

ANNUAL REPORT 2014



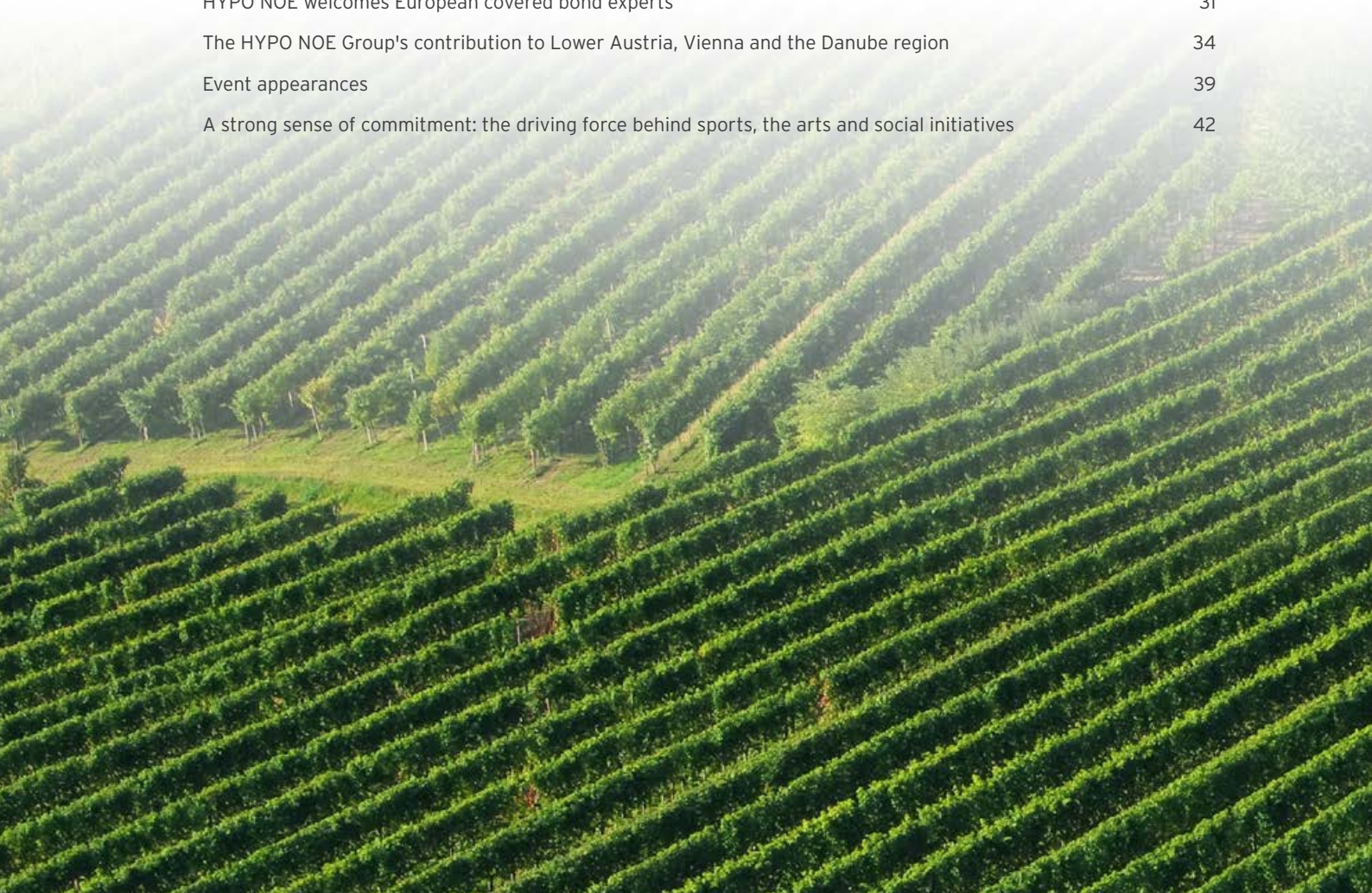
HYPO NOE
GRUPPE

GROUP FINANCIAL HIGHLIGHTS

EUR '000	2014	2013
IFRS consolidated statement of comprehensive income		
Net interest income	127,388	115,433
Credit provisions	-6,717	-4,781
Profit/loss before tax	-39,810	75,021
Income tax expense	8,822	-21,326
Loss/profit attributable to owners of the parent	-31,338	53,677
IFRS consolidated statement of financial position		
Total assets	15,926,960	14,209,746
Loans and advances to customers	11,194,066	10,590,574
Debts evidenced by certificates	8,553,311	8,163,364
Equity (incl. non-controlling interests)	570,726	554,400
Consolidated capital resources		
Eligible core capital	507,704	569,410
Total eligible core capital	614,757	692,342
Risk-weighted assessment base for credit risk	3,701,558	3,870,824
Capital requirement	331,171	332,665
Surplus capital	283,586	359,677
Core capital ratio (Basel II) on risk-weighted assessment basis for credit risk	-	14.71%
Core capital ratio (CRR/CRD IV) on total capital adequacy requirements basis	12.26%	-
Equity ratio (Basel II) on risk-weighted assessment basis for credit risk	-	17.89%
Equity ratio (CRR/CRD IV) on total capital adequacy requirements basis	14.85%	-
Operational information		
Number of employees at year-end	913	913
Number of branches	30	30
Selected payments/levies/items in respect of public authorities		
Financial stability contribution (bank tax)	-12,937	-6,309
Dividends paid to the State of Lower Austria	-11,000	-11,000
Cost of transfers of liability to the State of Lower Austria	-882	-1,210
Income tax paid	-11,193	-26,212
Current income tax	65	-21,917
Deferred income tax	8,757	591
Social security contributions and other pay related contributions	-13,346	-12,738
Current tax assets	10,856	-
Deferred tax assets	2,417	3,874
Current tax liabilities	10,753	12,454
Deferred tax liabilities	30,651	21,175
Key indicators		
Return on equity before tax	-7.1%	14.3%
Return on equity after tax	-5.5%	10.2%

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STATEMENT BY THE SUPERVISORY BOARD



Burkhard Hofer
Chairman of the Supervisory Board

2014 was a challenging year for HYPO NOE Gruppe Bank AG. The Bank needed to hold its own in a difficult market environment, at the same time as focusing its energy on evaluating acquisition projects. Following its success in meeting these challenges, the HYPO NOE Group is well positioned to continue on this course in 2015.

The Supervisory Board fulfilled its responsibilities as set out by law, supervising the Management Board and providing it with advice on the management of the Group.

We were also involved in all decisions of fundamental importance, in accordance with legal requirements. In the course of numerous meetings held during the year, the Supervisory Board and the committees established by it obtained regular reports and built up a comprehensive picture of the key economic and financial developments at the HYPO NOE Group.

In our view, the Group's strategic positioning, with its specially designed product portfolio and strong focus on Lower Austria and Vienna, as well as other parts of Austria and the wider Danube region, mean that HYPO NOE is still extremely well placed to meet its future responsibilities. We were also able to satisfy ourselves that the risk management system in place at HYPO NOE Gruppe Bank AG and the main subsidiaries is very well designed.

The Supervisory Board can report that both strategically and operationally, the Group made good progress in 2014, and its business policies are in line with its mission as a regional bank owned by the state of Lower Austria. Appropriate provisions were recognised in the 2014 statement of financial position in respect of the moratorium placed on HETA bond repayments in March 2015, which constituted an adjusting event after the reporting period. This means that the Bank is in a strong position to deal with future developments.

Strong performance is only possible with the support of dedicated and skilled employees.

The Supervisory Board would like to thank all employees and the Management Board of HYPO NOE Gruppe Bank AG for their hard work and commitment during the year.

A handwritten signature in blue ink, appearing to be 'B. Hofer', written in a cursive style.

Burkhard Hofer
Chairman of the Supervisory Board



STATEMENT BY THE MANAGEMENT BOARD



Peter Harold, Chairman
of the Management Board

A strong regional partner – the bank for Lower Austria and Vienna

2014 was another highly challenging and unpredictable year for the banking sector in Austria. The economic climate was once again shaped by one of the highest stability contributions in Europe; further tightening of the regulatory framework including the changeover to Basel III and the associated costs; historically low interest rates; ongoing uncertainty surrounding Greece's future in the euro and various scenarios surrounding Heta Asset Resolution AG (HETA) – to name just a few of the issues that Austrian banks had to contend with during the financial year.

In spite of the challenges it faced, HYPO NOE managed to fulfil its core obligations as a bank, namely issuing loans and providing secure savings and investment products. Wholly owned by the State of Lower Austria, the Bank was once again a driving force behind the regional economy, and new lending increased to over EUR 1.4 billion (bn). The bank remains on course for success thanks to a well-established business model that draws on the philosophy of a regional bank serving customers in its core markets of Lower Austria and Vienna as well as selected parts of the Danube region. In line with this strategy, the Bank has no direct exposure to Ukraine or Russia.



Nikolai de Arnoldi,
Member of the Management Board

Appropriate provisions were recognised in the 2014 financial statements in response to the moratorium on debt repayments imposed on HETA in March 2015, which constituted an adjusting event after the reporting period. As the fall in the market value of HETA bonds held by the Group was recognised in equity (in the available-for-sale or AFS reserve) in previous reporting periods, the impairment of the bonds led to the reclassification of the AFS reserve to profit or loss. However, this also had a negative impact on the statement of profit or loss for 2014, resulting in a loss for the year attributable to owners of the parent in accordance with IFRS of EUR 31.3 million (m). Nevertheless, the Group maintained its healthy capitalisation – the core capital ratio of 12.3% and equity ratio of 14.9% are still well above the statutory requirements. Total assets went up by EUR 1.7bn or 12.1% year on year, to reach EUR 15.9bn. The Group also posted solid performance in net interest income, which amounted to EUR 127.4m (a rise of EUR 12m), and in net fee and commission income, which increased by EUR 0.7m to EUR 14m. In 2014 we achieved an outstanding rating for an Austrian bank, at A/A-1 with a stable outlook (S&P).

Focus on our home region, our core business and sustainability

The bank maintained its regional focus and continued to concentrate on the real estate business – from mortgage lending to developing, managing and disposing of properties – and its sustainability strategy in 2014. HYPO NOE Gruppe Bank AG published its first ever corporate social responsibility (CSR) report in autumn 2014. In line with the latest international standards set out under the Global Reporting Initiative, the Bank quantified all of its activities in this particular area in a bid to increase transparency and clarity for its customers, employees and investors. Steps have already been taken to roll out the sustainability project throughout the Group.

We restructured our markets, grouping them in nine regions to enhance the ability of our subsidiary HYPO NOE Landesbank to compete with other retail banks, a move which also helped to deliver improved services and more efficient decision-making processes for our customers. In addition, by bringing all of the Group's real estate subsidiaries and product portfolios under one roof, we have created an end-to-end service chain.

Strong capital market performance

HYPO NOE made a positive impression on national and international capital markets once again in 2014. The bank issued its first ever benchmark bond, valued at EUR 500m and with a seven-year maturity, during the year. The cover pool, given the top-level Aaa rating by Moody's, and an unrelenting investor relations drive permitted highly attractive pricing of the issue, which attracted a mix of foreign and local buyers.

In the senior unsecured debt market, too, a successful private placement with major Scandinavian investors in 2014 underlined HYPO NOE's excellent international reputation. The NOK 1bn bond was one of the year's largest Norwegian kroner-denominated issues.

Outlook for 2015

There will be no change in the challenging economic climate for Austrian banks in 2015. While our analysts take a mildly optimistic view of the eurozone economic outlook, the trading environment in 2015 will continue to be characterised by uncertainty. In addition to current geopolitical threats such as the Ukraine conflict, the effects of the collapse of commodity markets will weigh heavily, as will the situation in Greece and the latest movements in the CHF-EUR exchange rate. The work of the independent commission which recently commenced its investigation into HYPO Alpe-Adria-Bank, and further developments in the winding-up of HETA will do little to burnish the image of Austrian banking, and that of the mortgage lending sector in particular.

HYPO NOE enters the new year in good shape with an undiminished focus on its tried-and-tested business model. As the bank for the state and people of Lower Austria, we will remain true to our role as a trusted partner in 2015, and help to drive the local economy forward by offering a broad range of financing products to support public and municipal projects.



Peter Harold
Chairman of the Management Board
CEO, HYPO NOE Gruppe Bank AG



Nikolai de Arnoldi
Member of the Management Board
CRO/CFO, HYPO NOE Gruppe Bank AG

GROUP **STRATEGY**

DEDICATED TO THE REGION
FOR OVER 125 YEARS





“HYPO NOE is a byword for sustainability, trust, reliability and close links with its home region. We are a regional bank with strong roots in our home markets of Lower Austria and Vienna. Our success in financing real estate and infrastructure projects over the past 125 years has generated a wealth of expertise that benefits public sector, corporate and retail customers. We capitalise on this know-how in various countries as part of our Danube region strategy, especially when it comes to funding infrastructure, education, social, environmental protection, energy and mobility projects. Our newly established network of representative offices enables us to provide customers with even more effective local support. We adopt sustainable approaches to management and are fully aware of our responsibility to society.”

Dr. Peter Harold, Vorstandsvorsitzender

LONG-TERM STRATEGY FOR THE DANUBE REGION: STRONG ROOTS LAY THE FOUNDATIONS FOR FUTURE GROWTH

In its core Austrian market, HYPO NOE has traditionally focused on its home region of Lower Austria and Vienna. Besides Austria, the Group's extended core market includes Bulgaria, Germany (in particular Baden-Württemberg and Bavaria), Hungary, Romania and Slovakia. As part of the wider Danube region, the Czech Republic and Poland are also seen as important elements of our regional strategy. Retail banking operations, which serve private individuals and SMEs, are confined to our home Lower Austrian and Viennese market, but the rest of our product range is offered in selected focus markets spread across the entire strategic area. The HYPO NOE Group sets out to finance business ventures that promote sustainable economic development in the extended Danube region, in line with the Bank's ethical principles.

These ventures include strategic projects aimed at:

Connecting the Danube region to Europe: projects that promote mobility, renewable energy use, culture and tourism.

Protecting the environment in the Danube region: projects designed to restore water quality, manage environmental risks, maintain biodiversity and protect the environment in general.

Building prosperity in the Danube region: projects aimed at increasing research capacity, raising educational standards, developing information technology and enhancing business competitiveness. Efforts to improve vocational training are a priority.

Strengthening the Danube region: projects intended to enhance institutional capacity.

ALIGNING CORE OPERATIONS AND CORE COMPETENCIES

Our Group markets itself as a single unit, under the HYPO NOE Group umbrella brand. Within the Group, we offer bespoke solutions and products aimed at specific customer target groups. In order to provide a comprehensive range of services, we cooperate with distribution and refinancing partners, and maximise synergies by utilising links within our organisation. Working in tandem with its subsidiaries HYPO NOE Landesbank, HYPO NOE Leasing, HYPO NOE Real Consult, HYPO NOE First Facility and HYPO NOE Valuation & Advisory, HYPO NOE Gruppe Bank provides full-line solutions for public-sector clients - the bank is the dominant force in the Lower Austrian public finance market - as well as retail and corporate customers.

