regulatory own funds requirement in accordance with IFRS, paying particular attention to the rules for determining the regulatory scope of consolidation.

Consolidated eligible capital in accordance with the CRR was EUR 662.0m as at 30 June 2020 (31 Dec. 2019: EUR 666.3m).

Excess equity excluding buffers stood at EUR 361.8m as at 30 June 2020 (31 Dec. 2019: EUR 388.5m), compared with a capital requirement of EUR 300.2m (31 Dec. 2019: EUR 277.8m). The Tier 1 capital ratio under Article 92(2)(b) CRR and the total capital ratio under Article 92(2)(c) CRR were 17.64% as at 30 June 2020 (31 Dec. 2019: both ratios 19.19%), and were identical to the fully loaded ratios (31 Dec. 2019: both 19.19%). Taking account of the interim result and prorating of the contributions to the resolution and deposit insurance fund, as well as the instalment payment towards the financial stability levy, which are already fully expensed, the pro forma Tier 1 capital ratio and total capital ratio were 18.07%.

In response to the COVID-19 pandemic, Regulation (EU) 2020/873 was used to bring some of the amendments to the CRR planned for Regulation (EU) 2019/876 forward by one year, so as to reactivate transitional arrangements that had already expired, adapt ongoing transitional arrangements, or implement new temporary relief measures.

The accelerated introduction of the adapted arrangements for the SME supporting factor has not yet been employed. Likewise, no use has yet been made of the new temporary treatment of unrealised gains and losses measured at fair value.

Consideration was given to the reintroduction of the transitional arrangements for zero weighting of exposures to central governments that are denominated in a Community currency but not a domestic currency of a member state, and this had a positive impact of 12bps on the CET1 ratio.

The adapted transitional arrangements under Article 473a CRR are not being applied as the Bank had already come down in favour of full application by the time of the introduction of IFRS 9 in 2019.

4 RISK REPORT

The objectives and methods of risk management and the explanations of material risks form part of the notes (see Note 8 RISK MANAGEMENT).

5 EQUITY INVESTMENTS AND BRANCH OFFICES

The HYPO NOE Group holds investments that support its strategy. The Group only enters into and retains such investments if they are compatible with its primary business objectives. In line with its role as a shareholder representative, the Group promotes, guides and supports investees' strategic business development.

Details of changes in the scope of consolidation can be found under Note 9.1 Scope of consolidation.

As of 30 June 2020, HYPO NOE Landesbank für Niederösterreich und Wien AG had no foreign branches. The representative offices in Budapest, Bucharest and Prague were closed on 30 June 2020 following last year's redefinition of the Group's core market. HYPO NOE Landesbank has operated a branch office at Wipplingerstrasse 4, 1010 Vienna since 2008.

As at 30 June 2020 HYPO NOE Landesbank had 27 branches in Lower Austria and Vienna.

6 INVESTOR RELATIONS

Timely, comprehensive and transparent capital market communications are vital for the HYPO NOE Group. Investors, institutional customers and analysts are regularly kept up to date with the Bank's business performance as well as current developments. This relies both on one-on-one communication with banks, insurance companies, pension funds and investment companies, and on extensive information online (www.hyponoe.at/en/ir).

In the first six months of 2020 – in light of the global Covid-19 pandemic – capital market communication activities focused on maintaining contacts with investors and analysts via a full range of digital channels. The Management Board of HYPO NOE Landesbank held an earnings call to coincide with the announcement of the 2019 results. In May 2020, the Bank successfully issued Europe's first benchmark covered bond outside France since the start of the coronavirus crisis. This was followed in June 2020 by the debut issue of a green senior preferred benchmark bond. In spite of the prevailing market volatility at the time of both transactions, strong demand for the bonds enabled the Bank to once again significantly diversify the investor base.

One-off and recurring publications are posted in the Investor Relations area of the HYPO NOE website. These include the regular consolidated reports, investor presentations and factsheets, as well as information on the current credit, covered bond and sustainability ratings, and the Bank's issuance programme. In addition, the investor relations newsletter keeps readers up to date with current events.

7 GROUP OUTLOOK

7.1 Economic environment

The second half of 2020 will above all be defined by the development of the Covid-19 pandemic on the global and the local level. Assuming there is no second wave of infections that would force governments to reintroduce strict lockdown measures, there should be strong economic upturn in the second half of 2020. This will be based on the catch-up effect in consumption by industry and private households, facilitated by the relaxation of restrictive measures. Extremely expansive monetary and fiscal policies will also support the upswing. However, economic output may not reach pre-crisis levels until 2022. The pace of the recovery will also depend on how the trade war between the United States and China plays out. In addition, it is apparent that negotiations between the European Union and the United Kingdom on their relationship following the end of the transition period, at the end of 2020, remain difficult, meaning that a hard Brexit cannot be entirely ruled out.

Measures taken by the European Central Bank (ECB) to combat the economic consequences of the crisis are likely to remain in place at least until the end of 2021. During this period, the ECB will have little leeway to raise interest rates appreciably, especially as inflation is expected to remain below the bank's target rate. The anticipated recovery and persistent negative real interest rates are likely to buoy stock markets.

Turning to Austria, should Covid-19 case numbers remain stable or decline, and increased use of fiscal stimulus packages amounting to EUR 50bn can be expected. These are aimed at restoring and boosting market participants' willingness to consume and invest. Bringing forward elements of the tax reform planned for 2021 that are designed to relieve the tax burden on lower incomes should also have a positive impact on consumption. Despite the upbeat prospects for the second half of the year, the Austrian central bank (Oesterreichische Nationalbank, OeNB) predicts that the country's economy will shrink by 7.2% in 2020 overall, while Germany's GDP will contract by 7.0%. Unemployment in Austria will rise to 6.8% this year, and the saving rate will increase from around 8% to 13%, according to current forecasts. Assuming the onset of a global recovery, and that the pandemic has only a moderate impact, the OeNB predicts that the economy in the HYPO NOE Group's core market will bounce back by 5-6% in 2021.

7.2 Outlook for Group performance

Based on its good results in the first half of 2020, the HYPO NOE Group expects solid performance for the remainder of the year, although uncertainty remains concerning the duration and macroeconomic impact of the Covid-19 pandemic. The governments of Austria and Germany – markets that are important for the Group – have signed off on comprehensive stabilisation measures that should limit the impact on the real economy. Thanks to its portfolio of activities, which is focused on low-risk infrastructure and housing finance, the HYPO NOE Group is well-placed to weather the effects of the crisis triggered by the pandemic. These effects have been taken into consideration when modelling expected credit losses for the Group's risk provisions.

The Group's low-risk business model has always proven its worth in times of crisis in particular, and the Group will therefore continue to systematically pursue its strategy of concentrating on its core business, in its core markets, while maintaining a conservative risk and capital profile. Infrastructure and housing finance will remain the central focus of the business model; these areas of activity have constantly demonstrated their resilience throughout the economic cycle. Combined with the treasury portfolio, which is principally maintained in order to fulfil regulatory requirements, the NPL ratio for these segments stood at 0.07% as at 30 June 2020.

The evolution of the Covid-19 global pandemic has highlighted the importance of digitalisation. As a result, the HYPO NOE Group will further intensify its activities in the area. A best-in-class approach is applied to develop proprietary digital solutions for the Group's core products, while partners are actively sought for add-on products. This enables the Group to offer customers the best solutions on the market at the same time as building on growth in fee and commission income. In bank operations, the focus remains on optimising processes and automation, with the aim of further increasing efficiency.

Following successful bond issues in the first half, refinancing requirements for 2020 have largely been met. Maintaining a high level of deposits following constant growth in recent years is still a central aim.

St Pölten, 11 August 2020
The Management Board

Wolfgang Viehauser
Management Board Member Markets
and Speaker of the Board

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Management Board Member Finance,
Risk & Operations

HYPO NOE GROUP

CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 IN ACCORDANCE WITH IFRS

1 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Gains/losses

EUR '000	Notes	H1 2020	H1 2019
Interest and similar income measured using the effective interest method		121,720	122,059
Interest and similar income not measured using the effective interest method		96,533	104,569
Interest and similar expense		-154,698	-169,390
Dividend income		10	57
Net interest income	4.1.1	63,565	57,295
Fee and commission income		10,647	10,559
Fee and commission expense		-1,626	-1,385
Net fee and commission income	**5.1**	**9,021**	**9,174**
Net measurement gains or losses		-668	3,231
Net gains on derecognition of financial assets		32	79
Net gains or losses on financial assets and liabilities	**4.1.2**	**-636**	**3,310**
Other operating income	**5.2**	**16,225**	**17,153**
Other operating expense	**5.2**	**-10,382**	**-9,054**
Administrative expenses	**5.3**	**-59,655**	**-61,600**
Impairment losses/gains on financial assets – IFRS 9 ECL	**4.4.2**	**-5,073**	**3,374**
Net gains on investments accounted for using the equity method		**1,249**	**253**
Profit before tax		14,312	19,904
Income tax	7.1	-3,266	-4,913
Profit for the period		11,046	14,991
Non-controlling interests	3.2	-70	-238
Profit attributable to owners of the parent		10,976	14,753

Other comprehensive income

EUR '000	Notes	H1 2020	H1 2019
Profit for the period		**11,046**	**14,991**
Changes in valuation that will not be reclassified to profit or loss		**290**	**-473**
Equity instruments – FVOCI (before tax)	4.2.4	-177	-196
Actuarial gains and losses (before tax)		564	-435
Deferred income tax		-97	158
Changes in valuation that will be reclassified subsequently to profit or loss		**-3,358**	**-2,102**
Debt instruments – FVOCI (before tax)	4.2.4	-4,065	-996
Debt instruments – FVOCI reclassified to profit or loss (before tax)	4.2.4	-478	-1,742
Hedges (hedge accounting) (before tax)	4.5.2	65	-65
Deferred income tax		1,119	701
Other comprehensive income		-3,068	-2,575
Total comprehensive income		7,978	12,416
Non-controlling interests	3.2	-70	-238
Comprehensive income attributable to owners of the parent		7,908	12,178

2 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

EUR '000	Notes	30 Jun. 2020	31 Dec. 2019
Cash and balances at central banks	4.2.1	2,333,651	235,481
Financial assets - HFT	4.2.2	446,897	438,035
Financial assets - mandatorily FVTPL	4.2.3	194,817	224,413
Financial assets - FVOCI	4.2.4	509,869	620,063
Financial assets - AC	4.2.5	13,143,663	12,417,093
Positive fair value of hedges (hedge accounting)	4.5.2	459,153	436,278
Investments accounted for using the equity method		28,758	27,510
Investment property	6.1	37,521	38,235
Intangible assets		404	463
Property, plant and equipment		66,877	68,201
Current tax assets	7.2	22,872	26,319
Deferred tax assets	7.2	1,163	1,162
Other assets	6.3	27,481	38,507
Total assets		17,273,126	14,571,762

Equity and liabilities

EUR '000	Notes	30 Jun. 2020	31 Dec. 2019
Financial liabilities - HFT	4.3.1	417,092	406,606
Financial liabilities - FVO	4.3.2	5,032	4,432
Financial liabilities - AC	4.3.3	15,129,947	12,522,091
Negative fair value of hedges (hedge accounting)	4.5.2	843,337	767,441
Provisions	6.2	68,367	68,270
Current tax liabilities	7.3	6,620	6,034
Deferred tax liabilities	7.3	23,237	26,238
Other liabilities	6.3	90,060	85,695
Subordinated capital		1,453	1,453
Equity	3.1	687,981	683,502
Equity attributable to owners of the parent	3.1	679,495	675,087
Non-controlling interests	3.2	8,486	8,415
Total equity and liabilities		17,273,126	14,571,762

3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 Jun. 2020 EUR '000	1 Jan. 2020	Profit for the period	Dividends paid	Other comprehen sive income	Other changes	30 Jun. 2020
Share capital	51,981	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	191,824
Retained earnings	424,706	10,976	-3,500	-	-	432,182
Other reserves composed of:						
Actuarial gains and losses	-5,878	-	-	423	-	-5,455
Debt instruments - FVOCI	11,717	-	-	-3,407	-	8,310
Equity instruments - FVOCI	809	-	-	-133	-	676
Hedges (hedge accounting)	-72	-	-	49	-	-23
Equity attributable to owners of the parent	675,087	10,976	-3,500	-3,068	-	679,495
Non-controlling interests	8,415	70	-	-	-	8,486
Equity	683,502	11,046	-3,500	-3,068	-	687,981

30 Jun. 2019 EUR '000	1 Jan. 2019	Profit for the period	Dividends paid	Other comprehen sive income	Other changes	30 Jun. 2019
Share capital	51,981	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	191,824
Retained earnings	398,240	14,753	-3,500	-	-64	409,429
Other reserves composed of:						
Actuarial gains and losses	-3,416	-	-	-326	-	-3,743
Debt instruments - FVOCI	15,882	-	-	-2,053	-	13,829
Equity instruments - FVOCI	986	-	-	-147	-	839
Hedges (hedge accounting)	-77	-	-	-48	-	-125
Equity attributable to owners of the parent	655,419	14,753	-3,500	-2,575	-64	664,033
Non-controlling interests	7,978	238	-	-	66	8,282
Equity	663,398	14,991	-3,500	-2,575	2	672,315

4 CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	30 Jun. 2020	30 Jun. 2019
CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD	**235,481**	**417,130**
Profit for the period (before non-controlling interests)	**11,046**	**14,991**
Non-cash items from operating activities		
Amortisation, depreciation, impairment and write-ups on property, plant and equipment, intangible assets and investment property	3,360	3,339
Allocations to and reversals of provisions and risk provisions	7,130	-1,051
Net measurement losses on financial assets and liabilities	668	-2,529
Change in positive and negative fair value of hedging instruments	48,784	12,353
Other adjustments (primarily interest income and expense)	-56,924	-53,260
Changes in assets and liabilities due to operating activities		
Financial assets – AC	-725,184	-731,559
Financial assets – mandatorily FVTPL	30,952	9,460
Financial assets – FVOCI	107,168	109,949
Other operating assets	1,875	-5,608
Financial liabilities – AC	2,606,824	654,289
Other operating liabilities	8,517	-34,644
Payments for taxes, interest and dividends		
Income taxes refunded/paid	-6,582	-3,571
Interest received	228,384	234,229
Interest paid	-163,468	-176,706
Dividends on FVOCI investments received	10	57
Dividends received from associates	-	707
Dividends received from joint ventures	-	160
CASH FLOWS FROM OPERATING ACTIVITIES	**2,102,561**	**30,607**
Proceeds from sale of/redemption of:		
Equity investments	1	-
Property, plant and equipment, intangible assets and investment property	242	146
Purchase of:		
Property, plant and equipment, intangible assets and investment property	-1,135	-917
Proceeds from disposal of subsidiaries	**-**	**152**
CASH FLOWS FROM INVESTING ACTIVITIES	**-891**	**-619**
Dividends paid	**-3,500**	**-3,500**
Repayment of lease liabilities	**-**	**-**
CASH FLOWS FROM FINANCING ACTIVITIES	**-3,500**	**-3,500**
Effect of exchange rate changes on cash and cash equivalents	**-**	**-**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**2,333,651**	**443,618**

EUR '000	1 Jan. 2020	Cash flows	Non-cash	30 Jun. 2020
Subordinated liabilities	1,453	-	-	1,453
Liabilities arising from financing activities	**1,453**	**-**	**-**	**1,453**

EUR '000	1 Jan. 2019	Cash flows	Non-cash	31 Dec. 2019
Subordinated liabilities	1,453	-	-	1,453
Liabilities arising from financing activities	**1,453**	**-**	**-**	**1,453**

NOTES

AS AT 30 JUNE 2020
IN ACCORDANCE WITH IFRS

1 GENERAL INFORMATION

1.1 Significant accounting policies

The condensed interim consolidated financial statements of HYPO NOE Landesbank für Niederösterreich und Wien AG (hereinafter "the HYPO NOE Group") as at 30 June 2020 were drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), as well as the interpretations issued by the Standing Interpretations Committee (SIC) and the IFRS Interpretations Committee (IFRS IC).