The Group's extensive experience enables it to come up with ideal funding solutions that give it a distinctive edge in the public finance market.

The main focus of the corporate and project finance operations is on renewable energy and social infrastructure.

High-street banking subsidiary HYPO NOE Landesbank gives retail customers and SMEs a partner that offers a full range of financial services and is strongly rooted in Lower Austria and Vienna. It specialises in housing construction finance and mortgage lending, and has relationship managers with outstanding expertise in these areas, which extends to public building subsidies. Our long-standing clients include the non-profit housing associations that rely on the HYPO NOE Group as a strong financial partner.









While HYPO NOE has a wealth of experience in these lines of business, it also works to keep up to date with the latest developments in the industry, and to respond to customers' needs by coming up with innovative solutions.

LINKING CORE COMPETENCIES TO THE REAL ESTATE VALUE CHAIN

HYPO NOE aims to provide one-stop services that go far beyond pure financing, supporting customers' real estate projects from beginning to end. The creation of a comprehensive service portfolio that spans the entire life cycle of a property project has brought together all of the Group's expertise in a single end-to-end real estate value chain. This service package provides a fully

integrated product portfolio. Every staff member who clients encounter along the real estate value chain acts as a single point of contact and source of expertise.

This process-based approach also enables us to forge strategic operational partnerships with domestic and foreign partners, with a view to leveraging competitive advantages and synergies.

	 Project development	 Finance	 Project management	 Property management	 Real estate brokerage	 Valuation	 Facility management	 Facility services
HYPO NOE GRUPPE			✓					
HYPO NOE LANDESBANK			✓					
HYPO NOE LEASING			✓					
HYPO NOE REAL CONSULT	✓			✓	✓	✓		
HYPO NOE FIRST FACILITY	✓				✓		✓	✓
HYPO NOE VALUATION & ADVISORY						✓		

SUSTAINABILITY STRATEGY: PROVIDING A CLEAR FOCUS AND SOLID STRATEGIC FOUNDATIONS

Our ethical principles set out the criteria for initiating business contacts, providing guidance for HYPO NOE's new business. They are intended to promote the avoidance of risks arising from transactions where there is the potential for conflicts related to environmental protection (and climate change in particular), social cohesion, compliance with rules of conduct, or corruption. As a leading provider of financial services to the public sector and a business directly affected by the overall development in its core Lower Austrian and Viennese market and in the Danube region, the sustainable growth of the entire region is crucial to the Group's interests.

The basis for our sustainability strategy is HYPO NOE's framework of values, which consists of the mission statement, code of conduct, and ethical and business

principles, and the sustainability focus areas. These are designed to present as clear and consistent a picture as possible of the Group's sustainability-related activities, and to break down the sustainability strategy into operational tasks.

The strategy applies to products, processes and communication, and its effectiveness is measured in terms of supporting goal attainment in the following sustainability focus areas:

- ▣ Regional responsibility
- ▣ Traditional values and durability
- ▣ Reliability and stability
- ▣ Closeness to customers
- ▣ Our people – the key to our success
- ▣ Social responsibility



OUR
PHILOSOPHY



"It has taken a few years, but the principles behind our mission statement now underpin day-to-day operations in all of the Bank's businesses. Our mission statement, values and vision are part of everything we do, giving us firm support, a clear direction and a strong focus on our targets. Quality and excellence in sales and in back-office processing and control are defining features of effective risk management. In addition to the various elements of the mission statement, we are also taking steps to ensure that the expertise generated in preparing our sustainability report and achieving our sustainability rating feeds into our decision-making. This gives us an early indication of the upcoming demands that will be placed on the philosophy of a bank like ours. The sooner HYPO NOE learns to take account of these new factors in its strategies and procedures, the stronger our position will be in the markets of the future."

Nikolai de Arnoldi, member of the Management Board

OUR PHILOSOPHY

Business relationships only work if they are founded on trust. This is especially true when it comes to banks, and their handling of the money and information entrusted to them. The HYPO NOE Group lives up to this responsibility at all times, and sets itself extremely high standards.

Internally, the formulation of a corporate mission statement based on the Group's values and vision has created a guide that staff can refer to in their daily work, providing constant orientation and motivation. Externally, the statement communicates to customers and the general public what the HYPO NOE Group stands for, and the organisational culture that the Lower Austrian state bank has implemented and will continue to develop.

The **mission statement** encapsulates our philosophy as the bank for Lower Austria, with a strong focus on our reliability and stability as a banking partner and an employer that has developed over the past 125 years. The customer is at the centre of all our activities, in line with our claim to be "the bank at your side." As an employer, HYPO NOE sees its outstanding employees as the key to its success. The Group also lives up to its regional responsibilities by means of partnerships and sponsorship agreements.

Our code of conduct serves as a guide for meeting all of the challenges we face. It helps us to live out our commitment to reconciling excellent business performance with the highest ethical standards.

OUR CONDUCT IN THE MARKETPLACE

The HYPO NOE Group distinguishes itself by delivering outstanding performance whilst competing fairly.

OUR CONDUCT TOWARDS CUSTOMERS

The Group aims to build and maintain long-term, trust-based relationships with customers.

OUR CONDUCT TOWARDS STAKEHOLDERS

When making public announcements, the HYPO NOE Group undertakes to provide information that is as up to date, accurate and clearly presented as possible, in a manner that is timely and accessible to the general public, without favouring individual stakeholders. Our internal rules ensure the proper handling of inside information.

OUR CONDUCT TOWARDS EMPLOYEES

The HYPO NOE Group strives to give all employees equal employment and promotion opportunities. Discrimination on the basis of ethnicity, gender, nationality, age, physical abilities, sexual orientation or religion is not tolerated.

The mission statement and code of conduct can be downloaded from our website at www.hyponoe.at.



ETHICAL BUSINESS PRINCIPLES AND TRANSPARENCY

The sweeping changes seen since the turn of the millennium, which have been driven by the trend that has emerged in the past few decades towards more responsible use of social and natural resources, have strengthened HYPO NOE's commitment to live up to the ethical and environmental demands placed on modern companies, such as the need to minimise climate change.

Ethical business principles

Our ethical and business principles comprise inclusion and exclusion criteria, which form the basis for initiating business contacts. Since they apply to the entire Group, ethical business principles have been integrated into our strategy and increasingly play a part in the Bank's processes. Detailed knowledge of the objectives of lending is vital to identifying the Group's risk exposures and those of its customers, and to developing effective services. Inclusion criteria are used to promote business activities in those areas which the Group believes generate the greatest benefits for society, while exclusion criteria help to identify sectors where the Bank chooses not to operate.

Inclusion criteria - guiding our actions

The Strategy for the Danube Region adopted by the European Union, the EU's Europe 2020 targets and the 2020 energy targets implemented by the state of Lower Austria form the basis for the positive criteria used by HYPO NOE when initiating business contacts. These criteria are an integral part of the Group's Danube region strategy.

Exclusion criteria - sharpening our focus

As a general rule, significant care must be exercised when it comes to the following forms of lending; in some cases, financing is not permitted.

- Finance for nuclear power plants
- Finance for transactions that damage the environment
- Finance for arms deals
- Finance for transactions related to pornography and prostitution
- Finance for countries engaged in armed conflicts (as defined in the OeKB country list)
- Finance for transactions that constitute a violation of human rights (as defined by the United Nations' Universal Declaration of Human Rights)
- Finance for transactions that violate the core conventions of the ILO Declaration on Fundamental Principles and Rights at Work (e.g. freedom of association and the right to organise, forced labour, child labour and discrimination)
- Finance for transactions that contravene the Bank's guidelines on business ethics and compliance, and transactions where there is suspicion of corruption

Reputational risks are particularly likely to arise in connection with borrowers operating in industries that are incompatible with the image and values of the HYPO NOE Group and its owner, the Lower Austrian state government. Here, too, particular care must be exercised, and in case of doubt the Bank refrains from business dealings with those concerned.

Ecologically and socially sensitive sectors

Besides taking ethical principles into account, HYPO NOE also concentrates on sustainable financing for the environmentally and socially sensitive sectors of energy production, mining, forestry and agriculture.

We believe that consideration of environmental and social standards in these areas is vital to the responsible and sustainable development of our target markets. With this in mind, the Bank makes efforts to identify transactions that intensify the effects of climate change or increase CO2 emissions, and raises these issues with its business partners. Regional protection measures aimed at preventing large-scale, long-term interventions in social and environmental structures, and water conservation are also taken into consideration.

Greater transparency of sustainability-related activities

HYPO NOE Gruppe Bank published its first sustainability report in 2014. The 2015 report is due to be extended to cover the entire Group.

HYPO NOE took part in a sustainability rating process for the first time in 2013 and was analysed by a number of rating agencies in 2014. The sustainability or socially responsible investment (SRI) rating is performed by an independent agency specialising in ethical and environmental issues.

As with its issuer rating (HYPO NOE has an A/A-1/stable rating from Standard & Poor's) - a standardised procedure used to assess the credit ratings of borrowers and

bond debtors - we aim to position the Group appropriately in terms of sustainability over the long term. As the Lower Austrian state bank, an eco-social rating is particularly important as a reflection of HYPO NOE's strong regional commitment. The Group's sustainability-related processes and programmes are analysed impartially and assessed using transparent and comprehensible methods. The sustainability rating process compared HYPO NOE's performance with that of other regional banks across Europe, and assessment was based on up to 100 social and environmental criteria.

With regard to social factors, which mainly concern the Bank's attitude and behaviour towards stakeholders, our strong performance in the rating procedure was attributable to the framework of responsibilities that make up our philosophy. HYPO NOE has implemented solid structures and processes in the areas of corporate governance and the formulation of ethical business principles, as well as its dealings with employees and suppliers, and our culture plays a decisive role in everything we do.

The gradual integration of ethical principles in the Group's processes will be instrumental in the ongoing development of environmental social governance (ESG) standards.

The sustainability report can be downloaded
from our website at www.hyponoe.at.





“The publication of our first sustainability report marked the integration into the Bank’s day-to-day operations of the ethical guidelines which have provided guidance and support for HYPO NOE’s framework of strategic and social targets over the past three years. Now we are in a position to clarify the impact of the ethical guidelines on our daily business and assess whether our products meet the requirements set out there. As a result, sustainable products and the related Group processes will grow in significance.”

Peter Harold, Chairman of the Management Board



HYPO NOE IN ITS MARKETS

REGIONAL BANKS AND THE EUROPEAN INVESTMENT BANK (EIB): WORKING TOGETHER TO ENSURE THE SUSTAINABLE DEVELOPMENT OF THEIR CORE MARKETS AND EUROPE AS A WHOLE

This year former Austrian Vice-Chancellor Wilhelm Molterer, who was appointed EIB Vice-President in June 2011, joined CEO Peter Harold and fellow Management Board member Nikolai de Arnoldi (CFO) to discuss sustainability. The discussion was moderated by Polina Christova, Head of Investor Relations at HYPO NOE.

CHRISTOVA: The EIB, as a development bank, and HYPO NOE, as a regional bank with a clear focus on the Danube region, have both chosen regional development as a key strategic goal. I would like to ask you first, Mr Molterer, what role regional banks play in fulfilling the EIB's investment targets.

MOLTERER: As the EU bank, the EIB finances sound and sustainable investment projects which promote growth and employment, while helping to further competitiveness and innovation in Europe. I would like to mention at this point that around 10% of total investment activity is focused on non-EU countries. As the world's largest multilateral lender by volume, the EIB depends greatly on regional banks when it comes to carrying out its activities.

HAROLD: HYPO NOE's Danube region strategy has the same aims as the EIB, only in our case, providing financing and support to our core markets of Lower Austria and Vienna and the regions and countries of the Danube region. This year we expanded our network of local and permanent representative offices abroad to ensure we are in a position to deliver the highest possible level of support.

DE ARNOLDI: This makes it possible for staff with extensive knowledge of the local market to offer our comprehensive range of products – from public and corporate finance services to real estate financing – directly

to customers. We are also able to offer facility management services via our subsidiary HYPO NOE First Facility. Our specialists on site bring their expertise to bear, by objectively evaluating each transaction, while assessing them from a risk management perspective.

MOLTERER: We really do appreciate that regional banks in particular, with their proven local and regional knowledge, play a central role in the EIB's work. After all it is these banks that act as financing partners and intermediaries for the EIB in regional markets throughout Europe.

HAROLD: Particularly when HYPO NOE and the EIB are involved in the same types of financing activities, in areas such as infrastructure, urban development, research and development, energy and renewables.

MOLTERER: HYPO NOE has been a trusted partner to the EIB for more than ten years. In Austria the EIB traditionally works with all the major banks and financial service providers in the country. And this is decisive, particularly in view of the forthcoming EU investment plan, in which the EIB is set to play a key role.

A slight digression, I know, but the aim of the Investment Plan for Europe is to ensure that available capital sitting unused in banks and companies is fed back into the real economy by increasing risk tolerance among private investors in Europe. Something currently prevented by a risk-averse investment climate. Initially, a total of EUR



21 billion in capital and guarantees will be made available to hedge a part of the exposure that comes with higher-risk innovation and infrastructure investments, and to provide additional finance to SMEs. Our aim is to trigger additional investment of EUR 315 billion over the next three years. The intention is to support public projects and corporate lending. However, the overarching aim is to encourage investment without increasing sovereign debt. In short, we need to stimulate interest among private investors.

HAROLD: At this point we should add that funds – both public and private – constitute a group of investors in their own right. We could be talking about funds to promote research or pension funds. The statutory framework in many countries prevents these funds from directly investing in projects that are categorised as higher risk, and that applies particularly to cross-border

investments inside the EU. HYPO NOE is not involved in this particular area either.

DE ARNOLDI: One practicable solution for the issue of restricted access to markets comes in the form of funds set up for qualified or registered investors, which is something that we have been keeping a close eye on in Poland and the Czech Republic. These are public funds that qualified investors from all over Europe can participate in. To the extent that investors have been cleared by the national watchdog or financial regulator, they are able to buy into funds like this. The fund, in turn, invests directly in projects that meet the EIB criteria in line with the Investment Plan for Europe mentioned earlier.

CHRISTOVA: That sounds very encouraging. Mr Molt-erer, I would like to turn to the aims of the EIB's and the EU's investment projects. The EIB promotes projects

that make a positive contribution to Europe's development. Which factors are particularly important to the EIB in this respect?

MOLTERER: The EIB views smart growth as the foundation for sustainable economic expansion. This is fully in line with what the EIB has set out to achieve by gearing all of its activities towards promoting sustainability. The EIB's contribution to sustainable development in Europe will involve the establishment of special focuses for innovation, research and development, and opening up access to capital markets for small and medium-sized enterprises and start-ups. The bank's priorities also include projects aimed at extending and improving existing infrastructure in areas such as competitive and secure energy supplies, urban regeneration and the environment. The environment covers a host of different aspects, including sustainable transportation, conservation, reforestation, renewable energy and energy efficiency.

HAROLD: This fits well with the way the HYPO NOE incorporates sustainability into its strategy and a number of its processes, such as the way it goes about approving loans.

CHRISTOVA: The EIB also floated a ten-year CHF 350m Climate Awareness Bond (CAB) at the start of 2014.

MOLTERER: In line with the thinking behind smart growth, the proceeds from the flotation of climate awareness bonds are used to finance upcoming projects to construct wind, hydroelectric, wave, tidal, solar and geothermal plants and other measures aimed at improving energy efficiency. All of the bonds issued so far resonated extremely well with investors looking for ethically, socially and environmentally responsible investments.

HAROLD: HYPO NOE Gruppe Bank published its first sustainability report this year and received its first ever sustainability rating. I was proud to see our contribution to the sustainable development of our home market portrayed so clearly. The new public finance projects funded in 2013 were categorised according to sustainability factors. Health, public infrastructure, education and public sector housing are among our key focuses. HYPO NOE's energy financing activities largely focus on

energy efficiency, district heating and renewable energy projects.

MOLTERER: These are the right approaches to ensuring that Europe remains competitive internationally, and there is still a lot of work to do in this respect. If we are serious about competing with other regions worldwide and looking to reduce our dependence on the top international technology suppliers, Europe must be prepared to invest EUR 130bn each year. Successful SMEs are the driving force behind innovation, growth and employment. They create jobs and make it easier for young people to gain a foothold in the labour market. The Mittlestand is one of the most innovative segments anywhere in the private sector.

HAROLD: HYPO NOE's SME lending activities are confined to Lower Austria and Vienna. We have extended the support that we offer SMEs in Lower Austria and Vienna to include a special consultancy service focused on subsidies. As in the rest of Europe, SMEs form the backbone of a strong regional economy for Lower Austria and Vienna.

MOLTERER: That's right. I have a few figures on the current situation in the EU: more than 21 million companies in the EU are classified as SMEs. That's 99% of all businesses. And they generate 60% of total value-added in the EU.

CHRISTOVA: Let's take a look at the future now. What significance will social, regional and environmental projects have for the EIB in future? This is a subject that is taking on increasing significance for banks right now.

MOLTERER: Historically speaking, the trend could not be much clearer. While the EIB was set up at the end of the 1950s to provide long-term funding to large-scale public sector infrastructure projects, it has gone on to cover a much broader range of activities. The EIB supports environmental projects, and also backs innovation, and industrial research and development. It provides significant support for small and medium-sized enterprises, and is helping to finance the expansion of broadband and energy networks. The aim of the EIB's lending activities is still to promote the economic and social development of individual regions within the EU and add to the overall cohesion of the union. Social and

environmental factors play a central role in every project that is considered for EIB financing.

HAROLD: The process of compiling the sustainability report, coupled with the sustainability rating, helped to give even greater prominence to our traditional focus of public lending based on social and environmental criteria. By integrating environmental and social criteria into its lending policy, HYPO NOE approaches each new financing project by asking whether it is ethically and environmentally sustainable, and not just economically viable. This approach will be extended over the years to come.

MOLTERER: Just to put our commitment to sustainability into perspective with a few numbers: in 2014 alone the bank provided a total of EUR 19bn to climate protection initiatives. The EIB's activities aimed at improving infrastructure in Europe help to promote social cohesion throughout the 28 member states. In 2013 the EIB launched its Skills and Jobs – Investing for Youth programme. The EIB group also finances vocational training and mobility programmes for students and apprentices. The bank has initiated a broad-based direct loan scheme via its partner banks to help young people gain better qualifications. In 2014 it approved loans of around EUR 3.7bn for qualification projects and in excess of EUR 10bn for youth employment programmes. Here, the bank was chiefly involved in supporting SMEs in regions where youth unemployment tops 25%. To help create jobs for young people the EIB Group has provided micro-financing, intermediated loans and higher value direct loans. So you see that the focuses you outlined already play a significant role in the EIB's activities.

HAROLD: HYPO NOE's focuses are health, education, infrastructure and energy. In the health sector our activities include providing financing for the construction and operation of hospitals and medical practices. Our educational activities primarily centre on building and renovation projects for schools and kindergartens. Clearly, education is a very high priority for politics and society alike. Our current infrastructure projects chiefly involve road construction, public utilities and waste management projects. Energy efficiency is the priority for the energy sector right now.

MOLTERER: I would like to add that the EIB is also active in another sector – microloans. Microfinancing has a major social impact. The EIB approved active financing outside Europe amounting to EUR 400m in 2014.

HAROLD: We expect growth to be comparatively robust in Lower Austria. Economic development in Europe varies hugely from region to region, with growth very weak in some areas.

MOLTERER: It is reasonable to expect that the general level of financing will increase from its current total, especially in light of the difficult budgetary situations in several member states, who after all own a stake in our organisation. Over the next few years the EIB's role will be to ensure that its activities continue to promote growth and create jobs. It is clear that we have to set a signal for the future now and that everyone will have to steadily adapt to the changing economic climate.

CHRISTOVA: Thank you very much for taking the time to share these valuable insights with us!

ECONOMIC DEVELOPMENT IN THE DANUBE REGION - DANUBE REGION COUNTRIES REMAIN PRINCIPAL BENEFICIARIES OF NEW EU STRUCTURAL FUNDS PROGRAMMES 2014-2020

EU funds play an especially prominent role in public investment in the Danube region. In Bulgaria, Hungary and Slovakia, EU funding makes up 80-90% of public investment, while in the Czech Republic and Romania the share is 45-55%. In Austria, the figure is around 2-3%.

A total of EUR 351.8bn in funding has been allocated for the new 2014-2020 programming period, representing 35.2% of the EU's budget over that time. This is an increase of 5.1% on the previous programming period. Investments will focus on four key priorities: innovation, information and communications technology (ICT), boosting the competitiveness of small and medium-sized enterprises (SMEs), and supporting the transition to a low-carbon economy.

Including co-financing by member states, the total investment in the Danube region as defined by HYPO NOE is estimated to be EUR 200-250bn over the programming period, if the plans are fully implemented. One of the aspects that can benefit HYPO NOE is the investment required from the projects themselves, to be provided by project partners - this opens up business opportunities for the Group that often lead to new relationships and further cooperation.

Attractive opportunities are being created in all of the Group's core and target markets by the EU's 20-20-20 goals. These call for a 20% reduction in CO2 emissions from 1990 levels, and will require accelerated investment in renewable energy sources and - most importantly - energy efficiency by Danube region countries, because of the mounting time pressures as the 2020 deadline nears. EU directive requirements for public buildings to undergo energy-efficient renovations by

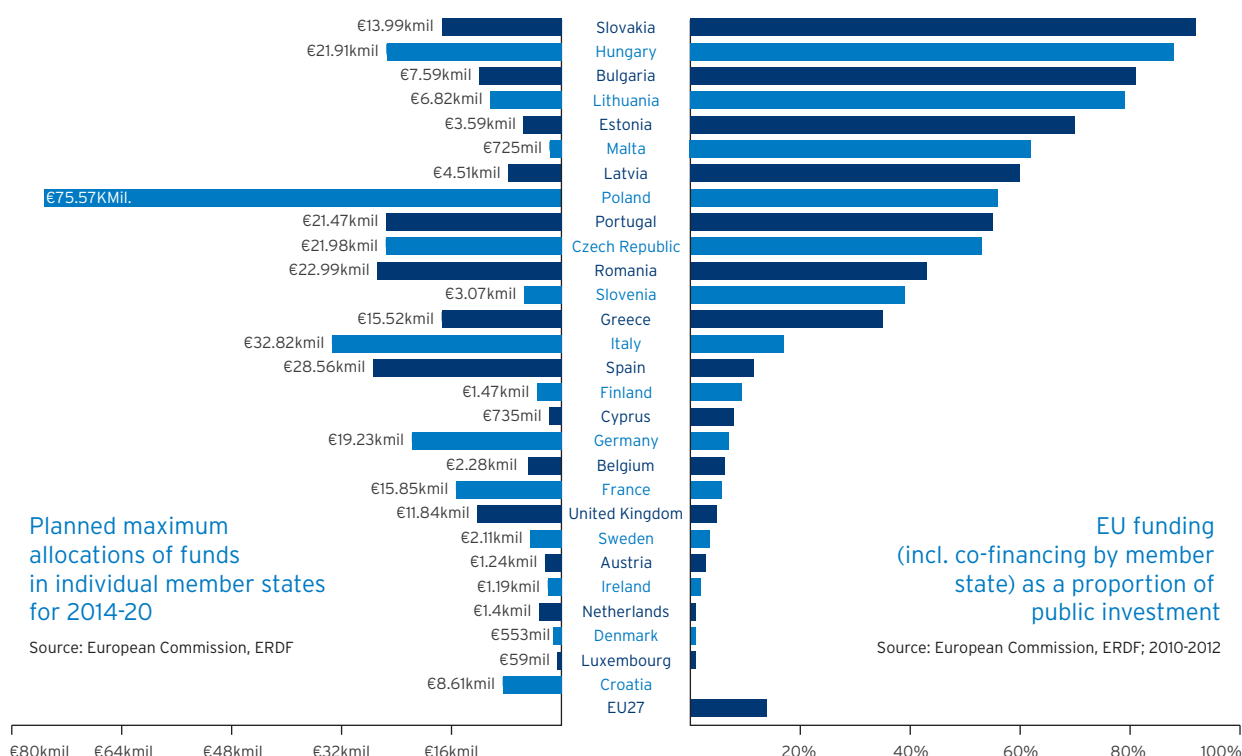
2019 and for street lighting to be replaced or adapted are good examples of the challenges and opportunities in this respect.

The planned maximum allocations of funds in individual member states for 2014-20 are as follows.

In the previous programming period, a total of 52% or EUR 182bn of the subsidies available from the various European funds was allocated to HYPO NOE's core and target markets; however, only about 50% of the earmarked funding has been used. Funding absorption rates are especially low in Bulgaria, the Czech Republic and Romania, where they range between 26.4% and 47.4%. Frequently the main reasons for the failure to take advantage of funds are insufficient institutional capacity, and a lack of options for obtaining co-financing required from the member state itself. Measures taken to combat low take-up rates in the new programming period include harmonisation of application requirements for all sources of European funding. The eligibility deadline for funding claims for the previous programming period has been extended until the end of 2015 in order to allow low absorption rates to be improved.

Variations in current situation in Danube region markets require tailored market development and positioning

Because of the variations in economic development and the current situation in countries in the Danube region - in terms of economic growth, industrial output, public and private debt, the economic sentiment indicator and the rule of law - differentiated internal approaches to market development and positioning need to be adopt-



ed. This includes the internally implemented investment strategy.

Positioning in Austria

Within Austria, HYPO NOE positions itself as the bank for Lower Austria and Vienna. This strategy continues to be well chosen in view of the fact that these states are among Austria's wealthiest in terms of per capita income and purchasing power. Furthermore, long-term population growth forecasts reveal the high market potential for the Group in these states in the years to come (2010-2050: Lower Austria +19.1%, Vienna +18.2%). The key drivers of population growth are likely to be good infrastructure and transport links, sufficient job opportunities and high quality of life. HYPO NOE will play an active part in enhancing and maintaining quality of life by financing public and quasi-public infrastructure and by continuing to advise retail and business customers.

Positioning in CEE

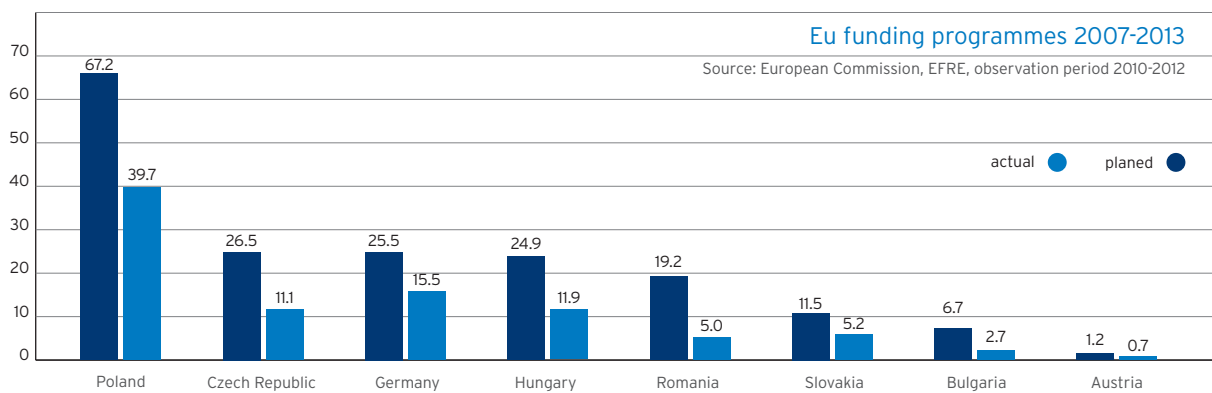
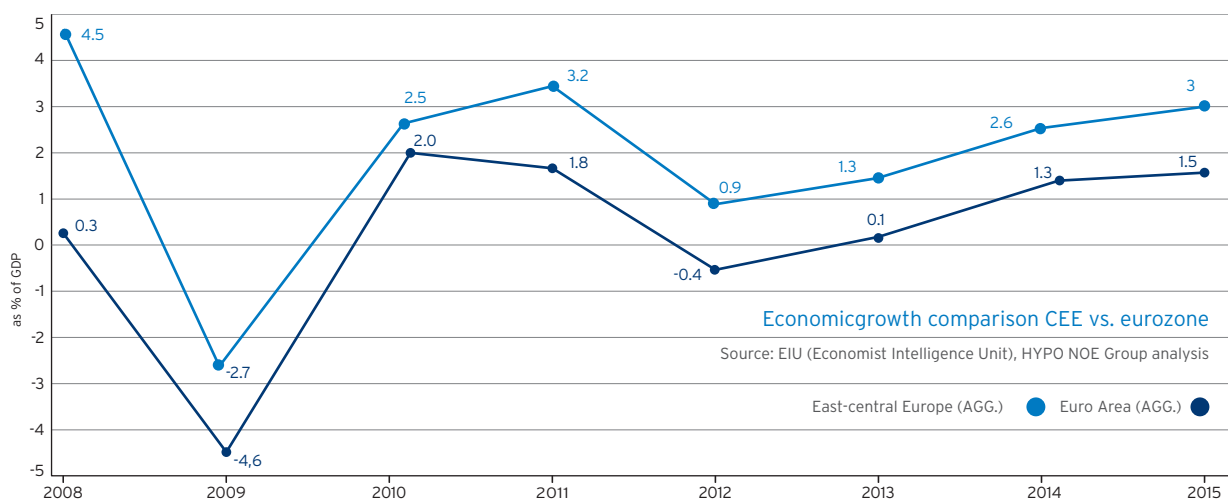
Due to their higher economic growth rates even in crisis and recession years (see chart below) and the fact that their regulatory environments have become more robust, we provide our full range of financial products in the Czech Republic, Poland and Slovakia as well as in our core Austrian and German markets.

As a result of the generally low level of public debt in the other focus countries (Bulgaria and Romania), the Group is concentrating on projects with public or quasi-public funding in these markets. Private-sector projects are assessed on a case-by-case basis.

Infrastructure development (water supply and sewerage, waste processing, transport and education) offers major growth opportunities in the CEE region. Investment in these areas is favoured by the many EU support programmes as well as the policies of the EIB and the EBRD.