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

IAS 34 was applied to preparation of this interim report. Essentially the same accounting policies were applied to this HYPO NOE Group interim report as to the annual report as at 31 December 2019, while taking account of new standards which are mandatory for financial years beginning on or after 1 January 2020.

The interim consolidated 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 2019.

All the estimates and judgements required by IFRS are best estimates made in accordance with the relevant standards. The estimates are reviewed on an ongoing basis and are based on experience and other factors, including expectations regarding future events that appear reasonable under the circumstances. Estimates and assumptions were applied in particular to the following:

- Measuring financial instruments, associates and joint ventures
- Determining impairment losses and gains on financial assets
  (detailed information on the impact of the Covid-19 pandemic can be found in the section on credit risk)
- Defining default
- Performing SPPI tests
- Establishing principles for the transfer of financial instruments (stage transfer)
- Assessing inclusion in the scope of consolidation
- Recognising deferred tax assets attributable to tax loss carryforwards
- Determining fair values
- Determining the useful lives of intangible assets, right-of-use assets, and property, plant and equipment
- Evaluating the effect of first-time application of new IFRS
- Recognising and measuring provisions

Where estimates and judgements were necessary the assumptions made are explained in the notes to the items concerned.

1.2 New and amended standards

New and amended standards	Applicable from	Effect
Definition of Material – Amendments to IAS 1 and IAS 8	1 Jan. 2020	See details
Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7	1 Jan. 2020	See details
Amendments to References to the Conceptual Framework	1 Jan. 2020	None
Definition of a business – Amendment to IFRS 3	1 Jan. 2020	None
Covid-19-Related Rent Concessions – Amendment to IFRS 16	1 Jun. 2020 *	None

New and amended standards adopted but not yet applied		
Extension of the Temporary Exemption from Applying IFRS 9 – Amendment to IFRS 4	1 Jan. 2021 *	None
Proceeds before Intended Use – Amendment to IFRS 16	1 Jan. 2022 *	None
Annual Improvements 2018-2020 Cycle	1 Jan. 2022 *	See details
Onerous Contracts – Cost of Fulfilling a Contract – Amendment to IAS 37	1 Jan. 2022 *	Immaterial
Classification of Liabilities as Current or Non-current – Amendment to IAS 1	1 Jan. 2022 *	None
Reference to the Conceptual Framework – Amendment to IFRS 3	1 Jan. 2022 *	None
IFRS 17 Insurance Contracts	1 Jan. 2023 *	None

*Mandatory application not yet endorsed by the EU

Definition of Material – Amendments to IAS 1 and IAS 8

Application will affect the HYPO NOE Group’s qualitative assessment of materiality in connection with the preparation of annual and interim financial statements. The 2019 consolidated financial statements were consequently prepared using a new structure based on the IASB Disclosure Initiative, in order to drive progress towards clear and transparent reporting.

Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7

The euro overnight index average (EONIA) benchmark rate, among others, does not meet the requirements of the EU Benchmarks Regulation, which came into effect on 1 January 2018, and it will therefore be replaced by the new euro short-term rate (€STR). This unsecured overnight refinancing rate for eurozone banks’ dealings with financial market participants is 8.5 basis points lower than the EONIA. The LCH and EUREX clearing houses set July 2020 as the deadline for the changeover of interest rates on cash collateral for euro-denominated interest rate swaps to the €STR rate. The anticipated compensation payments are income and expense by nature. These payments have therefore been recognised as measurement gains and losses in profit or loss, and compensation paid for the change in fair value induced by the changeover.

Because the HYPO NOE Group only uses fixed interest underlyings in transactions designated as micro fair value hedges as defined by IFRS 9, recourse to the relief for hedge accounting related to interest rate benchmark reform, governed by the amendments to IFRS 9 and IAS 39, is not necessary.

Annual Improvements 2018-2020 Cycle

The effects on the HYPO NOE Group of the annual improvements within this cycle are currently being evaluated. Effects are to be expected because of the changes to the 10% modification test in IFRS 9.

2 SEGMENT INFORMATION

The Bank's segment reporting is in accordance with IFRS 8. In its capacity as the HYPO NOE Group's most senior managing body, the Management Board regularly monitors the evolution of profit or loss before tax across the various business segments and takes decisions on the management of the Group in light of the segment reports. The organisational and management structure of the HYPO NOE Group is based on areas of activity and customer groups.

The segment reporting is derived from the profit centre accounting of HYPO NOE Landesbank für Niederösterreich und Wien AG (HYPO NOE Landesbank) and the subsidiaries' IFRS statements. The same accounting policies as those set out in the section on significant accounting standards are applied in the preparation of these statements.

The apportionment of income in the profit centre accounting is based on Schierenbeck's market interest method. Interest income and expense are divided into a contribution to margin and a structural contribution (i.e. interest maturity transformation), and imputed refinancing costs (liquidity costs) are allocated directly to assets and liabilities. The resulting costs and income from liquidity maturity transformation, and the results of interest maturity transformation are allocated to the Treasury & ALM segment. Due to this approach, which is the industry norm, management control is based on net interest income, and hence the segment reporting does not include gross figures for this item.

Where possible, administrative expenses are allocated directly. Cost components that are not directly allocable are attributed to the various segments in a cost-reflective allocation procedure appropriate to the management of a bank.

The segment assets and liabilities reported relate to on-balance-sheet retail business in the operating segments. Equity is reported under the segment liabilities of the Corporate Center segment.

The analysis by geographical areas in accordance with paragraph 33 IFRS 8 is based on the domiciles of reporting entities, and accordingly all interest income is attributed to Austria.

A breakdown by products and services in accordance with paragraph 32 IFRS 8 is not undertaken, as the necessary information is not available in full on a regular basis, and the expense of compiling it would be out of all proportion to any benefits.

The five reportable segments, which are derived from the HYPO NOE Group's organisational structure, and the reconciliation with consolidated profit or loss, are as follows.

Segmental analysis as at 30 June 2020, EUR '000	Public Sector	Real Estate Customers	Retail and Corporate Customers	Treasury & ALM	Real Estate Services	Corporate Center	Group
Net interest income	16,397	16,961	20,651	13,605	110	-4,160	63,565
Net fee and commission income	1,418	691	6,716	194	-2	4	9,021
Net gains or losses on financial assets and liabilities	-1,122	-457	-1,841	442	-	2,341	-636
Net other operating income	2,257	2,896	969	-265	3,976	-3,989	5,843
Net gains or losses on investments accounted for using the equity method	133	-	-	-	244	872	1,249
Administrative expenses	-11,016	-7,582	-22,445	-7,117	-4,437	-7,058	-59,655
Impairment losses or gains on financial assets - IFRS 9, ECL	-86	-2,850	-2,037	-127	27	-	-5,073
Profit or loss before tax	7,982	9,658	2,012	6,732	-82	-11,990	14,312
Income tax							-3,266
Profit for the period							11,046
Segment assets	7,430,476	2,434,771	2,014,485	5,210,929	51,432	131,033	17,273,126
Segment liabilities	2,256,341	304,519	2,216,003	11,704,637	7,266	784,359	17,273,126

Segmental analysis as at 30 Jun. 2019, EUR '000	Public Sector	Real Estate Customers	Retail and Corporate Customers	Treasury & ALM	Real Estate Services	Corporate Center	Group
Net interest income	17,848	12,133	19,263	11,504	143	-3,596	57,295
Net fee and commission income	1,731	585	6,951	-117	-1	25	9,174
Net gains or losses on financial assets and liabilities	-1,674	608	-120	1,485	-	3,011	3,310
Net other operating income	3,826	141	459	948	5,990	-3,266	8,098
Net gains or losses on investments accounted for using the equity method	-76	-	-	-	-448	777	253
Administrative expenses	-11,853	-6,939	-22,324	-6,929	-6,270	-7,284	-61,600
Impairment losses or gains on financial assets - IFRS 9, ECL	2,254	-353	1,513	-24	-1	-15	3,374
Profit or loss before tax	12,056	6,175	5,741	6,866	-587	-10,348	19,904
Income tax expense							-4,913
Profit for the period							14,991
Segment assets	7,577,878	1,854,628	1,970,309	3,296,034	48,400	120,742	14,867,991
Segment liabilities	2,229,221	257,347	2,173,857	9,431,642	7,420	768,504	14,867,991

2.1 Public Sector segment

This segment includes financing and deposit-taking business with public-sector and government-linked customers (state governments, local and regional authorities, public agencies and infrastructure businesses, as well as religious communities and interest groups). Besides conventional loan finance, the focus is on bespoke financing models in the Bank's core Lower Austria and Vienna market. Income from the administration of state-subsidised homebuilding loans, a service provided to the public sector by the HYPO NOE Group, is reported in this segment.

All the earnings of the leasing subsidiaries, which are almost entirely derived from leasing transactions with the public sector and public agencies, are also attributed to it. The leasing subsidiaries provide the following products: complex, project-based real estate lease agreements, support services for real estate project management, and business management services.

The Public Sector segment has a business relationship with a major customer in the meaning of paragraph 34 IFRS 8. The client in question is a public authority, and the services provided to it largely take the form of leases, as well as lending and deposit taking. Dealings with this customer and its allocable group entities, in accordance with the definition of major investments and without recourse to the exemption for sub-groups, generated net interest income of EUR 10.4m. This figure is made up of EUR 3.5m from direct business relationships with the customer, EUR 1.6m from direct business relationships with allocable group members, and EUR 5.3m from indirect business relationships in the form of lease refinancing.

2.2 Real Estate Customers segment

The Group's business with property sector companies is attributed to this segment. Earnings from providing finance for non-profit and commercial housing developers, as well as the office, shopping centre, retail park, housing and city hotel asset classes, and mixed-use portfolios, are reported under this segment. Exceptions are real estate finance and leases for the public sector or public agencies, retail customers and SMEs, which are allocated to these customer groups' segments.

The HYPO NOE Group has a long tradition of providing finance for non-profit housing developers, with the emphasis on the construction and rehabilitation of large housing projects including land purchases in Austria – mainly in Lower Austria and Vienna. The business activities involving non-profit housing cooperatives also focus on investment and payments.

In addition, the segment provides finance for commercial property and other projects, as well as existing properties (rental apartment buildings), mainly earmarked for use in satisfying housing demand. The target groups for this commercial property lending are property developers, investors, owners of existing properties, owners' associations, property managers, private individuals, and medical practitioners whose projects and scale point to commercial operations, and who are not subject to the consumer protection legislation.

The main target markets for real estate project loans are Austria, Germany, the Netherlands and the neighbouring CEE region. Germany and the Netherlands are classed as key growth markets due to the heavy demand, the strong presence of foreign investors, the transparent market and legal situation, and the countries' outstanding creditworthiness. Where real estate project finance is concerned, particularly close attention is paid to achieving an adequate risk-return ratio.

2.3 Retail and Corporate Customers segment

This segment's core competences include banking business with retail, self-employed and business customers. The product portfolio is made up of 'finance and housing', 'saving and investment', and 'accounts and cards' lines, and runs the gamut of traditional banking business, from lending with an emphasis on housing construction, and investment in savings products and securities, through to current accounts and credit cards. Close cooperation with the State of Lower Austria enables the Group to offer one-stop consultation on loans and subsidies, assuring customers of sound advice and rapid processing.

The comprehensive services for business customers are aimed both at small and medium-sized enterprises (SMEs) and at large companies. A separate, specialised team develops structured product solutions, especially subsidised loans and export finance.

The insurance brokerage business of HYPO NOE Versicherungsservice GmbH (HVS) is also included in this segment. The Group's in-house insurance service, HVS acts as an independent broker and advises HYPO NOE Group customers on insurance matters.

2.4 Treasury & ALM

The Treasury & ALM segment is in charge of the HYPO NOE Group's capital market operations and interbank business. This includes money market and capital market refinancing, interest rate and liquidity management activities, liquidity buffering and management of foreign exchange risk.

The Nostro Management Department's activities are devoted to providing liquid assets for liquidity maintenance and compliance with regulatory requirements. Due to its targeted exploitation of capital market opportunities, Nostro Management can generate interest contributions for the segment, and achieve market and customer diversification.

Asset Liability Management (ALM) aims for central control of the Bank's interest rate position so as to make positive structural earnings contributions.

For regulatory reasons, the segment's trading activities are restricted to a small trading book aimed at generating additional income and designed for short holding periods. Segment earnings are thus not materially affected by these trading activities.

2.5 Real Estate Services segment

Besides conventional banking activities, the HYPO NOE Group provides services along the entire real estate value chain. The HYPO NOE Group's real estate services business, which comes under the umbrella of HYPO NOE Immobilien Beteiligungsholding GmbH, consists of operating companies HYPO NOE Real Consult GmbH, which specialises in construction management, and HYPO NOE First Facility GmbH. The latter is aiming for a tighter focus on key accounts in Lower Austria and Vienna, and the public sector.

The Real Estate Services segment's product offerings are supplemented by its stake in NOE Immobilien Development GmbH (NID), a property developer which is accounted for using the equity method.

2.6 Corporate Center

The Corporate Center segment serves to reconcile the operating segments' results with the consolidated totals. It is used for consolidation entries, as well as activities and ancillary banking services that are not attributable to any other segment, and do not constitute separate reportable segments on materiality grounds.

The ancillary services include companies that manage properties used primarily by the Group and any related assets. These are Benkerwiese Verwaltungs- und Verwertungsgesellschaft m.b.H. and Unternehmens-, Verwaltungs- und Verwertungsgesellschaft m.b.H. The rental expenses and operating costs charged on by these firms are allocated to the operating segments' administrative expenses on a causation basis.

Earnings and expenses related to interests managed by the investment management unit are not directly apportioned to any operating segment and are thus also allocated to the Corporate Center. The businesses concerned include EWU Wohnbau Unternehmensbeteiligungs-GmbH (EWU), Niederösterreichische Vorsorgekasse AG and Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.

Specific material earnings from other periods, and non-recurring earnings and expenses relating to the Bank as a whole are allocated to the Corporate Center segment so as to avoid sending distorted signals to management at segment reporting level wherever possible. This approach is not applied to impairments or restructuring gains or losses, which are allocated directly to the segments in the same way as the corresponding assets.

Likewise, the following asymmetrical allocations are reported under the Corporate Center segment, pursuant to paragraphs 27ff. IFRS 8:

- Cost of cash collaterals for customer derivatives in the absence of collateral agreements
  Where customer derivatives are not secured by collateral agreements, the HYPO NOE Group does not receive collateral from customers and must post cash collaterals with the hedging partners. Liquidity costs are incurred when refinancing these collaterals. Treasury & ALM is responsible for managing all collateral positions, while the related refinancing costs are reported in the Corporate Center segment. Collateral requirements occasioned by future customer derivatives are met by means of pricing or collateral agreements with customers, and are hence not included in this asymmetrical allocation
- Adverse effects of structural contributions on consumer loans arising from negative variable interest indicators
- Changes in a legal-risk provision for potentially contentious negative interest collected on corporate loans. Details are given in Note 6.2 Provisions

Net interest income in the Corporate Center segment in the first half of 2020 includes EUR 1.9m (30 Jun. 2019: EUR 2.0m) in asymmetrical allocations arising from collateral expenses, as well as EUR 1.6m (30 Jun. 2019: EUR 1.3m) in unfavourable structural contribution effects arising from negative variable interest rate indicators on consumer loans.

The cost of refinancing ancillary companies (Group properties) is also reported under segment net interest income.

Net gains on financial assets and liabilities were EUR 2.3m in the first half of 2020 (30 Jun. 2019: EUR 3.0m). They related to measurement of the HETA contingent additional purchase price. Details can be found in Notes 4.1.2 Net gains or losses on financial assets and liabilities, and 4.6 Fair value disclosures.

Net other operating income and administrative expenses in the Corporate Center segment include specific material earnings from prior periods and non-recurring income and expenses. This is to avoid sending distorted signals to management at segment reporting level.

A provision was recognised in net other operating income for negative interest on corporate loans in both 2019 and 2020. Likewise, this item in the Corporate Center segment reflects compensation for the services of the Retail and Corporate Customers segment in connection with internal customers (30 Jun. 2020: EUR 0.5m; 30 Jun. 2019: EUR 0.6m). Administrative expenses reported under the Corporate Center include intra-year accruals in respect of the one-off financial stability contribution and the allocation to the deposit insurance and resolution fund amounting to EUR 6.8m (30 Jun. 2019: EUR 6.9m). This corresponds to 50% of the overall cost burden. The other 50% is distributed among the operating segments.

3 EQUITY AND CONSOLIDATED OWN FUNDS

3.1 Equity

EUR '000	30 Jun. 2020	31 Dec. 2019
Share capital	51,981	51,981
Capital reserves	191,824	191,824
Appropriated reserve	94,624	94,624
Unappropriated reserve	97,200	97,200
Other reserves	3,508	6,576
Retained earnings	432,182	424,706
Equity attributable to owners of the parent	**679,495**	**675,087**
Non-controlling interests	8,486	8,415
Total	687,981	683,502

3.2 Non-controlling interests

EUR '000	H1 2020	H1 2019
FORIS Grundstückvermietungs Gesellschaft m.b.H.	8	7
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	-105	-216
LITUS Grundstückvermietungs Gesellschaft m.b.H.	12	8
PINUS Grundstückvermietungs Gesellschaft m.b.H.	-6	-2
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	-10	-12
Adoria Grundstückvermietungs Gesellschaft m.b.H.	3	-5
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	-4	-9
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	4	7
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	-10	1
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	38	-18
Total	-70	-238

3.3 Reconciliation of equity

EUR '000	30 Jun. 2020	31 Dec. 2019
Equity according to IFRS financial statements	687,981	683,502
Difference to regulatory scope of consolidation	-686	727
Equity according to FINREP reporting template 51	687,294	684,229
Deferred taxes on untaxed reserves	-3,903	-3,903
Prudent valuation (simplified approach)	-1,446	-1,620
Intangible assets	-389	-446
Ineligible minority interests	-8,486	-8,415
Intrayear change in revaluation surplus, profit and dividend	-11,049	-3,500
Eligible capital	662,022	666,345

3.4 Consolidated own funds and regulatory own funds requirement

Regulation (EU) No 575/2013 (Capital Requirements Regulation, CRR) 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 own funds of the HYPO NOE Group, calculated in accordance with the CRR/CRD IV requirements, are broken down as follows:

EUR '000	CRR/CRD IV 30 Jun. 2020	CRR/CRD IV 31 Dec. 2019
Share capital	136,546	136,546
Paid-up capital instruments	51,981	51,981
Premiums	84,566	84,566
Reserves, differences and non-controlling interests	527,310	531,865
Retained earnings	417,536	417,536
Other reserves	104,744	104,744
Accumulated comprehensive income	5,030	9,585
Prudential filter: adjustments due to the prudential measurement requirements	-1,446	-1,620
Other transitional adjustments to Common Equity Tier 1 (CET1) capital	-	-
Intangible assets	-389	-446
CET1 capital	662,022	666,345
Additional Tier 1 capital	-	-
Tier 1 capital	**662,022**	**666,345**
Deductions due to investments, pursuant to Art. 36 and Art. 89 CRR	-	-
Eligible Tier 1 capital	**662,022**	**666,345**
Deductions due to investments, pursuant to Art. 36 and Art. 89 CRR	-	-
Total eligible capital	**662,022**	**666,345**
Own funds requirement	**300,226**	**277,828**
Excess capital	**361,796**	**388,517**
Coverage ratio	220.51%	239.84%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR (fully loaded)	17.64%	19.19%
Total capital ratio in accordance with Art. 92(2)(c) CRR (fully loaded)	17.64%	19.19%
Capital requirement incl. all buffer requirements	13.14%	13.14%

Changes in the risk-weighted measurement basis and the resultant own funds requirement are shown below:

EUR '000	CRR/CRD IV 30 Jun. 2020	CRR/CRD IV 31 Dec. 2019
Risk-weighted measurement basis for credit risk	3,398,896	3,102,800
of which 8% minimum own funds requirement	271,912	248,224
Own funds requirement for open currency positions	-	-
Own funds requirement for operational risk	22,527	23,263
Own funds requirement for CVA risk	5,787	6,341
Total own funds requirement	**300,226**	**277,828**

4 FINANCIAL INSTRUMENTS AND CREDIT RISK

4.1 Influence of financial instruments on the statement of profit or loss

4.1.1 Net interest income

EUR '000	H1 2020	H1 2019
Interest and similar income measured using the effective interest method	**121,720**	**122,059**
Financial assets – FVOCI	7,938	9,793
Financial assets – AC	98,727	96,942
Current finance lease income	15,054	15,324
Interest and similar income not measured using the effective interest method	**96,533**	**104,569**
Financial assets and liabilities – HFT	41,166	45,441
Financial assets – mandatorily FVTPL	1,067	1,223
Hedges	53,090	56,723
Other interest and similar income	1,211	1,183
Interest expense	**-154,698**	**-169,391**
Financial assets and liabilities – HFT	-39,994	-44,048
Financial liabilities – AC	-65,675	-76,176
Hedges	-49,026	-49,163
Lease liabilities in accordance with IFRS 16	-2	-3
Dividend income	**10**	**57**
Total	63,565	57,295

4.1.2 Net gains or losses on financial assets and liabilities

Net gains or losses on disposal contain the net gains or losses recognised through profit or loss on disposal of financial assets reported under "Financial assets – AC" and "Financial assets – FVOCI" (recycling). Net gains on disposal include routine disposals of bonds which are attributed to the "hold to collect and sell" business model and triggered a recycling result by their effective derecognition.

All gains and losses on fair value measurement are reported under "Net gains or losses on financial assets and liabilities". This item includes the effects of measurement of financial instruments in the "mandatorily FVTPL", "HFT" and "FVO" categories. It also includes direct measurement gains and losses for assets recognised under "Financial assets – AC" and "Financial assets – FVOCI", receipts from written-off receivables, and gains and losses on non-substantial contract modifications.

Net gains or losses on the measurement of hedged risk with respect to underlyings (basis adjustment) and the corresponding hedges are shown under net measurement gains or losses on hedges (see Note 4.5.2 Detailed information on hedge accounting).

In accordance with paragraph 20A IFRS 7, the impact on earnings of the "Net gains or losses arising from the derecognition of financial assets" item results from substantial contract modifications.

EUR '000	H1 2020	H1 2019
Net gains or losses on:	**-668**	**3,310**
Disposal	**811**	**1,742**
Financial assets - AC	333	-
Financial assets - FVOCI	478	1,742
Measurement	**-739**	**2,375**
Financial assets - AC	-1,831	-111
Financial assets - mandatorily FVTPL	1,356	4,881
Financial assets and liabilities - HFT	337	-1,645
Financial assets and liabilities - FVO	-600	-750
Hedges	**-740**	**-886**
Net gains or losses on hedged underlying transactions (fair value hedges)	57,836	30,656
Net gains or losses on hedges (fair value hedges)	-58,577	-31,542
Net gains or losses arising from the derecognition of financial assets	**32**	**79**
Financial assets - AC	32	79
Total	-636	3,310

The net losses on measurement of "Financial assets - AC" include net losses on non-substantial modifications of EUR 411thsd (H1 2019: net losses of EUR 747thsd) and direct write-offs amounting to EUR 1,188thsd (H1 2019: nil).

4.2 Financial assets

4.2.1 Cash and balances at central banks

EUR '000	30 Jun. 2020	31 Dec. 2019
Cash on hand	23,102	32,187
Balances at central banks	2,310,549	203,294
Total	2,333,651	235,481

The increase in balances at central banks is principally due to the Group's participation in the TLTRO III programme.

4.2.2 Financial assets - HFT

EUR '000	30 Jun. 2020	31 Dec. 2019
Positive fair value of derivatives held for trading		
Positive fair value of interest rate derivatives	415,508	415,952
Positive fair value of foreign exchange derivatives	31,389	22,083
Total	446,897	438,035

4.2.3 Financial assets - mandatorily FVTPL

This category comprises financial assets not assigned to either the "hold to collect" or "hold to collect and sell" business models, as well as assets assigned to the "hold to collect" model that do not meet the SPPI criteria, meaning that the cash flows do not consist solely of payments of principal and interest at market rates.

EUR '000	30 Jun. 2020	31 Dec. 2019
Loans	**125,504**	**134,353**
General governments	3,073	3,416
Other financial corporations	1,507	2,229
Non-financial corporations	87,782	91,902
Households	33,142	36,806
Bonds	**69,314**	**90,060**
General governments	36,312	46,091
Banks	33,002	33,782
Other financial corporations	-	10,187
Total	194,817	224,413

4.2.4 Financial assets - FVOCI

This category contains non-derivative financial assets. These are debt instruments allocated to the "hold to collect and sell" business model in accordance with paragraph 4.1.2 IFRS 9, where all cash flows are solely payments of principal and interest, as well as equity instruments not held for trading for which the HYPO NOE Group has exercised the elective right under paragraph 5.7.5 IFRS 9 to recognise the change in fair value in other comprehensive income.

EUR '000	30 Jun. 2020	31 Dec. 2019
Bonds	**507,437**	**617,448**
General governments	369,942	457,991
Banks	133,506	147,330
Other financial corporations	-	10,070
Non-financial corporations	3,989	2,057
Equity instruments	**2,433**	**2,615**
Banks	725	808
Other financial corporations	1	1
Non-financial corporations	1,707	1,806
Total	509,869	620,063

4.2.5 Financial assets – AC

This category includes non-derivative financial assets assigned to the "hold to collect" business model, where the cash flows solely represent payments of principal and interest.

EUR '000	30 Jun. 2020	31 Dec. 2019
Loans	**11,957,006**	**11,461,809**
General governments	4,165,912	4,237,236
Banks	732,935	685,015
Other financial corporations	298,696	294,676
Non-financial corporations	4,559,155	4,135,576
Households	2,200,308	2,109,306
Bonds	**1,186,657**	**955,284**
General governments	607,719	514,236
Banks	491,763	380,248
Other financial corporations	49,276	31,224
Non-financial corporations	37,900	29,575
Total	13,143,663	12,417,093

4.2.6 Transfer of financial assets

The HYPO NOE Group transferred financial assets that were not derecognised, on the following grounds:

- Securities and credit claims in the collateral pool for the ECB tender liability
- Securities for collateralised deposits
- Securities forming a contribution to a default fund (initial margin obligation)

The following table shows the carrying amounts of financial assets that were transferred.