HYPO NOE closely monitors current developments at national and European level - such as the design and stability of regulatory regimes and the operational im-

plementation of programmes in member states - in order to evaluate them and adjust the investment strategy accordingly.



HYPO INVEST CLUB

The HYPO Invest Club was started in 2009 as a regular networking event that gives participants the opportunity to explore topical issues with prominent experts. Most of the keynotes so far have addressed themes concerning the EU and European integration. In 2014, the regional focus shifted eastwards.

Conflict in Ukraine: geostrategic impact and effect on the financial markets

Dirk Müller – also known as “Mr. Dax” – gave a talk on the ongoing conflict in Ukraine and the roles of Europe and Russia. He emphasised the historic, peaceful purpose of the European project, and that despite its detractors the EU is embraced enthusiastically by the majority of Europeans, and its progress is observed closely by the rest of the world. As a result of the Orange Revolution, Ukraine attempted to forge closer ties with the EU – but this also contributed to rising tensions between the pro-western and pro-Russian camps. The outbreak of conflict in Ukraine was a hugely significant event for Europe. Nevertheless, Europe and Russia are strongly interdependent, as is clear from the large number of companies that do business in Russia. Müller stated that it is important that these economic ties are not cut completely, and all the more so since the EU is not yet firmly on the road to recovery. Despite low interest rates, lending has not bounced back as expected; due to stricter regulations, it is difficult for financial institutions to find borrowers with adequate creditworthiness.

The securities markets expert was critical of the price changes on the bond market. Most of the liquidity made available by the European Central Bank is currently invested in bonds. Should confidence in this market collapse again, the resulting crisis would have serious implications for the real economy. In contrast, Müller



saw developments on the stock market as healthy and stable, aside from a few “hyped shares”. Based on this he recommended that savers and investors focus on a diverse portfolio, and advised caution when it comes to investments in emerging markets.

In the ensuing discussion, Chairman of the Management Board Peter Harold commented on subdued lending, pointing out that the question of the safety of investments is the top priority for banks as well as for their customers. Following the principle of knowing your customers, and as a result having a realistic appreciation of the risk in each case, is of the utmost importance.

HYPO NOE WELCOMES EUROPEAN COVERED BOND EXPERTS

At the end of September 2014, the global covered bond community converged on Vienna as the European Covered Bond Council (ECBC) Covered Bond Congress met in the Austrian capital for the first time. The Congress has been held in a wide variety of locations on the continent in previous years. In a series of events with high-profile participants held from 23-25 September, issuers, investors, banks, regulators and rating agencies discussed the latest developments and the future prospects for banks issuing covered bonds.

On the evening before the Euromoney ECBC Covered Bond Congress 2014 - which attracted the highest number of attendees in the conference's history - HYPO NOE welcomed delegates from the ECBC's member institutions to Vienna, taking an opportunity to further develop dialogue with key decision-makers and to raise the Group's profile among a broader international audience. Under the slogan "Safe Travels - Safe Investments", after the end of the ECBC Plenary meeting all of the guests made the journey from the Belvedere across Schwarzenbergplatz and along the Ringstrasse to the evening reception, at the Säulenhalle in the Volksgarten park, in four HYPO NOE-branded vintage trams. The route took in numerous sights, and tourist guides on the trams shared interesting and entertaining anecdotes from Vienna's history, which included some unexpected links with the HYPO NOE Group.

The HYPO NOE-sponsored tram journey was an original and creative alternative means of transport for all delegates to the evening reception and ensured that the Group had a strong brand presence. It also introduced a diverse international audience to the suitability of environmentally friendly trams as an alternative to buses when it comes to local transportation in connection with



HYPO NOE Gruppe Bank is the fourth-largest issuer of covered bonds in Austria. Traditionally a leading issuer of public sector covered bonds - a secure investment in finance for infrastructure projects carried out by municipalities and federal states - the Bank issued its first mortgage-backed covered bond in 2014. This was the first in a series of issues that will be covered by a mortgage pool based almost exclusively on Austrian real estate.

major events. This meant that guests were aware of the emphasis on sustainability at the event, and gave them a first-hand impression of HYPO NOE's commitment to corporate social responsibility.





"HYPO NOE Gruppe Bank specialises in providing finance to the public sector and related organisations, as well as financing infrastructure projects, with a focus on eastern Austria, especially Lower Austria and Vienna. Together with our subsidiaries HYPO NOE Leasing, HYPO NOE Real Consult and HYPO NOE First Facility, we have built up comprehensive expertise that enables us to offer our customers long-term, end-to-end solutions for public construction projects. At a time when public sector budgets are being squeezed, we work with our customers to create solutions that give them room to manoeuvre, while fulfilling their responsibility to supply infrastructure and keeping finance costs low. HYPO NOE Gruppe Bank's size and flat structure allow us to offer streamlined decision-making processes and to ensure efficient internal workflows at all stages of a transaction, in Austria as well as in our target markets in the Danube region."

Wolfgang Viehauser, Deputy Board Member

THE HYPO NOE GROUP'S CONTRIBUTION TO LOWER AUSTRIA, VIENNA AND THE DANUBE REGION

REFERENCE PROJECT: MISTELBACH- GÄNSERNDORF STATE HOSPITAL

HYPO NOE Gruppe Bank was very proud to receive the contract for this project in 2009 following a Europe-wide tendering procedure. A consortium made up of HYPO NOE Leasing and health care company VAMED won the bid, to become general contractor for structural alterations and an extension to Mistelbach-Gänserndorf State Hospital, with HYPO NOE Leasing as the lead partner, responsible for financing as well as legal and taxation matters. VAMED assumed responsibility for planning and construction, as well as project management, conforming to the conditions of the tender.

The aims of the project were to erect a new hospital building and, following its completion, to refurbish and adapt the existing buildings and facilities. The total investment cost will be around EUR 210m. After successful completion of the first phase of the project, the new building was handed over to the client on budget and on schedule in October 2014. Refurbishing and alteration works are expected to be finished in August 2018.

The hospital facilities will enhance health provision in Lower Austria, expanding high quality medical care in the state - the new building conforms to the highest standards set by Lower Austrian state hospital holding company Niederösterreichische Landeskliniken Holding. The numbers show the impact that the state hospital will have on care provision in the region: once it opens, the complex will offer 532 beds and employ 1,521 members of staff. As part of the healthcare plan for the whole of Lower Austria, Mistelbach-Gänserndorf State Hospital is operated as a specialist hos-



pital. Operating theatres in the new building are attached to dedicated intensive care stations and a family centre, which together form the core facility at the new building.

Together with our project partner, HYPO NOE Gruppe Bank took great care to involve users in all stages of the project and to optimise and refine the functional design in consultation with all stakeholders. This meant that the extensive construction activity at the site was carried out without impeding the ongoing operation of the current hospital. The hospital will likewise be able to continue to function without disturbance during the alteration works.

Extensive network of representative offices in the Danube region

Pursuing its specially developed Danube region strategy, in 2014 HYPO NOE Gruppe Bank strengthened its position in its extended core market – encompassing Germany, Poland, the Czech Republic, Slovakia, Hungary, Bulgaria and Romania – and expanded the network of permanent local offices that provide customers with premium support. Staff based at these offices are familiar with the local market and are able to offer our extensive range of products, from public finance services to real estate financing and advice, directly to customers.

The aim of HYPO NOE's Danube region strategy is to support sustainable development in these countries and to provide finance to projects on a selective basis. Protecting the environment, building prosperity, boosting institutional capacity and connecting the Danube region to the rest of Europe are the priorities that the strategy is intended to promote.

DANUBE REGION - REFERENCE PROJECT IN ROMANIA: SUPPORTING THE LOCAL ECONOMY AND CREATING JOBS

HYPO NOE established a representative office in Bucharest in 2014, demonstrating the importance of Romania as part of the Danube region. A project in Oradea, supported by HYPO NOE Gruppe Bank as co-financier, has made a significant contribution to the city's economy. The main project received EU funding and was financed by a long-term loan provided by HYPO NOE Gruppe Bank to the City of Oradea, fulfilling the co-financing requirement. A loan agreement was signed in February 2011, providing finance for extensive infrastructure works – the road network, water supply



and sewerage, and electricity, gas and district heating connections – for the city's industrial park. Opened in 2009, the complex now covers 150 hectares and over 80% of the facilities are rented to newly established companies and new investors. After conclusion of the tendering procedure for the construction contract in autumn 2011, work began in spring 2012 and was for the most part completed by spring 2014.

The project has been a driver of economic growth in the area over the last few years, and especially in Oradea itself. Increased income tax receipts – the city's most important source of revenue – are a direct result of a rise in employment and average income brought about by this project. The second phase of infrastructure expansion at the industrial park commenced in 2013. To date the park has created 5,000 new jobs.

DANUBE REGION - REFERENCE PROJECT IN BULGARIA: SUPPORTING CULTURE AND SPORT

In the birthplace of writer Elias Canetti, one of the most important social and cultural centres on the Danube will be built in the next few years thanks to co-financing from HYPO NOE Gruppe Bank. Situated between Bucharest, Sofia and Varna, making it easily accessible, the Arena Ruse cultural and sports venue will have a significant impact on cultural life in the region and in the city of Ruse itself – also known as “Little Vienna” due to its well-preserved architecture and its location on the Danube.

In a joint endeavour between the City of Ruse, the local operator and HYPO NOE Gruppe Bank, the opening of the new events centre will also provide a boost to tourism in the area – making it a perfect fit with the strategic aims of HYPO NOE to promote economic development in the Danube region. Once it is completed, Arena Ruse will have more than 5,500 seats, a number of VIP lounges, a restaurant, several bars and separate conference facilities. It is set to play a central role in the Bulgarian and Romanian cultural fabric and the events scene.

The project will have a direct social and economic impact on Ruse itself, and the city is supporting the venue development with a wide range of measures including construction of a multi-storey car park and integrating Arena Ruse into the public events calendar. A large number of events will be staged at the new centre, providing economic stimulus that should have a tangible effect on quality of life, and on the attractiveness of a region that is structurally underdeveloped.



In line with EU regional policy, financing the project meets EU aims to support poorer regions. The creation of local jobs and essential infrastructure as well as the use of sustainable building techniques all demonstrate the European solidarity which the EU and HYPO NOE, in its Danube region strategy, are committed to fostering.

**DANUBE REGION
- REFERENCE
PROJECT IN THE
CZECH REPUBLIC:
SUPPORTING LOW
CO₂ ENERGY**

In March 2014, HYPO NOE Gruppe Bank agreed to provide co-financing of EUR 100m for the Moravia Gas Storage project together with a major European bank and a local bank. The project finance loan has a term of twelve years, and will support the construction and long-term operation of natural gas storage facilities in Dambořice, Czech Republic. Gruppe Bank has taken on the role of mandated lead arranger. Intensive preparatory work undertaken in collaboration with a local investment company, which has a 50% stake in the project, laid the ground for the required finance to be arranged.

The primary purpose of the project is the conversion of an exhausted oil field into an underground gas storage site. The project company is also the owner of the oil field, and has an established reputation based on its operation of similar storage facilities in the area. This helped to bring on board an international energy company that is the leading importer of natural gas to the Czech Republic and to most countries in Europe.

To achieve increased flexibility for satisfying gas demand, it is important that new storage facilities are located close to consumers. From this perspective the project has a significant part to play in the stability of the energy supply in the region, which primarily comprises Austria, the Czech Republic, Germany and Slovakia.

The scheme is also important in environmental terms, because improved gas supplies allow significant reductions to be made in the use of brown coal to generate electricity and heat, thereby also reducing emissions of CO₂ and other pollutants. Demand for natural gas is also growing as a result of declining domestic coal supplies.



**DANUBE REGION
- REFERENCE
PROJECT IN
HUNGARY:
CONSTRUCTION
OF THE FIRST
ENVIRONMENTALLY
FRIENDLY
SHOPPING CENTRE
IN HUNGARY**

Finance provided by HYPO NOE Gruppe Bank is supporting the construction and sustainable operation of the Hegyvidék Centre, a new, exclusive shopping mall in Budapest's well-to-do 12th district. Gruppe Bank has an established long-term relationship with the owners of the development, Wing Group, one of the most highly regarded private property developers in Hungary. The shopping centre has total rentable space of 6,614m² spread across six floors, comprising 5,017m² of retail units and 1,597m² of office space. It includes 198 parking spaces over two levels. It is located on Apor Vilmos tér, a well-connected infrastructure and transport hub, and offers a broad palette of services to the 60,000 inhabitants of the 12th district, its immediate catchment area.

Hegyvidék Centre is the first project of its kind in Hungary to be designed and built to be environmentally sustainable, and has received a rating of Very Good in accordance with the strict, internationally recognised BREEAM assessment scheme. Thanks to the energy-saving solutions employed, the centre can be operated at the highest levels of energy efficiency for years to come. The financing project extends over a term of 6.5 years.



EVENT APPEARANCES

R20 CLIMATE CONFERENCE

"Banks can play a decisive role when it comes to negotiating obstacles in regional support programmes," explains Wolfgang Viehauser, Deputy Chairman of the HYPO NOE Management Board. "Banks help to make complex decision-making processes more objective, not only when it comes to preparing financial solutions, but also in terms of sharing expertise for the implementation of regional projects."

The Energiewende or energy transition - which is intended to promote increased use of renewables with a focus on energy efficiency - is one of Europe's top priorities for the future. It is already a fact of life in many municipalities and regions, and HYPO NOE has made a strategic commitment to support this process.

Encouraged by the success of local climate protection initiatives, the former Governor of California, Arnold Schwarzenegger, decided several years ago to focus more strongly on regional partnerships. The idea for R20 was born. R20 is now a successful non-profit organisation which is involved in promoting low-carbon, climate-neutral economic development in regions around the world. Together with the Federal Ministry of Agriculture and Forestry, Environment and Water Management, the Bank organised a conference in Vienna supported by the Climate and Energy Fund. Examples of best practice from selected regions were used to highlight a variety of initiatives and approaches, and to promote knowledge transfer and networking between the different stakeholders. This year's conference was attended by delegates from Austrian regions, the worlds of business, industry, politics and science, as well as representatives of NGOs, organisations and initiatives focusing on sustainability, energy and climate protection. HYPO NOE was represented by renewable energy expert Dagmar Böhm, who explained the concept and requirements of project finance in her speech. "A strong commitment by

the project proponents is the key to success. In our experience, the expectation of returns is not enough on its own. For the project to succeed, it is important that all those involved are dedicated to bringing it to a successful conclusion. And in regional projects implemented with regional partners, identifying such dedication is usually straightforward."

Regional energy autonomy is set to increase in future as a result of the addition of renewable generating capacity and the widespread adoption of energy-efficiency and energy-saving measures. This will have effects on energy supply, as well as on regional economies in the form of green jobs created in environmental technology sector. It will also encourage people to remain in the region. Regional value chains and training concepts have emerged as examples of best practice, and their impact is strengthened by cooperation between regions. This





shift will in turn prompt moves towards decentralised energy systems.