	30 Jun. 2020		31 Dec. 2019	
EUR '000	Transferred assets	Related liabilities	Transferred assets	Related liabilities
Financial assets - FVOCI	**470,528**	**455,566**	**284,599**	**85,138**
Bonds	470,528	455,566	284,599	85,138
Financial assets - AC	**1,505,057**	**1,707,210**	**871,406**	**276,194**
Bonds	857,934	959,238	307,941	69,742
Loans	647,123	747,972	563,465	206,452
Total	1,975,585	2,162,777	1,156,005	361,332

4.3 Financial liabilities

4.3.1 Financial liabilities – HFT

EUR '000	30 Jun. 2020	31 Dec. 2019
Negative fair value of derivatives held for trading		
Negative fair value of interest rate derivatives	387,077	384,718
Negative fair value of foreign exchange derivatives	30,015	21,889
Total	417,092	406,606

4.3.2 Financial liabilities – FVO

This item consists of a liability related to the HETA contingent additional purchase price, which the Group designated as measured at fair value through profit or loss in accordance with paragraph 4.2.2 IFRS 9 so as to avoid measurement and recognition inconsistencies (accounting mismatches) with regard to the financial assets concerned (see Note 4.2.3 Financial assets – mandatorily FVTPL). Details are given in Note 4.6 Fair value disclosures.

4.3.3 Financial liabilities – AC

EUR '000	30 Jun. 2020	31 Dec. 2019
Savings deposits	**763,884**	**805,491**
Deposits	**5,736,405**	**4,069,398**
Banks	2,627,629	705,596
General governments	997,934	1,236,316
Other financial corporations	534,123	752,906
Non-financial corporations	694,713	562,681
Households	882,005	811,899
Bonds in issue	**8,629,658**	**7,647,201**
Covered bonds	1,634,144	1,140,847
Municipal bonds	4,046,343	4,050,800
Other bonds	2,949,172	2,455,554
Total	15,129,947	12,522,091

4.3.4 Contingent liabilities

EUR '000	30 Jun. 2020	31 Dec. 2019
Liabilities arising from guarantees and provision of collateral	137,416	143,924

4.4 Credit risk and risk provisions

4.4.1 Accounting policies for risk provisions

Recognition of the effects of Covid-19

The HYPO NOE Group has carried out detailed analysis of the effects on its risk provisions of the Covid-19 pandemic and related government stabilisation measures. Overall, the results of this analysis point to an increase in defaults in the Group's customer portfolios that have been affected by the Covid-19 crisis. This expectation is appropriately reflected in the methods and models applied to calculate expected credit losses (ECL).

The Group uses quantitative and qualitative indicators to assess whether credit risk has increased significantly. A comparison is made of the probabilities of default (PDs) on financial instruments, over the entire (remaining) term, at the current time and the time of initial recognition. When determining PDs, in addition to historical default experience forward-looking information is taken into account, using a macroeconomic model based on current economic forecasts by the Austrian national bank (Oesterreichische Nationalbank, OeNB). These forecasts reflect the macroeconomic impact of the Covid-19 pandemic as well as the possible effects of government support measures over a given period. In the qualitative assessment of increases in credit risk, the Group takes account of both public and private law measures, so that there is no automatic stage transfer of all financial assets covered by the moratorium.

4.5.1 Detailed information on risk provisions

The following table shows the changes in risk provisions during the reporting period and the breakdown of the changes by statement of profit or loss items.

EUR '000	Changes in risk provision 2020	Impairment losses/gains on financial assets – IFRS 9 ECL	Net other operating income	Interest expense	Not recognised through profit or loss	Changes in risk provisions, 2019
Risk provisions at start of reporting period	-77,568					-79,130
Increase due to origination and purchase	-10,117	-10,117	-	-	-	-7,166
Reduction due to derecognition and substantial modification	1,221	1,221	-	-	-	2,761
Utilisation of risk provisions	10,840	-	-	-	10,840	16,446
Allocations and reversals due to changes in credit risk	3,339	3,822	-	-483	-	-10,490
Other adjustments (incl. exchange differences)	9	9	-	-	-	34
Cash and balances at central banks, and trade receivables	3	-8	11	-	-	-23
Other income and expenses	-	-	-	-	-	-
Risk provisions at end of reporting period	-72,274	-5,073	11	-483	10,840	-77,568

Stage 1 impairment losses/gains

30 Jun. 2020 EUR '000	1 Jan. 2020	Origination and purchase	Derecognition/utilisation	Changes in credit risk	Foreign exchange and other changes	30 Jun. 2020
Financial assets – AC	**-9,999**	**-3,146**	**653**	**-1,405**	**1**	**-13,896**
Loans	-9,836	-3,120	651	-1,375	-1	-13,682
Banks	-	-	-	-	-	-
General governments	-70	-118	4	-71	-	-254
Other financial corporations	-1,177	-117	-	29	-	-1,265
Non-financial corporations	-7,252	-2,066	612	-1,321	-1	-10,029
Households	-1,338	-818	34	-12	-	-2,134
Bonds	-163	-27	2	-29	2	-215
Banks	-90	-18	-	1	-	-107
General governments	-4	-2	-	-	-1	-6
Other financial corporations	-2	-6	1	-4	4	-7
Non-financial corporations	-67	-1	-	-26	-	-94
Financial assets – FVOCI	**-30**	**-5**	**9**	**-6**	-	**-32**
Bonds	-30	-5	9	-6	-	-32
Banks	-22	-1	8	-3	-1	-19
General governments	-3	-	1	-	-	-3
Other financial corporations	-1	-	-	-	1	-
Non-financial corporations	-3	-4	-	-3	-	-10
Provisions for off-balance-sheet risks	**-1,076**	**-506**	**110**	**-49**	-	**-1,521**
Loan commitments and financial guarantee contracts	-1,076	-506	110	-49	-	-1,521
Total	-11,105	-3,657	771	-1,459	1	-15,449

30 Jun. 2019 EUR '000	1 Jan. 2019					30 Jun. 2019
Financial assets – AC	**-7,355**	**-2,249**	**183**	**1,811**	-	**-7,611**
Loans	-7,258	-2,249	183	1,822	-	-7,502
Banks	-8	-	-	-2	-	-10
General governments	-214	-4	3	146	-	-70
Other financial corporations	-257	-666	-	-53	99	-877
Non-financial corporations	-5,503	-1,265	151	1,441	-99	-5,275
Households	-1,275	-314	29	290	-	-1,270
Bonds	-98	-	-	-11	-	-109
Banks	-48	-	-	-25	-	-73
General governments	-3	-	-	-2	-	-5
Other financial corporations	-	-	-	-5	-	-5
Non-financial corporations	-47	-	-	21	-	-26
Financial assets – FVOCI	**-46**	-	-	**11**	-	**-36**
Bonds	-46	-	-	11	-	-36
Banks	-38	-	-	10	-	-28
General governments	-5	-	-	1	-	-4
Other financial corporations	-1	-	-	-	-	-1
Non-financial corporations	-1	-	-	-1	-	-2
Total	-7,402	-2,249	183	1,821	-	-7,646

Stage 2 impairment losses/gains

30 Jun. 2020 EUR '000	1 Jan. 2020	Origination and purchase	Derecognition/utilisation	Changes in credit risk	Foreign exchange and other changes	30 Jun. 2020
Financial assets - AC	**-22,302**	**-1,433**	**203**	**744**	**-2**	**-22,790**
Loans	-12,650	-22	203	-790	-	-13,259
Banks	-	-	-	-	-	-
General governments	-1,014	-	-	-16	-	-1,030
Other financial corporations	-30	-	5	3	-	-21
Non-financial corporations	-6,132	-9	37	-979	-	-7,083
Households	-5,474	-13	161	201	-	-5,125
Bonds	-9,652	-1,411	-	1,535	-2	-9,531
Banks	-	-	-	-	-	-
General governments	-	-998	-	998	-	-
Other financial corporations	-9,616	-276	-	487	-2	-9,407
Non-financial corporations	-36	-138	-	50	-	-124
Financial assets - FVOCI	**-4**	-	-	**2**	-	**-2**
Bonds	-4	-	-	2	-	-2
Banks	-4	-	-	2	-	-2
Provisions for off-balance-sheet risks	**-268**	**-2**	**12**	**34**	-	**-224**
Loan commitments and financial guarantee contracts	-268	-2	12	34	-	-224
Total	**-22,574**	**-1,435**	**215**	**780**	**-2**	**-23,016**

30 Jun. 2019 EUR '000	1 Jan. 2019					30 Jun. 2019
Financial assets - AC	**-16,546**	**-668**	**407**	**1,257**	-	**-15,550**
Loans	-16,516	-668	407	1,255	-	-15,521
Banks	-2	-	-	-5	-	-7
General governments	-901	-1	-	-230	-	-1,131
Other financial corporations	-20	-648	-	627	-	-41
Non-financial corporations	-5,485	-7	96	28	-	-5,367
Households	-10,108	-13	311	834	-	-8,976
Bonds	-30	-	-	2	-	-28
Banks	-	-	-	-	-	-
General governments	-30	-	-	2	-	-28
Other financial corporations	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-
Financial assets - FVOCI	**-9**	-	-	**3**	-	**-6**
Bonds	-9	-	-	3	-	-6
Banks	-9	-	-	3	-	-6
Total	**-16,555**	**-668**	**407**	**1,260**	-	**-15,556**

Stage 3 impairment losses/gains

30 Jun. 2020 EUR '000	1 Jan. 2020	Origination and purchase	Derecognition/utilisation	Changes in credit risk	Foreign exchange and other changes	30 Jun. 2020
Financial assets – AC	**-42,476**	**-5,023**	**11,058**	**2,786**	**10**	**-33,645**
Loans	-42,476	-5,023	11,058	2,786	10	-33,645
General governments	-4,322	-	-	195	-	-4,127
Non-financial corporations	-26,141	-4,743	7,350	2,746	10	-20,778
Households	-12,013	-280	3,709	-155	-	-8,740
Provisions for off-balance-sheet risks	**-1,390**	**-1**	**16**	**1,232**	**-**	**-143**
Loan commitments and financial guarantee contracts	-1,390	-1	16	1,232	-	-143
Total	-43,866	-5,024	11,075	4,018	10	-33,788

30 Jun. 2019 EUR '000	1 Jan. 2019					30 Jun. 2019
Financial assets – AC	**-53,342**	**-58**	**4,339**	**1,057**	**-**	**-48,003**
Loans	-53,342	-58	4,339	1,057	-	-48,003
General governments	-4,695	-	-	184	-	-4,511
Non-financial corporations	-31,682	-	1,018	1,493	-	-29,171
Households	-16,965	-58	3,322	-620	-	-14,321
Total	-53,342	-58	4,339	1,057	-	-48,003

Risk provisions by rating classes

In order to provide a clear overview, the following breakdown of risk provisions includes amounts for "Cash and balances at central banks" and "Trade receivables"; however, these are not included in the loss allowances for each stage.

	Risk provisions					Gross carrying amount/nominal amount				
	30 Jun. 2020				31 Dec. 2019	30 Jun. 2020				31 Dec. 2019
EUR '000	Stage 1	Stage 2	Stage 3	Total	Total	Stage 1	Stage 2	Stage 3	Total	Total
Cash and balances at central banks	**-9**	**-9**	**-**	**-18**	**-10**	**2,333,535**	**133**	**-**	**2,333,669**	**235,491**
Financial assets – AC	**-13,896**	**-22,790**	**-33,646**	**-70,332**	**-74,778**	**11,709,960**	**1,397,418**	**106,617**	**13,213,995**	**12,491,871**
Loans	-13,682	-13,259	-33,646	-60,586	-64,963	10,564,201	1,346,774	106,617	12,017,592	11,526,772
Rating class 1	-153	-6	-	-160	-179	4,653,355	83,923	-	4,737,279	4,896,046
Rating class 2	-4,467	-1,001	-	-5,467	-3,575	3,803,916	205,694	-	4,009,610	3,475,544
Rating class 3	-8,091	-8,926	-	-17,017	-15,382	2,021,455	945,487	-	2,966,941	2,871,099
Rating class 4	-971	-3,326	-	-4,297	-3,349	85,475	111,670	-	197,146	173,906
Rating class 5	-	-	-33,646	-33,646	-42,477	-	-	106,617	106,617	110,177
Bonds	-215	-9,531	-	-9,746	-9,815	1,145,759	50,644	-	1,196,403	965,099
Rating class 1	-39	-	-	-39	-23	712,249	-	-	712,249	567,423
Rating class 2	-100	-	-	-100	-92	414,694	-	-	414,694	335,599
Rating class 3	-76	-124	-	-200	-85	18,816	4,767	-	23,583	21,234
Rating class 4	-	-9,407	-	-9,407	-9,616	-	45,877	-	45,877	40,842
Financial assets – FVOCI	**-32**	**-2**	**-**	**-34**	**-34**	**500,091**	**7,379**	**-**	**507,470**	**617,482**
Bonds	-32	-2	-	-34	-34	500,091	7,379	-	507,470	617,482
Rating class 1	-9	-	-	-9	-12	365,120	-	-	365,120	439,090
Rating class 2	-22	-2	-	-24	-21	134,972	7,379	-	142,351	178,392
Provisions for off-balance-sheet risks	**-1,521**	**-224**	**-143**	**-1,888**	**-2,734**	**1,866,832**	**103,003**	**2,001**	**1,971,836**	**1,890,279**
Rating class 1	-2	-	-	-2	-2	1,059,541	814	-	1,060,355	1,120,407
Rating class 2	-133	-23	-	-156	-154	352,388	30,306	-	382,694	330,451
Rating class 3	-1,282	-148	-	-1,430	-996	444,189	61,289	-	505,478	414,967
Rating class 4	-104	-53	-	-157	-192	10,714	10,595	-	21,309	20,104
Rating class 5	-	-	-143	-143	-1,390	-	-	2,001	2,001	4,351
Trade receivables	**-**	**-3**	**-**	**-3**	**-13**	**3,545**	**187**	**-**	**3,732**	**4,187**
Total	-15,458	-23,028	-33,788	-72,274	-77,568	16,413,964	1,508,120	108,618	18,030,702	15,239,310

ECL sensitivity analysis

When calculating loss allowances, besides historical and current information, forward-looking information derived from forecasts of key macroeconomic factors is also taken into account. The influence of these macroeconomic developments on measurement of expected credit losses is reflected by a point-in-time parametrisation of the PDs for the three years after the end of the reporting period. To account for the inherent uncertainty of such forward-looking estimates, alongside the baseline scenario (which corresponds to the expectation that is most likely to be fulfilled) an optimistic and a pessimistic scenario for the evolution of the macroeconomic factors are constructed and the resultant credit losses estimated. Both scenarios were derived from a large number of statistically simulated potential PD scenarios, and neither represents an extreme case. The optimistic scenario reflects the 10% quantile and the pessimistic scenario the 90% quantile of this distribution.

The table below shows a comparison of Stage 1 and Stage 2 expected credit losses for financial assets, calculated on the basis of the standard scenarios.

30 Jun. 2020, EUR '000	Optimistic	Baseline	Pessimistic
Risk provisions generated by the fully automated process (Stage 1 and Stage 2)	37,506	39,274	42,795

30 Jun. 2019, EUR '000	Optimistic	Baseline	Pessimistic
Risk provisions generated by the fully automated process (Stage 1 and Stage 2)	23,079	23,982	25,368

The Covid-19 pandemic has increased the level of uncertainty associated with measuring expected credit losses. To counter this, the HYPO NOE Group has carried out additional sensitivity analyses. As well as the standard scenarios, additional impact scenarios for Stage 1 and Stage 2 ECL are presented, based on intentionally harsher assumptions regarding the currently expected extent of the effects of the Covid-19 crisis. The assumptions take into account effects that are possible but are viewed as unlikely at present. The 'rating shock' scenario is based on the assumption that the PD of the Group's portfolios affected by the Covid-19 crisis rises by an average of 150% compared with pre-crisis levels. The 'LGD and collaterals shock' scenario depicts the effects of a relative increase of 25 percentage points in all losses given default for the uncollateralised portion of loans, coupled with a 15% fall in the value of real estate collaterals. Finally, for the 'rating, LGD and collaterals shock' scenario, the combined effect of both scenarios on loss allowances is calculated.

The table below shows a comparison of Stage 1 and Stage 2 expected credit losses for financial assets, calculated on the basis of each shock scenario.

30 Jun. 2020, EUR '000	Rating shock	LGD and collaterals shock	Rating, LGD and collaterals shock
Risk provisions generated by the fully automated process (Stage 1 and Stage 2)	48,274	47,274	61,274

Credit risk

The credit risk strategy provides a framework for managing individual Bank-specific credit risks. These risks include:

- Default risk
- Replacement risk
- Issuer risk
- Investment risk
- Customer foreign exchange risk (foreign-currency-induced credit risk)
- Customer fixed interest risk
- Repayment vehicle risk
- Lease residual value risk
- Country risk/transfer risk and conversion risk
- Residual risk arising from credit risk mitigation techniques
- Settlement risk (prepayment and clearing risk)
- Securitisation risk
- Dilution risk
- Central counterparty (CCP) risk
- Concentration risk present in credit risk incl. the banking book
- Migration risk

The main credit risks to which the HYPO NOE Group is exposed are default risk (loans), replacement risk (derivatives), issuer risk (securities) and concentration risk.

The Group is also exposed to investment risk, customer foreign currency credit risk, repayment vehicle risk and country risk, all of which are accordingly limited and monitored.

Principles derived from the Group's strategic objectives provide the framework for exposure to and management of individual credit risks. These principles are implemented by Operating Credit Risk Management, using an appropriate reporting system, coordinated limits, suitable measurement methods and transparent processes.

The HYPO NOE Group's credit risk strategy is based on the following principles:

- Identifying and regularly evaluating credit risks
- Determining models and processes for measuring identified credit risks, and regularly reviewing their suitability
- Quantifying credit risk using the methods established for this purpose
- Identifying and complying with legislation and regulatory frameworks
- Determining management's risk appetite/tolerance
- Limiting and monitoring credit risk on the basis of the risk tolerance specified
- Appropriate and regular reporting
- Use of methods and processes for risk-weighted calculation of credit risk costs

Credit risk in the narrow sense (default risk, replacement risk and issuer risk)

Credit risk is the risk of a change in creditworthiness. Monitoring it means keeping a watch on the risk of a deterioration in creditworthiness and, in the worst case, the default of the counterparty or guarantor.

Credit risk is classified according to the product groups concerned, as follows:

Default risk is the risk in the lending business of complete or partial loss due to a default or deterioration in the creditworthiness of the counterparty. Here, from the bank's perspective, credit risk exists from the time of conclusion of the transaction through to its termination, i.e. over the entire lifetime.

Replacement risk exists in the case of derivatives (including forwards and futures, and credit derivatives) that are subject to fixed price agreements, which could experience market price changes during their lifetimes. If a party to a contract drops out during the lifetime of the derivative, the Group must conclude a new contract for the remaining maturity at the market price then ruling. If the current price is unfavourable for the Group, costs or losses arise from the replacement transaction. The Group is exposed to counterparty risk throughout the lifetime of a transaction.

Similarly, issuer risk means the risk of complete or partial loss due to a default of the counterparty where the latter is an issuer of securities. From the Group's perspective, issuer risk exists from the time of conclusion of the transaction until its termination, and hence over its entire lifetime.

Risk concentration

Risk concentrations in the HYPO NOE Group are identified and monitored using country and industry limits, and by means of internal capital charges for name concentrations, as well as securities, derivatives and money market activities, and a limit for related-party transactions.

Name concentration risk

The concentration in the Public Sector segment reflects the HYPO NOE Group's strategic focus on Austria, and Lower Austria in particular. The Public Finance portfolio is essentially granular and mainly comprises loans to sovereigns, state governments and local authorities; among these, finance for social infrastructure and for – largely collateralised – subsidised home loans stand out.

Country risk

Country risks are operational banking risks that arise in the international lending business as a result of a foreign country's insolvency (business risk) or unwillingness to pay (political risk). This is a superordinate category of risk, which may affect the creditor and the borrower, and cannot be influenced by either. Other elements of country risk are transfer and conversion risk, representing restrictions on foreign currency dealings caused by the above risks.

Country risk is managed by setting country limits for the target countries, and by limiting the entire outstanding foreign exposures to 25% of total Group assets, as well as limiting foreign lending operations (in the Public Finance, Real Estate Project Finance and Corporate Customers control units) to 10% of total assets (early warning level).

Monitoring of the utilisation of the individual country limits is performed by Operating Credit Risk Management, while that of the portfolio country limits takes place at the quarterly RICO meetings.

Current credit risk situation

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

The HYPO NOE Group also finances real estate projects with good to excellent ratings, as well as infrastructure companies, corporate and retail customers, and small and medium-sized enterprises.

The non-performing loan (NPL) ratio is a key performance measure for banks in connection with financial assets in default. The Group's NPL ratio stood at 0.89% at 30 June 2020 (31 Dec. 2019: 0.96%). NPL coverage is defined as total Stage 3 risk provisions, taking account of collaterals, divided by the sum of the gross carrying amounts of NPLs. Coverage for the Group as at 30 June 2020 was 82.63% (30 Jun. 2019: 63.3%).

Covid-19

The Covid-19 crisis resulted in requests for payment deferrals and bridging loans not covered by a state moratorium. In carrying out these restructuring measures the lending process was not changed, and the separation between back office and front office functions was maintained. The approval process takes place as usual via the core bank system, and defined authorisations to lend must be adhered to.

Independently of the requirements of the subsidising authority, the HYPO NOE Group carries out plausibility checks of the information and accompanying documents provided by the customer, above all with regard to financial difficulties, indications of unlikeliness to pay, and compliance with the criteria in the Business Reorganisation Act. The review focuses on the following points:

- Plausibility of the problem described; the Covid-19 crisis must be the reason for increased liquidity requirements (evidenced e.g. by lost revenue, a decline in orders, supply chain disruption, branch closures, fall in bookings, cancellations), taking into account the business model in question.
- Plausibility of the financing requirement with regard to the amount of credit applied for in relation to existing borrowing, and plausibility of the deferral requirement in relation to costs and expense.
- Plausibility of ability to repay based on (pre-crisis) cash flows

The Group continues to fully exercise the degree of care generally applicable to banking transactions.

With regard to deferral of contractually agreed payment dates due to the state moratorium, a user-friendly online form has been set up in accordance with the law, enabling customers to formally apply for payment deferral. Consumers and microbusinesses are entitled to apply.

Guarantees provided by the Republic of Austria for loans granted in relation to the Covid-19 crisis amounted to EUR 10.5m, which resulted in an improvement in the CET1 ratio of about 4 basis points. In the HYPO NOE Group, guarantees concluded close to the beginning of the guaranteed financial transaction are viewed as integral parts of the contract for financial assets.

Investment risk

Investment risk is the risk of a partial or total loss of the value of investments (ceding of equity to third parties). Such risks only materialise when it becomes necessary to write down (or, in extreme cases, totally write off) the carrying amount of investments and any supplementary contributions.

Investment risk is managed by acquiring equity holdings which serve the Group's prime business objectives and help it to achieve its chosen strategic focus. Other levers of control are measuring core investments against internal models, and acting on the results of the analysis, as well as constantly monitoring existing holdings at portfolio and customer level.

Customer foreign exchange risk (foreign-currency-induced credit risk)

Foreign exchange risk from a customer's perspective (foreign-currency-induced credit risk) arises where the customer has taken out a loan in a currency that differs from the one in which the customer generates most of the cash flow required to service the debt. In this case, there is a risk that the borrower may be unable to continue to service the loan due to an unfavourable trend in the foreign currency.

Customer foreign currency risk is managed by offering conversion products at preferential prices, by limiting the exposure, and by constantly monitoring existing positions that are vulnerable to foreign exchange risk at the portfolio and individual customer level. New lending that is subject to foreign exchange risk is only offered in specific customer segments and dependent on the borrower's creditworthiness.

Other subtypes of credit risk

The term "repayment vehicle risk" refers to the risk of the emergence of a hedging gap due to adverse market developments affecting the repayment vehicle.

Customer fixed interest risk consists of the risk that hedging will lead to losses on structured, fixed-interest loans. It is regularly monitored by Asset Liability Management (ALM).

Lease residual value risk is the risk that it will not be possible to realise the full calculated residual value of a leased asset. Monitoring is performed by Operating Credit Risk Management.

The migration risk is the risk of a deterioration in a debtor's creditworthiness, taking the form of an increase in the probability of default and a resultant downgrading of the customer's credit rating. It is countered by providing additional equity cover, using the buffer, as part of the risk-bearing capacity calculation.

Settlement risk comprises prepayment risk and clearing risk. Prepayment risk is the risk that consideration will not be received at the agreed time. Clearing risk is the risk of changes in fair value when a transaction is not completed on the due date.

4.5 Derivatives and hedge accounting

4.5.1 Carrying amounts and nominal values of derivatives

At the end of the reporting period the HYPO NOE Group only held unlisted OTC derivatives.

The following table provides an overview of the nominal values and carrying amounts of derivatives carried as at 30 June 2020.

	30 Jun. 2020			31 Dec. 2019		
	Carrying amount		Nominal value	Carrying amount		Nominal value
EUR '000	Assets	Liabilities		Assets	Liabilities	
Financial assets and liabilities – HFT	**446,897**	**417,092**	**4,893,847**	**438,035**	**406,606**	**5,172,476**
Interest rate derivatives	415,508	387,077	4,187,922	415,952	384,718	4,446,958
Foreign exchange derivatives	31,389	30,015	705,925	22,083	21,889	725,519
Positive and negative fair value of hedges (hedge accounting)	**459,153**	**843,337**	**11,187,119**	**436,278**	**767,441**	**10,211,964**
Interest rate derivatives	451,376	821,545	10,955,213	429,577	749,604	9,968,657
Foreign exchange derivatives	7,777	21,792	231,906	6,701	17,837	243,307

The Group has not netted off derivatives for accounting purposes, as the current master agreements that provide for netting (the ISDA Master Agreements, as well as other Austrian and German master agreements for financial forward transactions) do not fulfil the relevant criteria in this regard. Under these agreements, the right to offset all transactions to arrive at a single net amount would only be enforceable if certain future events occurred which would result in termination of the agreements (e.g. default or insolvency of the counterparty).

	30 Jun. 2020					
	Financial assets/liabilities (gross)	Reported amounts offset (gross)(-)	Reported financial assets (net)	Effect of master netting agreements (-)	Collateral in the form of financial instruments (-)	Net amount
				Not offset		
EUR '000	(a)	(b)	(c)=(a)+(b)	(d)(i)	(d)(ii)	(e)=(c)+(d)
Assets						
Financial assets - HFT	446,897	-	446,897	-23,383	-15,117	408,397
Positive fair value of hedges (hedge accounting)	459,153	-	459,153	-323,870	-52,876	82,408
Total assets	**906,050**	**-**	**906,050**	**-347,253**	**-67,992**	**490,805**
Liabilities						
Financial liabilities - HFT	417,092	-	417,092	-23,383	-304,302	89,407
Financial liabilities - FVO	5,032	-	5,032	-	-	5,032
Negative fair value of hedges (hedge accounting)	843,337	-	843,337	-323,870	-468,909	50,558
Total liabilities	**1,265,461**	**-**	**1,265,461**	**-347,253**	**-773,211**	**144,997**

	31 Dec. 2019					
	Financial assets/liabilities (gross)	Reported amounts offset (gross) (-)	Reported financial assets (net)	Effect of master netting agreements (-)	Collateral in the form of financial instruments (-)	Net amount
				Not offset		
EUR '000	(a)	(b)	(c)=(a)+(b)	(d)(i)	(d)(ii)	(e)=(c)+(d)
Assets						
Financial assets - HFT	438,035	-	438,035	-21,636	-13,700	402,700
Positive fair value of hedges (hedge accounting)	436,278	-	436,278	-295,391	-54,725	86,162
Total assets	874,314	-	874,314	-317,027	-68,425	488,862
Liabilities						
Financial liabilities - HFT	406,606	-	406,606	-21,636	-302,988	81,983
Financial liabilities - FVO	4,432	-	4,432	-	-	4,432
Negative fair value of hedges (hedge accounting)	767,441	-	767,441	-295,391	-416,921	55,129
Total liabilities	1,178,479	-	1,178,479	-317,027	-719,908	141,544

4.5.2 Detailed information on hedge accounting

	H1 2020			H1 2019		
EUR '000	Net gains or losses on basis adjustments to underlyings	Net gains or losses on measurement of hedges	Ineffectiveness	Net gains or losses on basis adjustments to underlyings	Net gains or losses on measurement of hedges	Ineffectiveness
Assets						
Financial assets - FVOCI	**1,196**	**-1,100**	**96**	**7,696**	**-7,832**	**-137**
Bonds	1,196	-1,100	96	7,696	-7,832	-137
Financial assets - AC	**86,643**	**-86,857**	**-214**	**145,418**	**-147,495**	**-2,077**
Loans	77,344	-77,413	-69	133,915	-136,322	-2,406
Bonds	9,299	-9,444	-144	11,503	-11,173	330
Investment property	**103**	**-117**	**-13**	-	-	-
Liabilities						
Financial liabilities - AC	**-30,106**	**29,497**	**-610**	**-122,458**	**123,785**	**1,327**
Deposits	10	-150	-140	-51	29	-22
Bonds in issue	-30,116	29,647	-469	-122,407	123,756	1,350
Total	57,836	-58,577	-740	30,656	-31,542	-886

Positive fair value of hedges (hedge accounting)

The table below shows an analysis of the positive fair value of hedges (hedge accounting) according to the items in the statement of financial position that report the hedged underlyings.