HYPO NOE presents the future of housing

In order to highlight future requirements for residential properties and potential solutions, HYPO NOE and the Austrian Interdisciplinary Platform on Ageing (ÖPIA) presented a study entitled “Wohnbau für eine alternde Gesellschaft” (Residential Construction for an Ageing Society) at an event held at the Group’s headquarters on 18 November. The study was compiled by Prof. Helmut Kramer, former director of the Austrian Institute of Economic Research (WIFO). Housing-related finance and consulting have long been among the core competencies of HYPO NOE Landesbank, as reflected in the Bank’s name, which has its roots in the German word for mortgage, Hypothek.

“Our aim is not just to finance residential construction projects for private individuals or housing associations; we also want to play a major part in ensuring that these properties meet the latest energy-efficiency standards, making them suitable for the elderly. Forward-looking, sustainable and close to the customer – those are the standards we set ourselves,” said Christian Führer, member of the HYPO NOE Landesbank Management Board, referring to the Bank’s commitment to addressing this topic in the interests of its customers.

In his opening address, Management Board Chairman Peter Harold spoke about the Bank’s long-standing expertise in housing construction, and the groundbreaking planning and design of the HYPO NOE headquarters – which hosted the event – in terms of energy efficiency and barrier-free access.

The study has produced numerous new insights into the future of housing, including for Lower Austria, in particular the challenges related to:

- ▣ the effects of an ageing population
- ▣ sharper population growth, especially as a result of migration to urban centres
- ▣ stagnation in population growth and the economies of peripheral regions
- ▣ old housing stock which is increasingly in need of renovation
- ▣ suitable housing for people of all ages, especially families, singles and the elderly

These demands come against the backdrop of a tepid global economy, meaning that state and municipal budgets are subject to strict criteria when it comes to subsidies for housing construction. Recent technological advances have opened up a host of new possibilities for assisted living, and the study points out that the Lower Austrian government's residential construction policy is supporting this trend. However, the authors also suggest that subsidies will have to be refocused on large-scale residential properties.

The study can be downloaded
from the HYPO NOE website at hyponoe.at.



A STRONG SENSE OF COMMITMENT: THE DRIVING FORCE BEHIND SPORTS, THE ARTS AND SOCIAL INITIATIVES

As the regional bank for Lower Austria, the HYPO NOE Group is committed to extending its long tradition of supporting local communities. The Bank's sponsorship strategy focuses mainly on sports, cultural and social projects.

SPORTS SPONSORSHIP

HYPO NOE has been one of the leading partners for sports sponsorship in Lower Austria for many years, with a strategy that concentrates primarily on team ball sports. Supporting talented youngsters is also part of the Bank's long-term focus. HYPO NOE's corporate values – stability, trust and sustainability – are key considerations when making decisions on current and future sponsorship commitments. Brand values such as enthusiasm, dedication, team spirit and continuity are especially important when it comes to sports sponsorship, a point which is underlined by our support for clubs, athletes and brand ambassadors. We aim to achieve an effective, solid mix of local partnerships, predominantly in Lower Austria and Vienna.

The HYPO NOE sporting family – success, energy and emotion

HYPO NOE implemented its integrated sports sponsorship strategy in 2013. The focus is on supporting top-class sports in Lower Austria.

Besides our commitments to the arts, culture and social initiatives, sport is an important factor in terms of strengthening our regional roots, projecting the brand and supporting new talents and top performers.

Sport sets pulses racing and brings people together. And HYPO NOE is dedicated to taking up the position of a strong partner for sporting events. By presenting the Bank's sporting family as a strong team, we underline

the significance that we attach to sport and sporting achievement. The Group is a partner of a number of top clubs, including the HYPO NÖ women's handball team, SKN St. Pölten men's football club, Moser Medical UHK Krems in men's handball and the VCA Amstetten men's volleyball team, and also supports athletes such as snowboard cross rider Maria Ramberger from Klosterneuburg and up-and-coming tennis star Lucas Miedler from Tulln. The Group's sports sponsorship strategy forms the basis of this support, and all of our partner clubs, athletes and budding talents are brought together under the HYPO NOE Sportfamilie (sporting family) brand.

Club sponsorship – highlights

The HYPO NÖ women's handball team and SKN St. Pölten are the best-known members of the HYPO NOE sporting family.

CULTURAL SPONSORSHIP

Culture is another core focus of the Bank's sponsorship strategy. HYPO NOE's extensive, long-standing commitment to culture and the arts helps to ensure a wide-ranging and diverse programme of events. We live up to our social responsibilities as the bank for the state of Lower Austria by means of numerous partnerships with local cultural associations and organisations, and by supporting a range of stimulating regional arts and



HYPO NÖ, “the world’s most successful women’s handball club”: European Cup Winners’ Cup champion, eight-time Champions League winner and 38-time Austrian champion. The HYPO NÖ women’s handball team takes its name from the Bank, which has been the club’s main sponsor for several decades. In June 2014 the club adopted a new long-term strategy that focuses on developing talented Austrian youngsters. The inexperienced team stole the limelight in the group stages of the Champions League, chalking up a number of successes. HYPO NÖ’s outstanding work in developing players for the future was highlighted in the 2013/2014 season with five national women’s championships at under-12, under-14, under-15, under-18 and under-19 level.

SKN St. Pölten: the Group has been the main sponsor of first division football club SKN St. Pölten since 2012. To mark the new partnership the Bank gave its name to the HYPO NOE Lounge, a VIP area at the club’s home ground, the NV Arena, which opened in 2012. In sporting terms, 2014 was the most successful year in the club’s history. By reaching the Austrian Cup final, SKN St Pölten made it to the qualifying round of the UEFA Europa League. Against all the odds, the club became the first-ever second division team to reach the third round, with victory over Botev Plovdiv of Bulgaria. The third round game against PSV Eindhoven drew a crowd of 8,000 - the first sell-out match at the NV Arena since it opened. This resulted in a significant increase in awareness of the HYPO NOE brand and its visibility outside our home region.



culture events. The Group is the main sponsor of various highlights in the Lower Austrian cultural calendar, including:

- ▣ **Niederösterreichische Kulturwirtschaft (NÖKU):** coordinating office for cultural events in Lower Austria
- ▣ **Kultursommer Laxenburg:** annual theatre festival held at the Schlosspark in Laxenburg.
- ▣ **Die Garten Tulln:** with its strict organic cultivation techniques, this collection of 150 show and model gardens sets the standard for the rest of Europe.

SUPPORTING BUDDING ARTISTS - HYPO NOE YOUNG ART COLLECTION

The HYPO NOE Young Art Collection is an initiative designed to promote the work of young artists, as well as the arts scene in the Danube region. This platform paves the way for young artists to gain a foothold in the art world and present their works to a wide audience in the course of regular private viewings. Selected artists receive backing from a committee of artistic advisers. In

2014 two exhibition openings and an auction took place in the HYPO Panorama event room at the Group's headquarters in St. Pölten.

Artworks by Tina Lechner went on display as part of the HYPO NOE Young Art Collection in spring 2014. The young photo artist's work was spotted at the exhibition and she was signed up by the Hubert Winter gallery in Vienna. Since then Ms Lechner has appeared at the Vienna Fair and has sold 13 pieces of art to the Albertina museum in the Austrian capital. The second private viewing in October 2014 showcased the work of young painter Alex Kiessling.

SOCIAL INITIATIVES IN LOWER AUSTRIA

The HYPO NOE Group makes donations and gives support to selected regional social, cultural, religious, educational, environmental and sports projects. We take steps to ensure that these projects have a long-term impact on the region and are aligned with the Bank's

values and objectives. Donations are usually made to organisations such as charities, as well as to foundations or to specific projects run by other institutions or companies. Although our focus is primarily on Lower Austria and Vienna, we sometimes support international projects and organisations that have special links to our two core regions or to HYPO NOE itself, or if there is a special reason for doing so.

Lichtblickhof, Lower Austria

The charity e.motion provides unique support for seriously ill and traumatised children and their families at its Lichtblickhof facility. Specially trained horses are

used in equine-assisted therapy programmes that help children to recover from illness and come to terms with adversity.

HYPO NOE has supported the charity since 2013, including in the form of donations from the Group's employee IT flea market. The Bank is also contributing to refurbishments designed to make the Lichtblickhof facility barrier-free. In 2014, we decided not to give Christmas presents and instead donated the money saved to the charity. This represented a step forward in our partnership with e.motion.





GROUP OPERATIONAL AND FINANCIAL REVIEW **2014**

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ECONOMIC CLIMATE

Global economic and financial market developments

The figures for global and eurozone economic performance in 2014 made sombre reading after the upbeat growth forecasts at the start of the year. Some of the factors behind this could neither have been predicted nor prevented: examples included bad weather in the USA, and the Ukraine crisis in Europe, which caused tensions with Russia.

These external shocks were not the only reason for the hesitant recovery; the failure of many countries to reform their economies also played a major part. With few exceptions, neither the emerging market countries nor the EU itself and its member states implemented political initiatives to combat structural problems and accelerate growth. By contrast – or precisely because of these failings – the monetary policies of the main central banks remained highly expansionary. The US Federal Reserve phased out its quantitative easing (bond buying) programme in October, after two years, but the stances of the Bank of Japan and the European Central Bank (ECB) became increasingly accommodative in the course of the year. At the end of October the Japanese central bank expanded its asset purchase programme from JPY 60-70bn to JPY 80bn.

Despite the aforementioned weather-related downturn at the start of the year, the growth trend in the USA turned out to be one of the few bright spots in the global economy. Personal consumption was again one of the main props of demand, recording a 2.4% growth rate. Consumption was supported by a steady improvement in the labour market and by positive wealth effects. Unemployment slid from 6.6% at the start of the year to 5.7% at the end. Business investment, up by 5% over the year as a whole, was again a mainstay of growth.

The economic performance of the euro area was disappointing in virtually every respect. According to preliminary statistics GDP grew by only 0.8%. Every sec-

tor made a positive growth contribution. For example, personal consumption ticked up by a modest 0.9% after two years of contraction. Public expenditure and business investment expanded at roughly the same rate, and only the external balance posted somewhat more vigorous growth, at 4.5%. The growth trends in individual member states were again highly disparate. There is no missing the fact that marked recoveries are under way in most of the countries caught up in the sovereign debt crisis. Past reforms are now propelling Ireland and Spain to relatively robust economic growth. The countries that have done little or nothing in the way of reform now have the feeblest growth performance; they include two large member states, France and Italy. Even Germany, until recently regarded as the eurozone's growth locomotive, ran into trouble during the year under review. Given plunging commodity and energy prices, and resultant low inflation, along with the central banks' very loose monetary policies, a stronger showing from the euro area might have been expected. Political developments – notably the escalating Ukraine crisis and the subsequent imposition of sanctions on Russia – were a drag on growth. Besides causing a massive decline in demand from Russia, this crisis dented business confidence. Another hindrance to growth was the decline in lending in the euro area. This was due both to the relatively weak demand for credit and to the banks' caution. Balance sheets are still being run down in parts of the European banking sector. Moreover, the banks' lending capacity has been significantly impaired by regulatory restrictions.

The constant falls in commodity and energy prices led to a marked slowdown in consumer price inflation in the course of the year. In particular, plummeting oil prices were instrumental in cutting the eurozone inflation rate to close to zero by the end of 2014. The European Central Bank took appropriate action, but was unable to

counter the steep drop in financial markets' inflation expectations, which were closely correlated with tumbling crude prices. In June, for the first time in its history the ECB decided to introduce negative interest rates. It was the only large central bank to do so. It set the deposit rate at -0.10%, taking it down by another notch to -0.20% in September. At this point the ECB also opted to launch a quantitative easing (QE) programme, which in

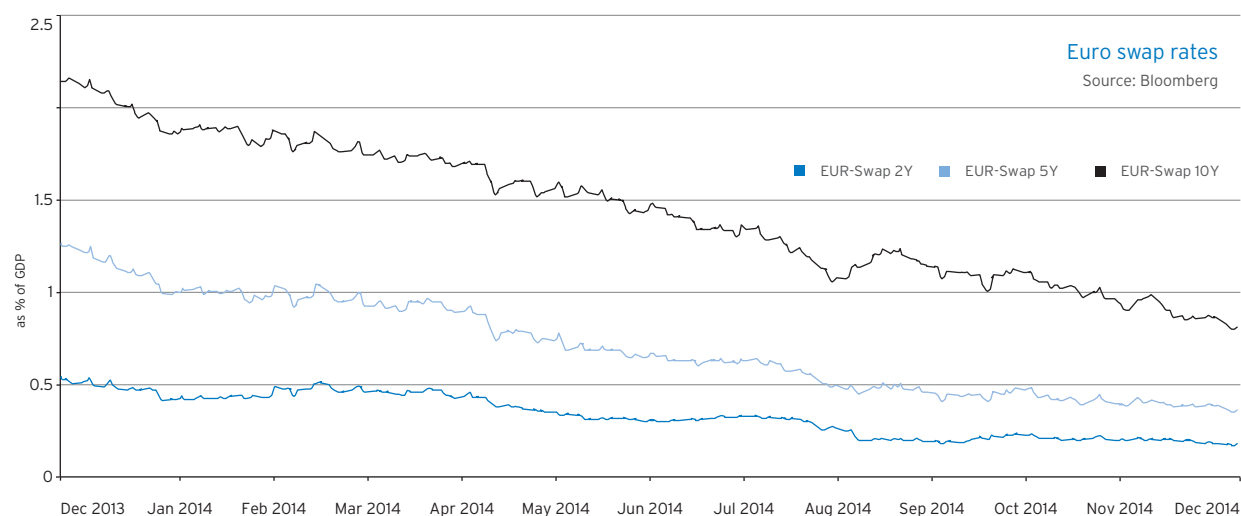
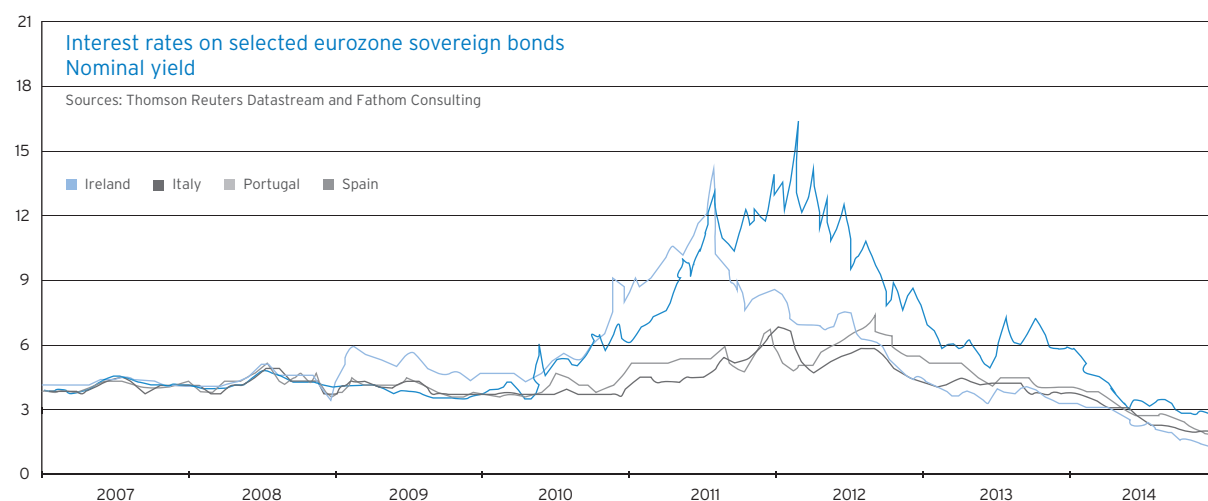
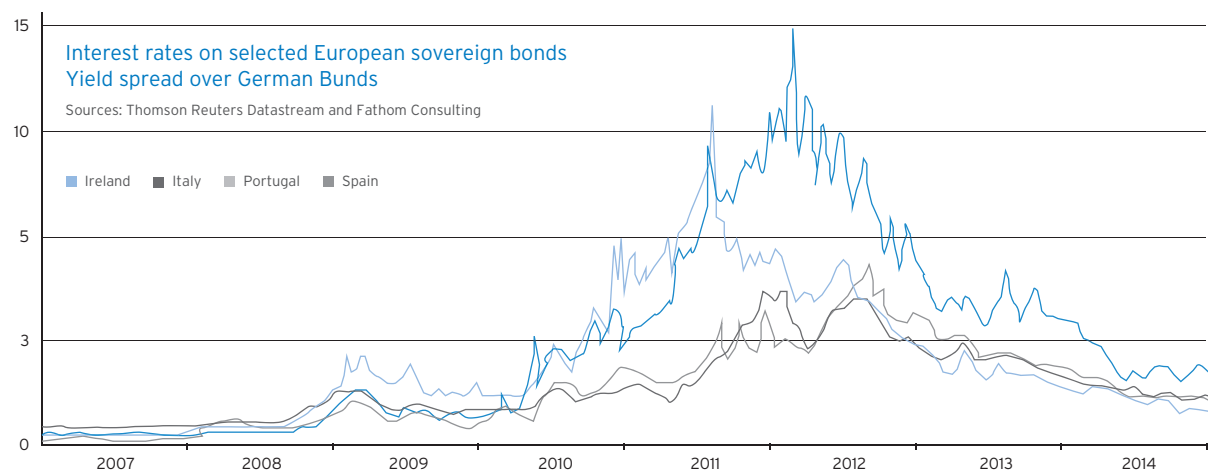
this case involves covered bonds (bank bonds backed by cover pools, mostly Pfandbriefe) and other asset-backed securities (ABS). By the end of the reporting period the capital markets were expecting the asset purchasing programme to be extended to euro-denominated government bonds, and this had already been priced in, at least in part.