EUR '000	30 Jun. 2020	31 Dec. 2019
Assets	**3,220**	**6,725**
Financial assets – AC	3,220	6,725
Liabilities	**455,933**	**429,553**
Financial liabilities – AC	455,933	429,553
Total	459,153	436,278

Negative fair value of hedges (hedge accounting)

The table below shows an analysis of the negative fair value of hedges (hedge accounting) the items in the statement of financial position that report the hedged underlyings.

EUR '000	30 Jun. 2020	31 Dec. 2019
Assets	**820,486**	**747,043**
Financial assets – FVOCI	67,466	77,021
Financial assets – AC	752,681	669,801
Investment property	339	222
Liabilities	**22,851**	**20,398**
Financial liabilities – AC	22,851	20,398
Total	843,337	767,441

4.6 Fair value disclosures

The nature and extent of the risks that arise from financial instruments as well as sensitivity analyses and other additional disclosures form part of Note 8 Risk management.

4.6.1 Fair value hierarchy

The table below summarises the fair value hierarchies of all the financial instruments held by the HYPO NOE Group.

30 Jun. 2020, EUR '000	Carrying amount	Fair value	Fair value measurement		
			Level 1	Level 2	Level 3
Assets					
Cash and balances at central banks	2,333,651	2,333,731	2,322,676	11,055	-
Financial assets - HFT	446,897	446,897	-	84,061	362,835
Financial assets - mandatorily FVTPL	194,817	194,817	-	44,643	150,175
Financial assets - FVOCI	509,869	509,869	507,437	-	2,433
Financial assets - AC	13,143,663	13,577,080	1,004,784	829,682	11,742,614
Positive fair value of hedges (hedge accounting)	459,153	459,153	-	459,153	-
Total assets	**17,088,050**				
Liabilities					
Financial liabilities - HFT	417,092	417,092	-	417,092	-
Financial liabilities - FVO	5,032	5,032	-	-	5,032
Financial liabilities - AC	15,129,947	15,164,995	4,204,642	6,590,579	4,369,774
Negative fair value of hedges (hedge accounting)	843,337	843,337	-	843,337	-
Total liabilities	**16,395,408**				

31 Dec. 2019, EUR '000	Carrying amount	Fair value	Fair value measurement		
			Level 1	Level 2	Level 3
Assets					
Cash and balances at central banks	235,481	235,532	215,429	20,103	-
Financial assets - HFT	438,035	438,035	-	71,008	367,027
Financial assets - mandatorily FVTPL	224,413	224,413	27,723	40,607	156,083
Financial assets - FVOCI	620,063	620,063	617,448	-	2,615
Financial assets - AC	12,417,093	12,701,593	806,211	751,919	11,143,463
Positive fair value of hedges (hedge accounting)	436,278	436,278	-	436,278	-
Total assets	**14,371,364**				
Liabilities					
Financial liabilities - HFT	406,606	406,606	-	406,606	-
Financial liabilities - FVO	4,432	4,432	-	-	4,432
Financial liabilities - AC	12,522,091	12,607,940	4,220,594	3,723,693	4,663,654
Negative fair value of hedges (hedge accounting)	767,441	767,441	-	767,441	-
Total liabilities	**13,700,570**				

In 2020 one financial asset measured at fair value through profit or loss (FVTPL) was transferred from Level 1 to Level 2 due to the absence of an active market. There were no transfers into or out of Level 3. In 2019 there were no transfers of financial assets or liabilities subject to recurring fair value measurement between levels 1 and 2, or into or out of Level 3.

4.6.2 Fair value hierarchy: Level 3 disclosures

EUR '000	1 Jan. 2020	Gains/losses Recognised in profit or loss	Gains/losses Not recognised in profit or loss	Purchases	Sales	30 Jun. 2020	Unrealised gains or losses recognised in profit or loss as at 31 Dec. 2019
Assets							
Financial assets - HFT	367,027	-4,327	-	-	-	362,835	-3,251
Financial assets - mandatorily FVTPL	156,083	2,419	-	111	-8,439	150,175	2,419
Financial assets - FVOCI	2,615	-	-178	-	-4	2,433	-
Total assets	**525,725**	**-1,908**	**-178**	**111**	**-8,443**	**515,443**	**-832**
Liabilities							
Financial liabilities - FVO	4,432	600	-	-	-	5,032	600
Total liabilities	**4,432**	**600**	**-**	**-**	**-**	**5,032**	**600**

The gains or losses on assets for which measurements are categorised within Level 3 are largely made up of losses of EUR 3,251thsd on "Financial assets – HFT": see Note 4.1.2 Net gains or losses on financial assets and liabilities.

EUR '000	1 Jan. 2019	Gains/losses Recognised in profit or loss	Gains/losses Not recognised in profit or loss	Purchases	Sales	31 Dec. 2019	Unrealised gains or losses recognised in profit or loss as at 31 Dec. 2019
Assets							
Financial assets - HFT	374,570	-7,542	-	-	-	367,027	-4,739
Financial assets - mandatorily FVTPL	179,514	5,487	-	1,918	-30,835	156,083	857
Financial assets - FVOCI	3,510	-	-236	9	-669	2,615	-
Total assets	**557,594**	**-2,056**	**-236**	**1,927**	**-31,504**	**525,725**	**-3,882**
Liabilities							
Financial liabilities - FVO	3,500	932	-	-	-	4,432	-
Total liabilities	**3,500**	**932**	**-**	**-**	**-**	**4,432**	**-**

The results of the sensitivity analysis with regard to the "Financial assets – HFT", "Financial assets – mandatorily FVTPL" and "Financial assets – FVOCI" items (equity instruments) at Level 3 are discussed below.

All sensitivities are presented using a historical value-at-risk (VaR) approach (95% confidence level, one-year holding period, five-year history) in accordance with internal risk management policies. The table below shows the impact of changes in significant unobservable input parameters on Level 3 fair value. The figures are not a forecast or indication of future changes in fair value, but represent potential losses, where gains of a similar amount are also possible. In the case of the "Financial assets and liabilities – HFT" item, global CDS spreads represent the significant inputs. For the "Financial assets – mandatorily FVTPL" item, the credit and liquidity risk premiums are the unobservable inputs that drive prices. The reported VaR assumes a fluctuation of 50 basis points (bp). An increase in premiums results in lower fair values. In the case of the "Financial assets – FVOCI" item, traditional DCF corporate valuation methods are used to calculate fair value. Level 3 is confined to equity instruments.

30 Jun. 2020, EUR '000	Fair value	Fluctuation (VaR)	Measurement method	Inputs
Financial assets – HFT	353,277	763	Hybrid Hull-White model	Global CDS spreads
Financial assets – mandatorily FVTPL (excl. HETA)	121,387	3,604	Discounted cash flow (DCF) model	Premiums for credit and liquidity risk
Financial assets – FVOCI	2,433	N/A	Adjusted net asset value (NAV) model; DCF	Adjusted equity (for adjusted NAV model); WACC (for DCF model)
Total	477,097	4,367		

The ranges for unobservable inputs for the "Financial assets – FVOCI" (equity instruments) item categorised within Level 3 are shown below:

	Change in fair value	
EUR '000	30 Jun. 2020	31 Dec. 2019
10% increase in adjusted equity	246	341
10% decrease in adjusted equity	-246	-341
50 bp increase in WACC	-11	-4
50 bp decrease in WACC	13	5

5 ADDITIONAL NOTES TO THE STATEMENT OF PROFIT OR LOSS

5.1 Net fee and commission income

H1 2020, EUR '000	Public Sector	Real Estate Customers	Retail and Corporate Customers	Treasury & ALM	Real Estate Services	Corporate Center	Total
Fee and commission income	**1,459**	**704**	**7,936**	**545**	**-2**	**5**	**10,647**
Securities and custody account business	77	3	2,809	447	-	3	3,339
Payment transactions	307	354	2,377	41	-	-1	3,079
Foreign exchange, foreign notes and coins, and precious metals	5	1	107	1	-	-	114
Other services	1,148	-	2,045	52	-	4	3,248
Other fee and commission income	-77	345	598	4	-2	-1	866
Fee and commission expense	**-41**	**-13**	**-1,220**	**-351**	**-**	**-2**	**-1,626**
Securities and custody account business	-6	-1	-624	-161	-	-1	-792
Payment transactions	-6	-12	-579	-190	-	-5	-792
Other services	-	-	-15	-	-	-	-15
Other fee and commission expense	-29	-1	-2	-	-	4	-28
Total	1,418	691	6,716	194	-2	4	9,021

H1 2019, EUR '000	Public Sector	Real Estate Customers	Retail and Corporate Customers	Treasury & ALM	Real Estate Services	Corporate Center	Total
Fee and commission income	**1,762**	**590**	**8,007**	**76**	**-**	**124**	**10,559**
Securities and custody account business	78	8	2,869	50	-	10	3,015
Payment transactions	292	338	2,882	38	-	20	3,570
Foreign exchange, foreign notes and coins, and precious metals	4	2	100	1	-	2	109
Other services	31	90	812	-	-	67	999
Other fee and commission income	1,357	152	1,344	-13	-	25	2,866
Fee and commission expense	**-31**	**-5**	**-1,056**	**-193**	**-1**	**-98**	**-1,385**
Securities and custody account business	-2	-	-410	-17	-	-13	-443
Payment transactions	-	-	-	-	-	-	-

Other services	2	-	-116	-89	-	-69	-273
Other fee and commission expense	-31	-5	-529	-87	-1	-16	-669
Total	1,731	585	6,951	-117	-1	25	9,174

5.2 Net other operating income

EUR '000	H1 2020	H1 2019
Other income	**16,225**	**17,153**
Gains on the disposal of intangible assets, property, plant and equipment, and other non-financial assets	185	110
Gains on the reversal of provisions	515	1,421
Gains on foreign currency translation	-	227
Gains on deconsolidation	-	74
Gains on investment property	1,557	1,318
Other rental income	192	217
Income from real estate services and property development	9,021	11,450
Early repayments	4,064	1,005
Sundry other income	691	1,331
Other expenses	**-10,382**	**-9,054**
Losses on the disposal of intangible assets, property, plant and equipment, and other non-financial assets	-181	-5
Depreciation and impairment of inventories	-185	-
Expenses arising from the recognition of provisions	-2,886	-2,824
Losses on foreign currency translation	-1,186	-
Losses on investment property	-993	-967
Expenses from real estate services and property development	-4,622	-4,804
Sundry other expenses	-330	-396
Total	5,843	8,098

See Note 6.2 Provisions for further details on the "Expenses arising from the recognition of provisions" item.

Gains on deconsolidation

EUR '000	H1 2020	H1 2019
Financial assets – AC	-	63
Property, plant and equipment	-	6
Other assets	-	130
Total assets	-	199
Financial liabilities – AC	-	56
Provisions	-	58
Other liabilities	-	8
Total liabilities	-	122
Proceeds of disposal	-	151
- Assets disposed of	-	-199
+ Liabilities disposed of	-	122
Net gains on disposal of consolidated subsidiaries	-	74
Net gains on disposal of consolidated subsidiaries through profit or loss	-	74

EUR '000	H1 2020	H1 2019
Consideration received in cash and cash equivalents	-	151
Cash proceeds of the disposal of subsidiaries	-	151
Amount outstanding from the corporate transaction	-	-

5.3 Administrative expenses

5.3.1 Analysis of administrative expenses

EUR '000	H1 2020	H1 2019
Staff costs	**-28,990**	**-30,714**
Wages and salaries	-22,791	-23,797
Pensions and other employee benefit expenses	-6,198	-6,917
Other administrative expenses	**-28,319**	**-28,376**
Premises	-1,593	-2,070
Office and communication expenses	-642	-598
IT expenses	-5,529	-4,920
Legal and consultancy costs	-1,070	-999
Auditors: annual audit	-224	-234
Auditors: other auditing services	-6	-
Auditors: tax consultancy services	-34	-54
Auditors: other services	-4	-4
Advertising and entertainment expenses	-1,949	-2,056
Other administrative expenses	-17,490	-17,720
Financial stability contribution (bank tax)	-7,366	-7,324
Deposit insurance fund and resolution fund	-7,480	-7,615
Cost of compliance with company law	-352	-366
Training costs	-268	-284
Vehicle and fleet expenses	-269	-412
Insurance	-220	-246
Cost of information procurement and payment transactions	-353	-331
Sundry other administrative expenses	-1,228	-1,157
Depreciation, amortisation and impairment	**-2,347**	**-2,511**
Intangible assets	-197	-207
Buildings used by Group companies	-767	-914
Equipment, fixtures and furnishings (incl. low value assets)	-1,075	-1,076
Right-of-use assets (IFRS 16)	-307	-314
Total	-59,655	-61,600

	H1 2020	H1 2019
Average number of employees (incl. staff on parental leave)	737	777

6 ADDITIONAL NOTES TO THE STATEMENT OF FINANCIAL POSITION

6.1 Investment property

EUR '000	H1 2020	H1 2019
Other income from investment property	**1,557**	**1,318**
Rental income	1,295	1,184
Other income	262	134
Other expenses arising from investment property	**-993**	**-967**
Depreciation	-828	-834
Expenses arising from let investment property	-164	-132
Total	564	351

EUR '000	30 Jun. 2020	31 Dec. 2019
Investment property	37,521	38,235

The carrying amount of land as at 30 June 2020 was EUR 12,985thsd (H1 2019: EUR 12,986thsd).

6.2 Provisions

EUR '000	30 Jun. 2020	31 Dec. 2019
Employee benefit provisions	**34,505**	**35,571**
Provisions for pensions	20,936	21,936
Provisions for termination benefits	10,818	10,923
Provisions for jubilee benefits	2,751	2,711
Credit provisions	**1,888**	**2,734**
Other provisions	**31,974**	**29,965**
Total	68,367	68,270

As the legal situation regarding negative interest on corporate loan agreements remains unchanged and the Austrian Supreme Court is yet to make a ruling that would change our risk assessment, the provision for this risk, which is included in "Other provisions", was adjusted using the HYPO NOE Group's measurement model.