European bond market

The interest rate forecasts at the start of 2014 signalled increased yields in virtually all maturity segments. In fact, however, the bond market was once more a major source of profits, for the sixth year in a row. Fundamentals, such as slow growth and low inflation, were only part of the explanation. The ECB's highly expansionary monetary policies also played a significant part in the positive performance. Negative interest rates on deposits, the cut in the policy rate to 0.05% and other measures designed to increase liquidity set the scene for high price volatility. Speculation over the prospects for the launch of a full-blown QE programme by the ECB and the future regulatory framework for the financial sector fuelled increased demand for fixed-income securities. This applied to German Bunds although they are the most expensive bonds in the euro area. Peripheral eurozone bonds fared still better, and their yields fell to new lows, while the yield spreads over German Bunds narrowed sharply. The prices on Spanish government

bonds in the longer maturity segment also rose, as did those on Italian bonds. Greek government bonds were the sole exception from this positive performance trend. For a long time they, too, gained from the fall in yields, but they suffered a severe setback as a result of the political upheavals towards the end of the year.

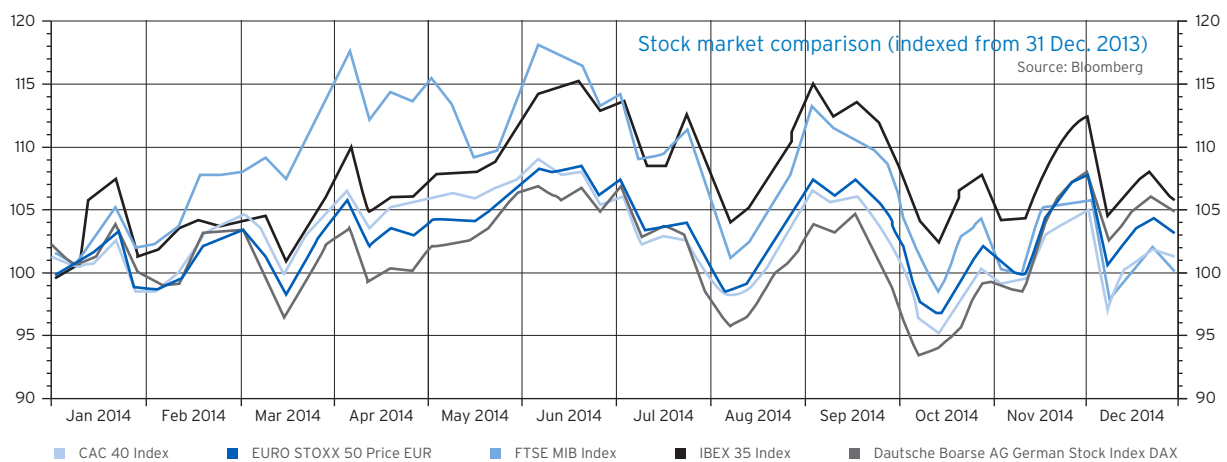
Besides the European government bond market, the other market segments also gained from the overall downturn in yields. Corporate bonds, unsecured and secured bank bonds, and ABS all put in a strong showing. Higher-risk investments are coming back into fashion. The fly in the ointment is the fact that this trend has been artificially pumped up by monetary policy, and is only partly underpinned by fundamentals. It is unlikely to change much as long as loose monetary policies persist, although the price rises are unlikely to be as pronounced as in the past few years with interest rates already at rock-bottom levels.



European equity markets

As with the bond market, investors in equities are in search of returns. Because they are prepared to accept more risk to attain this goal most of the European stock markets ended the year in the black. However, their performance in 2014 did not live up to the previous few years, and most of the indices posted percentage gains on the year in low single figures. There were also

some negative outliers, including the Greek and Hungarian markets. Slow economic growth and political risks - especially those associated with the Ukraine conflict - weighed on sentiment. Sliding commodity prices also had a negative impact on some indices, particularly where companies in this sector had high weightings.



Economic trends in the HYPO NOE Group's core markets

AUSTRIA

The WIFO (Austrian Institute of Economic Research) and the Institute for Advanced Studies (IHS) have revised their growth forecasts for 2014 down from 1.7% to 0.4% (eurozone: 0.8%; EU-28: 1.3%). Economic activity in Austria lost momentum rapidly in the second and third quarter of 2014. This was due to the worsening political tensions around the world and their implications for the Austrian economy (especially with regard to demand). The stimulus from increased gross fixed capital formation is expected to come in far below the level projected at the start of the year. Public and private consumption were both weak and made only very modest contributions to growth.

If the recovery in the euro area gains traction as expected and world trade picks up, this will create growth opportunities for the Austrian economy. Austrian companies could benefit from:

- low energy costs (partly because of the oil price collapse)
- companies' predominantly low gearing
- solid margins, and
- very low borrowing costs.

These factors could have favourable implications for investment.

Whether the growth of the Austrian economy accelerates in the course of 2015 will depend on the international environment as a whole and the political climate in particular, as well as reform efforts at home, including tax reform. The slowdown in growth, and the recalculation of government debt according to the European System of Accounts (primarily the inclusion of implicit and other off-balance-sheet liabilities) and consequent increase from 74.5% to 87% of GDP significantly limit the leeway for politicians to introduce stimulus packages.

The rise in unemployment to 8.4% from 7.6% in 2013 has also increased the pressure on the public finances. In 2014 the Austrian Institute of Economic Research was predicting a further increase to 9.3% by 2016.

FEDERAL STATES

The troubled economic situation naturally also affected the Austrian federal states, and their growth performance ranged from 0.2% to 1.8%. Economic growth was 0.3% in both Lower Austria and Vienna. Due to strong export demand, the more industrial states – Styria, Upper Austria and Vorarlberg – had higher growth rates. A welcome development is the trend towards debt reduction by the Austrian state governments, with aggregate debt including guarantees down by almost 14% since 2010. Lower Austria, Salzburg, Tyrol and Vorarlberg stood out for their rapid rundown of debt in 2013; in the case of the former two this reflected unscheduled repayments. In line with the marked decline in issues guaranteed by state government mortgage banks, the total resultant liabilities have decreased by 23% since 2010, to stand at EUR 59.6bn or 19.4% of GDP.

Despite their current economic woes, Lower Austria and Vienna – the HYPO NOE Group's core markets – are the Austrian federal states with the highest forecast population growth up to 2050, and still boast the highest median gross income among employed persons. Lower Austria moved up into first place in terms of purchasing power per inhabitant, followed by Salzburg and Vienna. Purchasing power in these three states for the first time exceeded EUR 20,000 per inhabitant. Lower Austria and Vienna were again the states with the highest shares of federal GDP, at 16% and 26% respectively.

DANUBE REGION

The countries of the HYPO NOE Group's extended core market can again point to growth rates above the EU average in 2014. Growth speeded up significantly in all of these countries apart from Romania. In 2014 Poland recorded the fastest growth in the region at 3.5%, ahead of Hungary at 3%. These countries overtook the previous year's leader, Romania, which also posted a very strong growth performance at 2.8%. In 2014 the Czech economy emerged from recession to grow by a solid

2.4% - the average for the region. Bulgaria's growth performance was slightly below average, but represented a marked improvement.

Personal consumption and capital investment are the main growth drivers in the region, while the positive trade balance is likely to be a less significant contributor than in 2014.

Consumer confidence is rallying throughout the region, with public spending set to grow by between 0.4% and 2.4% in 2015. An exception is Bulgaria, where public expenditure is predicted to decline slightly. It is extremely difficult to make accurate forecasts because of the extension of the drawdown period for the 2007-2013 EU support programmes until 2015, as there tends to be a "final spurt" towards higher national co-financing contributions in these countries and hence higher public spending. The 2014-2020 regional development pro-

gramme for the Danube region (including the Czech Republic and Poland) amounts to around 12% of total regional GDP in 2013, or EUR 167bn. All the countries of the region were net recipients of EU funding. The EU support programmes account for the lion's share of public investment in the Danube region, making up between 40% and 90% of national spending.

Unemployment in the region ranges from 7% in Romania to 12.7% in Slovakia. At present, unemployment is seen decreasing slightly over the next few years.

All the countries of the region have met the Maastricht criteria for budget deficits and government debt, except Hungary, which has missed the latter target, and Bulgaria. The latter is running a budget deficit of 3.7% of GDP, mainly as a result of financial market stabilisation measures. This is a one-time effect, and Bulgaria still has one of the lowest gross debt ratios in the EU-28.

Banking sector trends in the euro area and CEE

The sixth year of the financial crisis once more confronted the European banking sector with challenging economic conditions and unremitting regulatory pressures. Low interest rates were again the dominant issue in 2014, and stronger profitability continued to elude many European banks, meaning that the viability of some traditional business models still faced severe tests. Meanwhile, there was no let-up in the crisis of public confidence in the banking system, with billion-dollar fines handed down in connection with the Libor and foreign exchange trading scandals.

For eurozone banks 2014 was also a year of preparations for the Single Supervisory Mechanism (SSM). Banks' efforts to shrink their balance sheets and increase their core equity capital were already a feature of 2013. For 128 major banks in 18 euro area countries, the big event of 2014 was the asset quality review (AQR) by the European Central Bank, prior to the latter's assumption of its supervisory role. The results of the "stress test" brought no big surprises when they were published on 26 October 2014, but this exercise - which was extremely taxing for many banks - has unquestionably contributed to

increased market transparency. In spite of the AQR, in many countries the clean-up of banks' balance sheets will extend beyond 2014, and the widespread search for sustainable business models has some way to go. These tasks are not made any easier by the European Central Bank's continued commitment to expansionary monetary policies, and the fact that the ECB is resorting to increasingly unconventional methods in the belief that this is the only way to fulfil its mandate.

The Danube region's banking sector is already being affected by the fall-out from political crises, and especially the conflict between Russia and Ukraine. It is still dogged by comparatively high impairments. In Bulgaria, Hungary and Romania the non-performing loan (NPL) ratio is still above the 20% mark, with corporate borrowers the worst offenders. The Czech Republic, Poland and Slovakia had NPL ratios of 5-7% in 2014 (source: Vienna Institute for International Economic Studies, September 2014). In 2014 lending increased in Bulgaria, the Czech Republic, Poland and Slovakia, while in Hungary and Romania the volume of credit extended to the private non-financial sector continued to shrink.

All told, slow economic growth, the troubled political situation, low interest rates, and ever stricter regulatory and tax requirements (such as the Austrian “bank tax”) have massively impacted the profitability of the Austrian banking industry. This has also suffered from – in some cases hefty – impairments to Austrian banks (especially CEE subsidiaries in Hungary, Romania, Ukraine and elsewhere). The Austrian banking sector posted an aggregate consolidated interim loss after tax of EUR 0.6bn for the first half of 2014, compared to a profit of EUR 1.7bn for the like period in the previous year. The Austrian banking sector is currently witnessing major restructuring moves. Besides the ongoing privatisation of parts of Kommunalkredit AG, and the sale of Bankhaus Schelhammer & Schattera and the SEE network of the former Hypo Alpe Adria International, the future of the

Volksbank cooperative banking group continues to be a major talking point.

The Austrian Financial Market Authority (FMA) opened a new chapter in Austria’s financial history on 1 March 2015. After the Austrian federal government had declared its intention not to implement further capital and liquidity measures aimed at supporting the winding-up vehicle for the former Hypo Alpe Adria International AG, Heta Asset Resolution AG (HETA), the FMA issued a special notice imposing a temporary moratorium on debt repayments by HETA. The first-time application of the EU Bank Recovery and Resolution Directive (BRRD) by means of the Austrian *Bundesgesetz über die Sanierung und Abwicklung von Banken* (Federal Act on the Recovery and Resolution of Banks) has thrown up a number of new questions.

FINANCIAL REVIEW

Financial performance in 2014

EARNINGS (IFRS)

In 2014 earnings were mainly influenced by the rise in net interest income, the low cost of risk in the lending business and the sharp increase in the financial stability contribution ("bank tax"). The reduced net loss on hedges was almost fully offset by increased expenses reported under net gains or losses on other financial investments. Owing to the significant impairment losses on bonds issued by Heta Asset Resolution AG (HETA), recognised in light of the moratorium on debt repayments imposed by the FMA on 1 March 2015 (HETA is not permitted to repay any debts until 31 May 2016), the Group reported a loss for the year (attributable to owners of the parent) of EUR 31.3 million (m), compared with a profit of EUR 53.7m in 2013. The previous year's earnings included a one-off effect (amount of EUR 57.9m) resulting from the decision of the Administrative Court of Appeal to annul the notice issued by the Financial Market Authority in relation to the Augustus Funding Limited case, which in turn led to the repayment of the interest penalty imposed on the Group.

The Gruppe Bank and Landesbank segments reported losses due to the impairment of HETA bonds. As in previous years the Leasing segment recorded a profit before tax, while the Other segment posted a pre-tax loss.

Net interest income was EUR 12.0m up on the like period of 2013, at EUR 127.4m (2013: EUR 115.4m), owing to the persistently low level of interest rates. This solid performance more than compensated for the rise in interest expense, which was mainly attributable to continued improvements in the long-term refinancing base. The loss on investments accounted for using the equity method, which is also reported under net interest income, was primarily attributable to the negative

valuation of the non-profit EWU subgroup (Gruppe Bank segment).

Net losses on credit provisions increased slightly to EUR 6.7m in the period under review (2013: EUR 4.8 million) due to the reversals of credit provisions, which reflected effective workout management.

Net fee and commission income rose to EUR 14.0m (2013: EUR 13.3m).

As a result of the fair value measurement of derivatives used for economic hedges, the Bank made a net trading loss of EUR 1.8m (2013: net loss of EUR 0.9m).

General administrative expenses climbed by 9.1% year on year to EUR 127.1m. This was principally due to the significant increase in the statutory financial stability contribution for 2014, which amounted to EUR 12.9m (2013: EUR 6.3m) and is reported under other administrative expenses. Staff costs increased by 4.3% to EUR 70.3m. The 33.9% increase in depreciation, amortisation and impairment to EUR 7.9m chiefly reflected the impairment loss recognised on a plot of land.

The net loss on financial assets was EUR 64.9m (2013: net loss of EUR 0.4m) as a result of impairment losses recognised in relation to HETA bonds.

There were net losses of EUR 2.4m on hedges (2013: net loss of EUR 9.0m). OIS discounting, which is now the market standard for pricing collateralised OTC derivatives, played a significant part in the loss reported in 2013.

Net losses of EUR 1.9m on other financial investments (2013: net gain of EUR 4.5m) were largely the result of

impairment losses on a plot of land held as an investment property. The net gain recorded in 2013 was mainly accounted for by proceeds from the successfully negotiated redemption of Hungarian local authority bonds.

Net other operating expense/income was positive by EUR 23.7m (2013: EUR 73.2m). The previous year's earnings included the aforementioned one-off effect of the repayment of the interest penalty imposed on the Group in relation to the Augustus Funding Limited case.

These factors resulted in a loss for the period before tax of EUR 39.8m (2013: profit of EUR 75.0m).

These developments were mirrored in the following financial performance indicators.

ASSETS AND LIABILITIES (IFRS)

The Group's total assets grew by EUR 1.7bn or 12.1% as compared to year-end 2013, to reach EUR 15.9bn as at 31 December 2014, mainly due to increases in loans and advances to banks of EUR 0.2bn and in loans and ad-

vances to customers of EUR 0.6bn, a rise of EUR 0.3bn in the positive fair value of hedges, as well as gains of EUR 0.4bn on available-for-sale securities, which are reported as financial assets.

On the equity and liabilities side, deposits from banks rose by EUR 0.5bn and deposits from customers edged up by EUR 0.1bn. There was a net increase of EUR 0.4bn in debts evidenced by certificates due to the successful bond issue, and the negative fair value of hedges went up by EUR 0.5bn.

The rises in loans and advances to customers and in deposits from banks was also due to the inclusion of seven leasing companies in the scope of consolidation as at 30 June 2014; these companies had previously been accounted for using the equity method. The increases in the positive and negative fair value of hedges related to changes in the fair value measurement of hedging derivatives which qualify for hedge accounting. Investments in the own debt issues placed during the period under review was the main reason for the increase in available-for-sale financial assets.

		2014	2013	2012	2011
Return on equity before tax	Profit or loss before tax/ ave. equity	-7.10%	14.30%	6.50%	29.20%
Return on equity after tax	Profit or loss for the period/ave. equity	-5.50%	10.20%	4.90%	22.00%
Cost/income ratio	Operating expenses/ operating income	135.20%	59.30%	67.60%	40.40%
Risk/earnings ratio	Credit provisions/net interest income	5.3%	4.1%	15.6%	14.5%

*Intrayear indicators annualised on a per diem basis

CHANGES IN EQUITY (IFRS)

In spite of the loss for the period and the deduction of dividend payments made during 2014, IFRS consolidated equity including non-controlling interests was EUR 570.7m – up by EUR 16.3m on year-end 2013. The main reason was the rise in the available-for-sale reserve for remeasurement of financial assets to fair value.

CHANGES IN EQUITY (BASEL II/AUSTRIAN BANKING ACT AND CRR/CRD IV¹)

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

Consolidated eligible capital in accordance with the CRR was EUR 614.8m as at 31 December 2014, and surplus capital stood at EUR 283.6m, compared with a capital requirement of EUR 331.2m. On the basis of the total capital requirement, the core capital ratio stood at 12.3% and the equity ratio was 14.9% as at 31 December 2014.

Consolidated eligible capital as defined by the Austrian Banking Act (implementing Basel II) was EUR 692.3m as at 31 December 2013. Surplus capital at year-end 2013 was EUR 359.7m, compared with a capital requirement of EUR 332.7m. Calculated using the risk-weighted assessment base for credit risk, the core capital ratio and the equity ratio stood at 14.7% and 17.9% respectively.

On the basis of the total capital requirement in accordance with Basel II and the Austrian Banking Act, the core capital ratio stood at 13.7% and the equity ratio at 16.7% as at 31 December 2013.

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

OPERATIONAL REVIEW

Gruppe Bank segment

The HYPO NOE Group is a regional bank committed to promoting and underpinning the development of its home market of Lower Austria and Vienna, and of the Danube region. The Group is wholly owned by the state of Lower Austria, giving it a reliable and stable ownership structure. The parent company HYPO NOE Gruppe Bank AG concentrates on banking services aimed at the larger customer segments, and especially public sector clients – local authorities, regional governments and other territorial authorities. The Bank has a strong position in this market, and its long experience is a convincing argument in its favour. HYPO NOE Gruppe Bank is also a major player in corporate and real estate finance and in treasury services.

HYPO NOE Gruppe Bank operates in Austria – with a strong focus on Lower Austria and Vienna – as well as its extended core market, the Danube region. The latter encompasses Bulgaria, the Czech Republic, Germany, Hungary, Poland, Romania and Slovakia. So that we can provide all-round customer service, and to facilitate optimum risk assessment, we have opened representative offices in Bucharest, Budapest, Prague and Sofia.

Last year we maintained our strategic focus on publicly and semi-publicly owned clients. Rating agency Standard & Poor's (S&P) took an especially favourable view of the stability of our business model and the security conferred by the Bank's ownership, and as a result HYPO NOE Gruppe Bank boasts a top rating for an Austrian bank, at A/A-1 with a stable outlook.

Our first sustainability report appeared in 2014. This was drawn up in accordance with the international Global Reporting Initiative (GRI) G4 guidelines, and gives a picture of all HYPO NOE Gruppe Bank's corporate social responsibility (CSR) activities.

PUBLIC FINANCE

The Public Finance Department partners local and regional authorities, public agencies and infrastructure companies. In 2014 the department focused on growing its business in eastern Austria and with enterprises linked to the federal and state governments. In line with our Danube region strategy, the Bank offers finance solutions to governments and large cities in the region on a selective basis. The department's prime objectives are to develop sustainable, integrated finance solutions for customers, in cooperation with other parts of the Group, and increasingly to figure as a source of expertise and services – for example by structuring tenders.

Budgetary constraints, including those imposed by the stability pact, are having a noticeable impact on state governments and local authorities, and large investments are being deferred. This meant that the public finance provided in 2014 was mostly required for routine infrastructure investments in water supply and wastewater disposal, as well as the renovation of existing educational and administrative buildings.

Due to the budgetary situation facing state governments and local authorities, bespoke and public-private partnership (PPP) type solutions are in growing demand to fund public building construction projects. This approach was used for a number of projects in the education and healthcare sectors. An example was an extension and alterations to the Mistelbach-Gänserndorf State Hospital. Assisted by VAMED, HYPO NOE Leasing GmbH came up with a design-build general contractor solution that brought the project in on budget and on schedule. Following the successful completion of the initial phase, the new building was handed over in October 2014. The rehabilitation and conversion works are expected to be finished in August 2018. HYPO NOE Gruppe Bank and its project partner took great care to involve users at every

stage, and to fine-tune the functional planning in consultation with all stakeholders.

Another priority is stepping up cooperation with development banks, including the European Investment Bank (EIB) and Kreditanstalt für Wiederaufbau (KfW), which offer tailored loans that bring many benefits for our customers.

As in 2013, after the floods in May 2014 we offered a "HYPO NOE reconstruction package" for flood-hit local authorities. This facilitated quick, straightforward bridging loans to pay for repairs to local government infrastructure.

Close customer relationships and good advice are becoming ever more crucial in today's market environment. Because of this, our customer relationship managers receive ongoing in-service training, sometimes provided in cooperation with partners such as Danube University Krems and the Lower Austria Community Management Academy. A highlight of these efforts was a brochure on modern local authority finance management, which Public Finance launched at an event in September at Group headquarters in St. Pölten, hosted in cooperation with the Academy. In line with these efforts, we appeared at the Oberwart local government trade show where we launched a specialised fire brigade leasing product for firefighting vehicles and equipment. This enables local authorities to make key investments in public safety.

The Public Finance Department's activities in 2015 will centre on solution-driven customer advice, delivered by highly trained and motivated staff in our East Austrian core market as well as selected countries and cities targeted by our Danube region strategy.

REAL ESTATE FINANCE

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

In the Department's core Austrian and German markets, competition on financing terms and conditions for major real estate projects was exceptionally fierce in 2014. A number of early repayments were recorded, mainly as a result of early refinancing or property disposals by customers. With analysts forecasting rising loan-to-value ratios in Germany, both the elasticity of lending banks' demand for risk and margins are under considerable pressure. In spite of this, Real Estate Finance has continued to generate strong profits, and is making a significant contribution to earnings.

In 2014 low interest rates and historically weak returns on alternative investments drove a spike in demand across almost all real estate categories, and especially inner city rental apartment buildings. Foreign investors continued to find the German commercial and residential property markets among the most attractive in Europe.

In 2015 the department's operations will again centre on our core real estate markets – Austria, Germany and the neighbouring EU member states in Central and Eastern Europe. We will continue to keep a close watch on macroeconomic developments and regional real estate trends in our target markets outside Austria.

The department's business model is still based on the office, shopping centre, retail park, residential, logistics facility and city hotel asset classes, and on relatively conservative lending terms. As regards risk allocation, HYPO NOE Gruppe Bank is still confining itself to hand-picked properties with prime locations and outstanding adaptability, and to tried and trusted business partners.

CORPORATE AND PROJECT FINANCE

The Corporate and Project Finance Department is our centre of expertise in conventional corporate banking, structured corporate finance and project finance. The department sets out to position HYPO NOE Gruppe Bank as a full-service bank with a wide product range and an ability to offer sophisticated, bespoke financial solutions – the right partner for Lower Austrian companies and entrepreneurs.

In geographical terms its main focus is on Austria as a whole, and Lower Austria in particular, but the department also operates in some other carefully selected countries across the Danube region. Its traditional target customer group are the largish medium-sized enterprises – often owner-managed – that are characteristic for the Lower Austrian economy and the country as a whole. HYPO NOE Gruppe Bank's product expertise, customer affinity and quick decision-making give it an edge in this market – especially over larger rivals. We aim to act as a long-term partner for companies at all stages of their development, and to shoulder responsibility for regional economic development.

Despite the continued success of this policy, in 2014 this area of business was impacted by the harsh business climate, and in particular by very subdued credit demand. Meanwhile companies with good credit ratings were particularly well placed to capitalise on the fierce competition in the banking sector, and this led to further shrinkage in the margins on low risk business. Because of its good customer relationships the Bank was partly exempt from this trend, but as expected it proved difficult to grow the department's business rapidly in an environment like this.

Both in Austria and in the target markets, expanding relationship-based business was again the main aim for our corporate banking activities. Besides winning new business we made headway in deepening existing customer relationships by winning follow-up business or offering extended ranges of services.

Structured corporate lending will remain a high priority in 2015, and we will seek to position the Bank as an active player in the acquisitions, succession and private equity markets. The central objective is to gain a strong foothold for the Bank in this area by redressing the shortage of sophisticated, bespoke financing solutions offered to larger medium-sized enterprises, such as those currently mainly available to big companies.

The market for project and infrastructure finance was generally weak in 2014, with the tone set by a dearth of public-private partnership projects and very muted demand from the energy sector. The department continued to take a highly selective approach to the renewable energy sector, not least because of the challenging regulatory environment in the target countries, and a very cautious domestic market overshadowed by unacceptable lending terms. Due to the Bank's strong commitment to environmental protection and sustainability, Corporate & Project Finance will continue to serve this market selectively, and to build on its role as our centre of expertise in this field.

Despite the persistence of a very daunting business environment at the start of 2015, we are confident of our ability to position HYPO NOE Gruppe Bank still more strongly as the bank of preference for Lower Austrian companies, and to drive our Danube strategy forward by partnering Austrian and local businesses in the region.

RELIGIOUS COMMUNITIES, SPECIAL INTEREST GROUPS AND AGRICULTURE

During its first full year of operations the Religious Communities, Special Interest Groups and Agriculture Department established itself as a centre of expertise in regional and social infrastructure finance, and a conservative investment specialist.

The extensive marketing and customer service programmes that we mounted were particularly well received by interest groups and statutory self-governing bodies. We financed a number of large, high-profile construction projects as well as investments (the latter mostly by way of issuance by the Bank).

These operations mostly concerned funding for the renovation and rehabilitation of church buildings, and working capital and investment finance for agribusinesses.

A large number of events and other engagements were used to highlight our bespoke services, with a view to cementing our close, longstanding customer relationships and exploiting the wide range of business opportunities that spring from them.

On the investment front, we are collaborating with carefully chosen partners to build up a palette of sustainable and ethical products that meet the special requirements of social and institutional clients.

We are still setting our sights on becoming one of the top three banks in the Lower Austrian church and interest group market segment, and focusing on packaging the Group's financial product and service know-how to meet the needs of selected target groups, with a special emphasis on the real estate area.

CAPITAL MARKETS

Treasury

The expansionary monetary policies pursued by the central banks and the prevailing regulatory constraints again made for a highly positive climate on the bond markets last year. Exceptionally heavy demand for securities counting towards the Basel III liquidity coverage ratio (LCR) allowed Treasury to find the right timing for the investment side of its operations. This led to a strong and continuous compression of the risk premiums on these bonds throughout the year. The department therefore made an early start with meeting its investment volume targets, and this resulted in a solid performance by the portfolio of liquid assets, and acceptable credit spreads in the circumstances. As in previous years, the main investment focus was on liquid government bonds, and on covered bonds from Western and Northern Europe, as well as CEE sovereigns with excellent ratings.

ALM

The Asset Liability Management (ALM) unit seeks to use the Bank's interest rate risk position to strengthen its financial structure, stabilise net interest income and optimise the risk/reward ratio. Close monitoring ensures that the unit responds instantaneously to market movements as they unfold. Constructing a capability for long-term rolling investment of equity capital is helping us to achieve constant, smoothed interest income. Derivative financial instruments are also employed – primarily for hedging purposes – in the interests of effective interest rate management.