6.3 Other assets and liabilities

Other assets

EUR '000	30 Jun. 2020	31 Dec. 2019
Accruals and deferrals	6,904	7,944
Other receivables and assets	20,577	30,564
Value added tax (VAT) and other tax credits (other than income tax)	2,371	16,781
Trade receivables	3,729	4,187
Other receivables	11,756	6,406
Total	27,481	38,507

Other liabilities

EUR '000	30 Jun. 2020	31 Dec. 2019
Accruals and deferrals	11,688	21,946
Other liabilities	78,372	63,749
Trade payables	5,991	13,640
Outstanding invoices	28,451	21,991
VAT and other tax liabilities (other than income tax)	2,634	5,954
Lease liabilities in accordance with IFRS 16	2,351	2,727
Total	90,060	85,695

7 TAXES

7.1 Income tax

EUR '000	H1 2020	H1 2019
Current income tax	-5,244	-5,183
Deferred income tax	1,979	271
Total	-3,266	-4,912

7.2 Tax assets

EUR '000	30 Jun. 2020	31.12.2019
Current tax assets	22,872	26,319
Deferred tax assets	1,163	1,162
Total	24,035	27,482

7.3 Tax liabilities

EUR '000	30 Jun. 2020	31.12.2019
Current tax liabilities	6,620	6,034
Deferred tax liabilities	23,237	26,238
Total	29,857	32,271

8 RISK MANAGEMENT

The HYPO NOE Group defines risk as the possibility of unexpected, unfavourable future developments that could adversely affect the Group's or individual Group companies' assets, earnings or liquidity.

All significant business activities aimed at achieving the Group's strategic objectives are planned to reflect strategic risk considerations, with a strong focus on risk-bearing capacity. The Bank attaches particular significance to assessing risks in terms of the relationship between risk and opportunity. Risks are not ends in themselves; they are assumed in the interests of value creation and hence improved risk-bearing capacity, as well as achieving adequate returns on risk capital. The refinement of instruments and processes in order to maintain an appropriate balance of risks and rewards is integral to the Group's long-term strategy.

The Group's risk-bearing capacity is safeguarded by a balanced relationship between risks and coverage capital. To achieve this, 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, measure, actively manage and monitor all types of banking risks (credit, market, liquidity, operational, reputational and other risks).

The Group's organisational structure provides for a clear separation of front and back office functions (four-eye principle) at every level up to and including the Management Board. The front office functions originate business and give initial clearance to transactions, while the back office functions 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 are also rules for the approval of exposures requiring resolutions of the Group's Supervisory Board.

In principle, all risks throughout the HYPO NOE Group are subject to a Group-wide, uniform limit system, which is constantly monitored. The Group-wide risk reporting system ensures the regular, timely and comprehensive reporting of all risks. In addition to the quarterly risk management report, which provides an aggregated summary of all identified material capital risks and the available capital coverage, and the monthly analysis of insolvency risk, 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 by 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 (https://www.hyponoe.at/en/home).

The rules for introducing new areas of business or new products, and for entering new markets, call for an appropriate prior analysis of the relevant business risks. Without exception, transactions that entail risks are only permitted if they are explicitly regulated and authorised by the Group's risk documentation. In principle, the Group restricts its exposures to areas where it has the necessary expertise to evaluate and manage the specific risks involved. Where the risk situation is unclear, or where there are methodological uncertainties, the principle of prudence is given precedence.

The HYPO NOE Group identifies, quantifies, monitors and manages risks in accordance with the applicable statutory and commercial requirements. In spite of the risk management methods and control processes in place, the Group may still be exposed to unknown and unexpected risks. In addition, the risk management techniques and strategies applied cannot completely rule out the future occurrence of risks.

Aggregate risk management and risk-bearing capacity (ICAAP)

The identification, quantification and monitoring of total banking risk at portfolio level is performed by the Strategic Risk Management Department, and involves identifying, measuring, aggregating and analysing the risks assumed.

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

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

2. The going concern management control loop is designed to ensure that the Bank survives as a going concern. Here, risks are evaluated at a lower confidence level (95% with a one-year holding period) and compared with the coverage capital realisable without endangering survival.

As at 30 June 2020, the Group was utilising 67.7% of the aggregate risk limit (including an adequate buffer), which was higher than at 30 June 2019 (60.9%).

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. The embedding of the plan in day-to-day operations pursuant to the Act is integral to the Group's risk and capital management framework.

At the core of the expanded risk management and overall control processes implemented under 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 recovery indicators are an integral part of the reporting by the relevant management bodies.

The regular review of the Group's recovery plan for 2020 (the interval between reviews has been shortened by the regulator), as required by the Act on the Recovery and Resolution of Banks, is under way. It involves assessing selected indicators including defined threshold values, as well as updating recovery measures including overall restructuring capacity, and the defined escalation process.

Together with the 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 recovery plan forms an additional key element in protecting the Group's assets, and those of its business partners and shareholders.

Bank-wide stress test

Based on an economic analysis, one-off stress tests of internal risk-bearing capacity, the regulatory control loop and available liquidity were performed during the Covid-19 crisis, using three scenarios: baseline, pessimistic and stress. The tests were aimed at assessing the impact of the crisis on credit, investment and liquidity risk, net interest income and credit spreads, on the recognition of additional risk provisions in accordance with IFRS 9, and on expected defaults. The baseline and pessimistic scenarios and their simulated effects on capital, profit and loss, and liquidity are currently being refined and updated, and will also be reassessed in future as part of the forecasting process.

In addition, reverse stress tests are carried out annually.

Basel III/IV

In addition to regular, wide-ranging adjustments of existing reporting methods in line with updated standards, preparations for the implementation of future policies and measurement methods (e.g. Basel IV) and studies of their impact are also in progress. The analysis shows that the revisions made by the Basel Committee on Banking Supervision (BCBS) to rules for all significant types of risk, and the requirements of the CRR II published in the Official Journal of the EU on 7 June 2019 (Regulation [EU] 2019/876 of 20 May 2019 as amended by Regulation [EU] 2020/873 in the course of the Covid-19 crisis) present a major challenge for banks. The aim is not merely to achieve regulatory compliance but also to evaluate the effects on all areas of the Bank, so as to initiate any necessary corrective action in good time.

Minimum requirement for own funds and eligible liabilities (MREL)

The HYPO NOE Group received the MREL notice from the FMA in mid-June 2020. The prescribed MREL (5.90% of own funds and eligible liabilities [2019: 6.12%], or 24.63% of the total risk exposure amount [2019: 24.59%]) is comfortably met, as there are adequate eligible liabilities and own funds.

Credit risk

Information on credit risk can be found in Note 4 FINANCIAL INSTRUMENTS AND CREDIT RISK.

Market risk

General

Market risks are potential losses resulting from declines in the underlying value of exposures due to changes in market prices.

Bank-specific market risks include:

- Interest rate risk in the banking book
- Credit spread risk
- Fund price risk
- Foreign exchange risk
- Options risk (volatility risk)
- Trading book risk
- Basis risk
- Credit valuation adjustment (CVA) risk
- The concentration risk inherent in market risk
- Commodity price risk
- Share price risk

The HYPO NOE Group's market risk management strategy sets out the strategic guidelines for managing market risks specific to banking.

The main market risks facing the HYPO NOE Group are interest rate risk in the banking book and credit spread risk (particularly in the nostro portfolio), which arise in part from ordinary banking activities such as fixed-interest lending and management of liquidity reserves. The HYPO NOE Group has implemented detailed monitoring and control processes for these risks. Due to business strategy considerations, some foreign exchange and option risks (e.g. embedded upper and lower interest rate limits) are also managed. The use of derivatives to hedge interest rate risk can give rise to basis risk, which is also a focus for monitoring activities. Risk management procedures and methods have been implemented with regard to CVA risk associated with derivatives. The Bank also uses the small trading book to service the secondary market and trade on its own account.

The HYPO NOE Group has not earmarked any internal risk capital for commodity, share price or fund risk, and consequently no substantial risks may be incurred in these market risk categories.

The overarching principle behind the Group's market risk management activities is guaranteeing adequate capital coverage of incurred market risks at all times, and ensuring that individual risk positions are both transparent and appropriately monitored and managed. This implies the following overriding objectives of market risk management:

- Identifying and evaluating all of the Bank's key market risks
- Taking key market risks into account in the calculation of Bank-wide risk-bearing capacity and in stress-testing concepts
- Optimising the allocation of risk capital and the market risk positioning in view of risk and earnings expectations
- Taking earnings expectations and risk tolerance into consideration in planning processes
- Complying with statutory requirements

In the light of these primary objectives, risk policy principles have been established in order to determine the market risk strategy, and have been implemented as guidelines for operational market risk management. These principles are:

- 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
- Management's determination of risk appetite and tolerance for individual market risk categories
- Identifying and complying with legislation and regulatory frameworks
- Appropriately limiting and monitoring market risk on the basis of the specified risk tolerance
- Goal-driven reporting

Interest rate risk in the banking book

When measuring and managing interest rate risk, the HYPO NOE Group distinguishes between period net interest income risk, which primarily concerns the risk of net interest income fluctuations in a given period, and present value risk, which measures the loss in the underlying value of a particular portfolio as a result of interest-rate-induced changes in present values.

An independent back office department, Strategic Risk Management, is responsible for monitoring and quantifying interest rate risk. This generates interest rate gap and sensitivity analyses. Internal interest rate risk is measured in the light of gap analyses and interest rate sensitivities. Analysis is carried out for the banking book as a whole and for interest-sensitive portfolios for which measurement effects are recognised either directly in the IFRS statement of profit or loss or in IFRS equity. Risk exposures arising from sub-portfolios are monitored, limits are set and these are taken into account in the risk management system. In addition to using the internal model, interest rate risk is measured and monitored in accordance with the regulatory requirements for the OeNB interest rate risk statistics.

The risk of fluctuations in net interest income is taken into account by means of repricing risk, which measures fluctuations in net interest income resulting from differences in variable reference rates (three-month Euribor, six-month Euribor, etc.) or differences in interest fixing dates for the same reference rates. Repricing risk is determined for a 12-month period for each currency, scenario, indicator and product.

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 set during the annual risk budgeting process, on the basis of the Bank's total risk-bearing capacity and risk appetite, and in line with the limit requirements established by the OeNB interest rate risk statistics.

The ALM team manages the Bank's interest rate risk positions. The main objective is to make stable, long-term contributions to net interest income, while also managing the present value of interest rate risk. Non-linear interest rate risks are normally hedged. Strategic long-term positions in the banking book that are sensitive to interest rates are discussed by the Asset-Liability Management Committee on the recommendation of ALM and – following approval by the Management Board – managed by the Treasury/Capital Market/FI Department. There are also authorities and limits which the ALM team takes into account when carrying out positioning.

Current interest rate risk situation – total banking book

The OeNB statistics indicate that interest rate risk remains low relative to the regulatory limit (20% of eligible capital). The following table shows the results of the OeNB regulatory interest rate risk statistics as at 30 June 2019 and 30 June 2020:

OeNB regulatory interest rate risk statistics	30 Jun. 2020	30 Jun. 2019
OeNB interest rate risk statistics	0.97%	3.40%

Credit spread risk

Credit spread risk is the impact of adverse changes in risk premiums on securities, and of the related loss of intrinsic value. It plays a particularly important role in connection with the Group's own investments. The capital requirements resulting from credit spread risk are determined using a historical VaR model (historical distribution assumption) for the entire nostro portfolio in the banking book, and for the securities portfolio in the small trading book.

Other market risks

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 the Capital Requirements Regulation, as at 30 June 2020 the Group was not subject to the minimum capital requirement for foreign exchange positions, as the total position for the Group as a whole was less than 2% of eligible capital.

The residual foreign exchange risk for all open currency positions is regularly measured and monitored using a VaR approach based on foreign currency fluctuations over time.

The Group does not engage in any business that requires it to maintain a large trading book as defined by the CRR. It maintains a small trading book in accordance with Article 94 CRR, and the volume of business is therefore limited in line with that Article. Daily monitoring is the responsibility of the Strategic Risk Management Department. During the first half of 2020 there were no instances of positioning in the small trading book.

Basis risks in hedge accounting arise from the use of different discount curves for hedging instruments and underlyings, as well as from the requirement to recognise the foreign currency basis in the hedging instrument without recognising the basis in the underlying. Detailed information on basis risks can be found in Note 4.5 Derivatives and hedge accounting.

When calculating the fair value of derivative instruments, the CVA for counterparty risk and the debt valuation adjustment (DVA) for the Bank's own credit risk must be taken into account. The CVA is calculated using customary methods (expected exposure arrived at by means of a Monte Carlo simulation, and probability of default according to CDS curves). Global CDS spreads are applied (according to rating and sector). 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 targets

The liquidity risk management function identifies, analyses and manages the HYPO NOE Group's liquidity risk position, so as to maintain sufficient, cost-effective liquidity coverage at all times.

This gives rise to the following basic objectives of the Group's 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
- Comprehensive planning of the medium-to-long-term refinancing strategy
- Coordinating issuance in the money and capital markets
- Pricing commensurate with risks and costs
- Complying with statutory regulations and regulatory frameworks

These objectives define the core elements of the Group's liquidity risk management processes, namely:

- Identifying and regularly evaluating liquidity risks
- Determining and regularly reviewing the suitability of models and processes for measuring liquidity risks
- Quantifying liquidity risk on the basis of the established processes
- Identifying and complying with legislation and regulatory frameworks
- Determining management's risk appetite/tolerance
- Maintaining an appropriate liquidity buffer at all times
- Limiting and monitoring liquidity risks on the basis of the specified risk tolerance
- Goal-driven reporting
- Maintaining emergency plans and processes, and reviewing them regularly to ensure they are up to date and appropriate

- Timely and efficient management of operational liquidity
- Approving and monitoring implementation of the medium-to-long-term refinancing strategy
- Employing processes and procedures aimed at the risk-reflective allocation of liquidity costs

Implementation of liquidity risk management

Daily liquidity requirements are monitored and managed on the basis of daily reports prepared by the Strategic Risk Management Department.

The department compiles extensive monthly liquidity risk reports that support the analysis and control of operational and structural liquidity, and monitoring compliance with the liquidity risk limits. These reports describe and analyse operational liquidity risk over a period of 12 months for a normal scenario (volatility scenario) as well as for three stress scenarios (bank name crisis, market crisis and combined crisis), and the structural liquidity risk in the normal scenario. In addition, the Management Board receives a comprehensive monthly liquidity report, incorporating planning assumptions and key liquidity risk indicators, as well as information on the current liquidity situation. The Management Board also receives regular reports on the liquidity position and limit utilisation from the ALM Committee and RICO.

The HYPO NOE Group's operational liquidity capacity is evaluated and monitored on a monthly basis in terms of the length of time that the Bank is able to survive ("time to wall"). The net cash outflows in the normal scenario and the three stress scenarios are compared with the relevant available liquidity reserve, and the length of time before the liquidity reserve is no longer sufficient to cover the net cash outflows is calculated.

With a limit of eight weeks (or 12 weeks in the case of an early warning), the HYPO NOE Group's time to wall as at 30 June 2020 was a robust 52 weeks (30 Jun. 2019: 39 weeks). Alongside time to wall, the regulatory liquidity coverage ratio (LCR) is an important control metric for operational liquidity. The LCR is reported on a monthly basis and is integral to the Group's operational liquidity management and the planning processes. The LCR reported to the regulator was 264.05% as at 30 June 2020 (30 Jun. 2019: 146.23%).

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

Current liquidity risk situation

The HYPO NOE Group is in a strong position in terms of its refinancing options, and draws its liquidity from conventional capital market transactions and deposits, as well as standard repo transactions and ECB tenders. The Group also uses its close relationships with development banks as a source of refinancing. Customer deposits play an important part in the refinancing mix, which illustrates the Group's standing as a respected partner to institutional investors. Strong investor confidence in the HYPO NOE Group is reflected in the increase in current account and savings account deposits compared with year-end 2019. Time deposits were reduced in order to enhance the cost effectiveness of the refinancing mix.

The HYPO NOE Group is regarded as a stable player on the international capital markets, which was reaffirmed – in spite of the Covid-19 crisis – by the issue of a EUR 500m mortgage covered bond in mid-May 2020; the issue was six times oversubscribed.

In mid-June the Group placed a senior preferred green benchmark bond, which was also significantly oversubscribed. Once again, the order book was extremely granular, with a total of 134 investors from 18 countries. Around 30% of the investors were focused purely on sustainable investments.

The HYPO NOE Group's liquidity position is solid. The refinancing mix, comprising current account and savings account deposits, fixed-term deposits from institutional customers and capital market debt issues, ensures that this will remain the case over the long term. This broad-based refinancing portfolio is supplemented by sufficient marketable securities.

Throughout the period under review, the regulatory indicators for limiting liquidity risk – the Basel III indicators, LCR, net stable funding ratio (NSFR) and additional liquidity monitoring metrics (AMM) – were calculated on the basis of the published standards and reported to the Austrian regulator. Where applicable, the minimum regulatory requirements were observed. In future, compliance with the statutory regulations in day-to-day operations will be underpinned by the integration of the requirements into the internal liquidity risk management and planning processes, together with strict internal targets and the operational control processes already in place.

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. This is because in every category the HYPO NOE Group can be exposed to claims or legal proceedings arising from alleged breaches of contractual, statutory or regulatory obligations. Information and communication technology (ICT) risk and reputational risk (which is treated as a separate category) are closely related to operational risk. However, business risks do not form part of operational risk.

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

- Continuous identification of operational risk events, including development of countermeasures designed to avoid similar events in future, and regular reporting to the Management Board
- Ongoing monitoring of the implementation of such measures up to completion, and submission of a quarterly status report to the Management Board
- Forward-looking monitoring of the operational risk profile using key risk indicators
- Evaluating factors that could alter the risk profile, such as the introduction of new products or outsourcing activities
- Ongoing adaptation and improvement of internal guidelines
- Managing business interruption risks by means of emergency plans embedded in the business continuity management (BCM) system
- Strict adherence to the four-eye management principle to reduce the likelihood of the occurrence of risk events
- In-service training as part of staff development
- Insurance against various risks

There is also an emphasis on continuously improving the effectiveness and efficiency of operational risk management processes. The operation and ongoing refinement of an effective internal control system (ICS) is intended to reduce the probability of operational risk events and minimise their impact. Risks are systematically identified and assessed, controls agreed and developed, and where necessary key processes are adapted.

Current operational risk situation

Detailed information on operational risk events in the year under review was collected in a database. Improvements are seen as a key instrument for controlling operational risk: they were consistently formulated and implemented when operational risk events and near-miss incidents occurred.

The early-warning and key risk indicators yielded satisfactory results.

The ICS was updated in the course of the annual review.

The risk content of new products was routinely surveyed using a standard evaluation tool which is integrated into the product launch process.

In view of the entry into force in mid-2020 of the EBA guidelines on the management of ICT and security risks, a project was initiated to gradually close the gaps identified. Besides a direct focus on risk management itself (including the choice of software designed to depict IT risks), related topics such as IT security, change management, business continuity management and outsourcing will be addressed. With regard to outsourcing, in an initial step the Group worked in consultation with the ARZ computer centre in order to harmonise governance and the methods used when commissioning subcontractors.

An in-house task force was set up and quickly defined essential regulations in response to the Covid-19 pandemic. Measures were implemented to separate the various floors at the Bank's main offices, staff were provided with information by the Group, homeworking was introduced for the majority of employees, and corresponding processes for daily reporting to the Management Board were put in place. In line with the steps taken by the federal government, the branches also responded rapidly to the pandemic, installing plexiglass screens and requiring customers to wear face masks. 'Split teams' were used in strategically significant units such as Treasury, and in the retail customer business. No staff were made redundant and – with the exception of the real estate subsidiaries – the Bank decided not to implement short-time working.

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 damage to the Group's reputation, and the opportunity costs this would entail. Such damage can compromise the Group's standing and undermine the trust of its stakeholders, such as customers, investors, employees, business partners and the community. The reasons may reflect a failure to live up to their expectations.

Meeting those expectations is essentially a matter of putting effective business processes in place, coupled with sound risk monitoring and management. The Group's code of conduct outlines the common values and principles shared by HYPO NOE Group employees. The HYPO NOE Group also takes care to avoid business policies and transactions associated with particular legal or tax risks, or with substantial environmental risks. The Group's lending is subject to clear ethical guidelines and business principles, geared towards strict conformity with a holistic environmental and social sustainability approach. In this way the Bank ensures that loans are only extended for purposes that are compatible with its philosophy and sustainability strategy. The ethics guidelines and business principles comprise inclusion and exclusion criteria, and are the basis for initiating new business across the Group. These criteria are also taken into account by a 'reputational risk questionnaire' that forms part of the loan application and serves as an essential filter.

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

Other risks

The following types of risk are classified as 'other risks':

- Business risk (the danger of loss resulting from a deterioration in the economic environment or in the HYPO NOE Group's business relationships)
- Strategic risk (the danger of losses arising from decisions related to the Group's strategic focus and business development)
- Macroeconomic risk (potential losses resulting from exposure to macroeconomic risk factors)
- Concentration risk – this encompasses various types of risk (potential adverse consequences that may arise from the concentration of or interplay between similar or differing risk factors or types of risk)
- Leverage risk (any threat to the Bank's stability arising from its actual or potential indebtedness)
- Real estate price risk (potential losses due to downturns in real estate prices and the resultant adverse effect on the fair value of a property)
- Model risk (potential losses arising from the consequences of decisions that stem from internal approaches, and which are attributable to errors in the development, implementation and application of such approaches)
- Outsourcing/insourcing risk (risks connected with the outsourcing or insourcing of banking operations)
- Data protection risk (risks related to data processing that could lead to physical, tangible or intangible damage)
- Securities risk (risks arising from the provision of securities-related services)

The Group monitors, identifies and hedges such potential risks using equity and takes negative changes into account at an early stage.

Sustainability risks

In accordance with the FMA requirements, sustainability risks are not regarded as a separate key risk category. Instead, when drawing up the risk inventory, these risks are included as sub-risks in the existing key risk categories (showing the effect on existing types of risk) that make up the HYPO NOE Group's risk landscape.

In order to manage sustainability risks, an interbank structure has been set up that enables the exchange of specialist information between the members of the ARZ computer centre, with the aim of creating synergy effects, boosting efficiency and minimising costs through implementation in the core banking system. Additionally, the exclusion criteria (ethical guidelines and business principles) are being extended, and the risk management manuals and strategies are being revised on the basis of the FMA's Guide for Handling Sustainability Risks.

Latent legal risks

It is standard practice to recognise provisions for litigation in 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.

"Unutilised facilities" includes both unused loan facilities and revolving borrowing facilities (e.g. overdraft facilities). There is a strong probability that the unutilised credit facilities will be used within a contractually specified period, whereas credit lines can be used at any time, implying a higher degree of uncertainty with regard to utilisation and the maturity date. The amounts disclosed for unutilised credit facilities include amounts forming part of the disclosures in Note 9.2 Disclosures on related-party relationships.

EUR '000	30 Jun. 2020	31 Dec. 2019
Unutilised facilities	1,834,420	1,746,356

9 GROUP STRUCTURE AND RELATED-PARTY RELATIONSHIPS

9.1 Scope of consolidation

The scope of consolidation of the HYPO NOE Group includes all 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. Besides the parent, HYPO NOE Landesbank für Niederösterreich und Wien AG, the Group comprises 61 Austrian subsidiaries in which the parent meets the criteria for control as specified in IFRS 10. Last year, 63 Austrian subsidiaries were included in consolidation apart from the parent. 11 companies are accounted for using the equity method (31 Dec. 2019: 11).

Where voting rights are seen as conclusive in judging whether control exists, the HYPO NOE Group is normally assumed to control an investee if it directly or indirectly holds or controls more than half of the voting rights. Besides voting rights, other rights and de facto circumstances are taken into account. Where the Group does not control a majority of the voting rights but has the practical ability to direct relevant activities, the Group is also assumed to control an entity.

All material intra-Group transactions are eliminated on consolidation. The HYPO NOE Group does not apply proportionate consolidation, as it does not hold interests in joint operations.

Joint ventures (IFRS 11) and associates (IAS 28) are accounted for using the equity method. The first step towards determining whether there is joint control is to discover who exercises power over the relevant activities. Joint control exists if such power is exercised by two or more parties on a contractual basis. Associates are entities over which the HYPO NOE Group directly or indirectly has significant influence. Significant influence over an entity usually exists if the Group holds between 20% and 50% of the voting rights. Besides the extent of the voting rights, the Group also takes account of other factors which indicate that significant influence is exercised. These include representation of the Bank on the management or supervisory bodies of the investee or participation in key decisions. In such cases, the question of whether there is significant influence even if the Group holds less than 20% of the voting rights is also considered.

Changes in 2020

The previously consolidated companies Benkerwiese Mietergemeinschaft GmbH and HYPO NOE Immobilienmanagement GmbH, both of which were in liquidation, were removed from the register of companies on 11 January 2020 upon entry of the conclusion of liquidation in the register.

9.2 Disclosures on related-party relationships

30 Jun. 2020 EUR '000	Parent companies	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties	Identified staff
Open balances						
Selected financial assets	**2,691,215**	**118,320**	**419,238**	**5,306**	**57**	**2,185**
Equity instruments	-	59	23,635	5,123	-113	-
Bonds	31,463	-	-	-	-	-
Loans (incl. demand deposits/loans from central banks)	2,659,752	118,261	395,603	183	169	2,185
Selected financial liabilities	**61,312**	**44**	**109,885**	**4,081**	**1,194**	**2,583**
Deposits	61,312	44	109,885	4,081	1,194	2,583
Nominal value of loan commitments, financial guarantee contracts and other commitments	**845,605**	**36,569**	**12,411**	**7,607**	-	-
Nominal value of derivatives	**1,097,096**	**85,000**	-	-	-	-
Current period						
Interest income	16,791	256	4,349	-	34	1
Interest expense	-42	-	-12	-1	-1	-2
Dividend income	-	-	-	-	-	-
Fee and commission income	68	-	-	-	-	-
Fee and commission expense	-	-	-	-	-	-

31 Dec. 2019 EUR '000	Parent companies	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties	Identified staff
Open balances						
Selected financial assets	**2,789,224**	**117,408**	**402,803**	**4,984**	**403**	**2,263**
Equity instruments	-	83	22,806	4,703	232	-
Bonds	30,663	-	-	-	-	-
Loans (incl. demand deposits/loans from central banks)	2,758,561	117,325	379,997	281	171	2,263
Selected financial liabilities	**39,972**	**277**	**76,984**	**1,292**	**1,655**	**2,627**
Deposits	39,972	277	76,984	1,292	1,655	2,627
Nominal value of loan commitments, financial guarantee contracts and other commitments	**854,693**	**38,455**	**9,123**	**5,899**	-	-
Nominal value of derivatives	**1,088,889**	**85,000**	-	-	-	-
Current period						
Interest income	33,784	510	9,021	2	11	4
Interest expense	-125	-	-47	-1	-3	-4
Dividend income	-	-	707	160	199	-
Fee and commission income	94	2	219	14	-	1
Fee and commission expense	-1	-	-1	-	-	-

10 EVENTS AFTER THE REPORTING PERIOD

Bankruptcy proceedings against Commerzialbank Mattersburg im Burgenland Aktiengesellschaft

On 28 July 2020 it was announced that bankruptcy proceedings had been instigated against Commerzialbank Mattersburg. Consequently, all insured deposits had to be paid out by Einlagensicherung Austria. Like all banks which are members of Einlagensicherung Austria, the HYPO NOE Group will meet the requirement for a top-up payment, which is currently estimated to be an amount in the low single-digit millions of euros up to 2024 (less any amounts recovered from Commerzialbank Mattersburg's bankruptcy assets).

DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES

We hereby confirm that, to the best of our knowledge, the condensed 2020 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 2020 interim consolidated financial statements. Essentially the same accounting policies were applied as to the financial statements for the year ended 31 December 2019.

St Pölten, 11 August 2020
The Management Board

Wolfgang Viehauser
Management Board Member Markets and Speaker of the Board

responsible for

Sales Strategy & Digitalisation, Marketing & Communication, Public Sector, Retail Customers, Corporate Customers, Real Estate Customers and Treasury & ALM; press spokesman

Udo Birkner
Management Board Member Finance, Risk & Operations

responsible for

Group General Secretariat & Law, Compliance & AML, Human Resources, Finance, Risk, Operations/Organisation & IT, Real Estate Services and Internal Audit

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Important information

The greatest possible care has been taken in preparing this semi-annual financial report. However, transmission, typesetting 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 of writing. 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.