In addition, to help optimise the Bank's strategic alignment, medium to long-term budgets are drawn up for the entire institution. These take account of regulatory requirements, potential market developments and the entitlements of relevant stakeholders. Treating equity capital as a valuable resource to be put to the best possible use, and maintaining long-term liquidity both play key roles in this work.

In 2015 ALM plans to persist with its active interest rate risk management approach and selectively exploit market opportunities arising in connection with banking book management.

Funding

In 2014 the capital markets were driven by international crises, and massive interventions by the ECB and other central banks. As a result volatility was at levels seldom witnessed before. This made it all the more vital to make the best possible use of the various issuing windows, and to be very quick on our feet in responding to market movements. Our first-ever benchmark (EUR 500m) mortgage-backed covered bond issue with a seven-year maturity was floated during the year. The cover pool – given the top Aaa rating by Moody's – and an unrelenting investor relations drive permitted highly attractive pricing of the issue, which found foreign and local takers.

Due to low interest rates investors tended to look for long-dated structured products. More than half of all our funding needs were met by bespoke private placements.

In the senior unsecured debt market, too, a successful private placement with major Scandinavian investors lived up to HYPO NOE's excellent international reputation. The one billion Norwegian kroner (NOK) issue was one of the year's largest on the NOK market. Towards the end of the year we also succeeded in placing a syndicated euro loan with the German cooperative and savings bank sector.

Investor Relations

In 2014 we again used a wide range of communication channels in order to provide investors and analysts with timely and transparent corporate information. The Management Board held an earnings call on the day of the announcement of the annual results for 2013 to discuss developments during the previous year and plans for the future. In May there was also a chance to speak to the board face-to-face at the investors' luncheon in Vienna, and the quarterly figures were unveiled at this event. We were again in the limelight at the European Covered Bond Council (ECBC) Congress, held in Vienna from 24-25 September 2014 (see report in the magazine section of this publication).

The Investor Relations area of our corporate website (hyponoe.at) carries information on HYPO NOE Gruppe Bank's cover pool ratings, as well as annual and interim reports and presentations. For stakeholders with a special interest in the Bank's sustainability activities, there is comprehensive information (including our first corporate social responsibility report) under the Nachhaltigkeit menu item on the German language version of the site.

Our investor relations work will continue along established lines in 2015, with a strong emphasis on face-to-face contact at roadshows and relevant conferences.

INSTITUTIONAL CUSTOMERS

The rapid change processes witnessed over the past few years make maintenance of relationships with other financial institutions an important aspect of the mission of a regional bank like ours. Besides our business links with numerous banks in Austria and abroad, we also actively manage our contacts with insurance companies, pension funds and investment companies.

In order to keep a high profile on the capital markets, last year we held a number of small roadshows whilst also stepping up our ongoing investor relations activities. Along with the necessary compliance reviews – which had to be made still more thorough in order to apply the US Foreign Account Tax Compliance Acts (FATCA) – regular discussions with nonbank investors are a high priority.

Our relationships with partner banks also call for active maintenance. Though the loss of confidence in the interbank market during the financial crisis is no longer a major issue due to today's increased transparency, it is still a good idea to keep up the conversation with correspondent banks and bond investors in need of LCR compliant paper.

PUBLIC LOAN MANAGEMENT

The Lower Austrian state government is currently extending several billion euros in preferential loans, mainly to private individuals who are building their own homes. These loans are usually subject to conditions relating to the properties, which often concern energy-efficient construction. The rest of the loans are administered on behalf of other state government funds.

The Lower Austrian state government has mandated HYPO NOE Gruppe Bank to handle queries from beneficiaries about account maintenance, account balances and repayments. In this way we deliver cheap and efficient loan management services to Lower Austrian owner-builders, as well as the many housing cooperatives in the state, which are also entitled to apply for such loans. Besides its loan management function, HYPO NOE Gruppe Bank handles the accounting for many Lower Austrian state government grants, such as those to schools and kindergartens. The assistance provided by the Bank in connection with a variety of state government home building transactions includes preparation of detailed breakdowns of the existing loan portfolio, arranging for data processing by an outside computer centre, and generating cumulative analyses of the payment flows from individual loan tranches - as well as deviations from the original repayment plans - as part of our regular reporting to investors.

The number of loans processed for the Lower Austrian state government is constantly rising, and the Bank now has over 309,000 direct loans, totalling almost EUR 5.9bn, under management on behalf of the state government. The lion's share of this total, approximately EUR 5.5bn, consists of subsidised home loans.

In the interests of efficient and customer friendly services, since 2014 account information and tax office confirmations have been accessible online, and customers can also carry out or request other standard housing subsidy processes electronically, via a separate portal.

In December 2013 the fifth amendment to the Lower Austrian Housing Subsidy Regulations 2011 changed most of the large-scale subsidy system over from direct loans to guaranteed loans. The subsidies are disbursed by commercial banks, which are selected by means of tenders carried out several times per year. HYPO NOE Gruppe Bank has given the Lower Austrian state government extensive technical and organisational assistance, and is now also fielding questions on payment processing issues from the various banks involved in disbursements. Housing cooperatives are still served by their established contact persons at the Bank. Pilot processing of the first tranche of subsidies to be dealt with under the new system began in May 2014.

Besides our role in responding to day-to-day customer enquiries, the following issues will be priorities in 2015:

Start-up of full-scale operation of the new high-volume Lower Austrian housing subsidy system (bank loans with interest-based subsidies), which will involve processing an expected four further subsidy tranches in 2015.

Integration of the IT systems involved in the housing subsidy scheme, which should cut costs and help prevent errors.

Efforts to improve the earnings contribution from this area of business. To this end we will be cutting costs by optimising the use of standard automated processes and manual transactions, and looking to generate additional service income streams.

PARTICIPATIONS

The HYPO NOE Group holds investments which are designed to support its strategy. We only enter into and maintain such investments if they are compatible with the Group's primary business objectives.

In its capacity as a shareholder representative, the Group urges, manages and assists investees' strategic development. We constantly strive to maintain a good overview of the equity investment portfolio in terms of risk management, financial control and governance.

The following portfolio restructuring events took place in 2014:

Pfandbriefstelle restructuring

The Pfandbriefstelle supervisory board adopted a resolution on the transfer of the entire banking operations of Pfandbriefstelle (POLH) to a new POLH AG, still to be founded, with a view to separating POLH's existing and new business, and enabling third-party banks to invest in the new entity and use it to issue debt. The existing bond portfolio is to remain with the "old" POLH until maturity.

The Federal Ministry of Finance gave its approval by notice on 10 July 2014, and the consent of the Austrian Financial Market Authority followed on 16 December 2014. The new entity was entered in the register of companies with the name Pfandbriefbank (Österreich) AG on 15 January 2015. In light of developments in connection with Heta Asset Resolution AG, continuation of the project in terms of pursuing the existing business needs to be reevaluated. For the time being, all related work has been suspended.

Reduction of the capital of Hypo-Banken-Holding

In the wake of the 2009 financial crisis the mortgage bank sector took a stake in Österreichische Clearingbank AG, which was established to provide liquidity. The investment was made via Hypo-Banken-Holding GmbH, and the latter's capital was increased by EUR 8m for this purpose. Österreichische Clearingbank AG has since been wound up, and the liquidation proceeds returned to Hypo-Banken-Holding. The reduction in the latter's capital opened the way for the repayment of the liquid funds furnished by the shareholders.

The shares in Backhausen GmbH, which were held by Strategic Equity Beteiligungs-GmbH, were divested by way of a purchase and sale agreement dated 3 September 2014.

The formation of SRE Immobilien Deutschland GmbH - a wholly owned subsidiary of Strategic Real Estate GmbH - was registered on 19 August 2014. The renaming of SRE Ungarn Holding 1 GmbH as SRE Immobilien GmbH was entered in the register of companies on 19 July 2014. The company is now to be used to acquire Austrian mortgaged properties. SRE Immobilien Deutschland GmbH was formed as a wholly owned subsidiary of Strategic Real Estate GmbH to purchase German mortgaged properties; it was registered on 19 August 2014.

A put option in respect of a 25% interest in HYPO Capital Management AG was exercised, but the transaction was uncompleted as at year end.

A wholly owned subsidiary of HYPO Niederösterreichische Liegenschaft GmbH, Stettnerweg 11-15 Liegenschaftsentwicklungs GmbH, was formed in connection with real estate projects. This project company is developing a site in Korneuburg where housing is being built for sale.

FOREIGN BRANCHES AND REPRESENTATIVE OFFICES

HYPO NOE Gruppe Bank AG had no foreign branches in 2014. In addition to the longstanding representative offices in Budapest and Prague, the Bank set up offices in Sofia and Bucharest.

BRANCH OFFICES

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

Landesbank segment

HYPO NOE LANDESBANK AG

HYPO NOE Landesbank AG is responsible for the HYPO NOE Group's retail banking business. A total of 30 branches in nine sub-regions and three business customer centres ensure that private, self-employed and business customers receive comprehensive advice and service in our core market of Lower Austria and Vienna. The Bank defined "finance & housing", "saving & investment" and "accounts & cards" as strategic areas in terms of the needs that it aims to meet.

With HYPO NOE Gruppe Bank as its parent and the Lower Austrian state government as its owner, HYPO NOE Landesbank is well placed to nurture stable long-term customer relationships in its home region. Highly experienced and motivated staff create bespoke solutions designed to meet our customers' high expectations.

Like its predecessor, the year under review was hallmarked by an interest rate landscape that presented retail banks with severe challenges. Although interest rates were at historic lows HYPO NOE Landesbank succeeded in posting another year-on-year increase in net interest income. Despite the adverse operating environment, the Bank set itself the ambitious target of continuing to grow. Hard work, packages of special offers and a successful marketing effort enabled it to achieve this objective in 2014.

HYPO NOE Landesbank recorded sharp increases in lending, deposits and customer numbers in the teeth of the industry trends. The biggest year-on-year gain was in service income.

The branches remain the key sales channel in spite of the Bank's multi-channel approach. 2014 saw a drive to improve the services offered at branches, and develop a new, sub-regional organisational structure. The goals of the branch services upgrade project included tapping more of the potential for winning additional business from new and existing customers, as well as deploying multi-channel technologies, optimising lending business processes, and expanding the branch-based sales effort.

In 2014 the Bank opened a customer service lounge at Korneuburg State Hospital. The new service area is ideal for use by hospital staff, for prearranged customer consultations and for cash withdrawals. More service lounges will be opened in the coming years.

A new structure, based on nine sub-regions, has given the Bank a stronger hand to play against the other regional banks, and is conducive to quick decision-making. The nine areas are large enough for optimum use of human resources, yet sufficiently small to permit effective market development.

The Lower Austrian Weeks initiative, staged at all 30 branches, reflected the belief of the "bank for the people of Lower Austria" in operating where its customers live. During these themed weeks, held in two waves, HYPO NOE Landesbank offered a range of promotional products, billed as "local, genuine and traditional." These included special home loans with attractive terms and conditions, and the Lower Austrian savings account, which has played a key role in the growth of the deposit taking business in recent months. The emphasis on Lower Austria is intended to differentiate the brand still more clearly from the competition, and create a positive image.

The HYPO Service Center was set up as a central sales unit in January 2014. To extend its accessibility, it takes customer phone calls from 8:00 to 18:00, Monday to Friday. The services offered include the provision of general banking information, providing account information combined with customer data management, and arranging appointments with relationship managers. About 160,000 calls were taken during the reporting period.

The Bank made further inroads in the small and medium enterprise segment in Lower Austria and Vienna by mounting carefully targeted customer acquisition campaigns.

HYPO NOE Landesbank also held on to its traditionally good standing with the main home builders, despite

the major shifts taking place in the market environment. With banks looking to tap into potential sources of income in the corporate customer segment, competition for business from small and medium-sized enterprises and major housing developers is expected to remain fierce.

Frequent optimisation of the product range, and improvements to internal processes – such as the merging of the risk departments into a single centre of risk expertise – are aimed at further enhancing the quality of HYPO NOE Landesbank's services.

An intense, customer-focused effort to tidy up the credit portfolio led to a significant cut in the number of foreign

currency loans. Active management of the Bank's loan portfolio brought a big reduction in the need for loan loss provisions.

2015 is shaping up as another tough year for retail banks. Interest rates are at historically low levels and competitive pressures are set to intensify, while consumer spending remains weak yet savings rates are declining.

Nevertheless, HYPO NOE Landesbank is again looking to expand in 2015, and is targeting growth in lending, savings deposits and the customer base, without compromising its commitment to sustainable profitability.

Leasing segment

HYPO NOE LEASING GMBH

HYPO NOE Leasing GmbH and the project companies it runs are devoted to providing leasing solutions for the public sector as such, and the Lower Austrian state government in particular. A major focus is complex lease agreements in connection with real estate projects. The company also offers real estate project management and business management services.

HYPO NOE Leasing has become a leading provider of lease financing to public agencies. It is known for innovative, flexible leasing solutions. Its vision is to be the most efficient leasing company in Austria, with unrivalled expertise in lease financing for the public sector.

Leasing volume was satisfactory in 2014, and the company hit its financial targets despite increased pressure on margins. In contrast to previous years, when performance was driven by a few large projects, in 2014 more small ticket contracts were written.

The main organisational challenge faced by HYPO NOE Leasing was the imposition of still stricter rules by the banking regulator. Among other things, the organisational structure was refined in the interests of a more clear-cut separation of the front and back office functions.

The real estate leasing market is going through a difficult phase at present. In the past the financing function was foremost in a typical contract, but there is less call for such leases today. Due to worries about the Maastricht criteria, assumption of construction risk is in growing demand. As HYPO NOE Leasing is expert in agreements of this kind and is efficiently organised, it is well placed to claim leadership of the public sector lease market segment.

Other segment

HYPO NOE REAL CONSULT GMBH

HYPO NOE Real Consult GmbH is active in property development, management and marketing. Its geographical focus is on Lower Austria and Vienna. Thanks to its comprehensive range of services the company can offer its customers a one-stop approach to real estate management. In 2014 it continued its long-term collaboration with the Group parent and fellow subsidiaries on property finance, marketing and rehabilitation.

On the project development side, work on a number of high-end housing schemes in attractive locations in Lower Austria and Vienna began or continued in 2014. An example is the good headway made at the Karrée Korneuburg development. Alongside activities related to the current portfolio, the Project Development and Real Estate Marketing departments are working to win contracts for new proprietary and third-party projects. The Project Development Department is also responsible for the strategic management of properties owned by the HYPO NOE Group. There are a number of projects in the pipeline which are currently at the appraisal stage, and the outlook for 2015 is good.

On the project management front, the company made rapid progress with some major construction projects last year, and readied the completions that are scheduled for 2015. The latter include Labs 3 and 4 at IST Austria, in Klosterneuburg. The company either completed or made good headway with contracts awarded by universities including the Karl Landsteiner University of Health Sciences. The Lower Austrian state government conferred its *Vorbildliche Bauten* (Exemplary Buildings) and the 2014 Lower Austrian Construction Award on the NV Arena project in St. Pölten. Thanks to

our quality-conscious project management approach we achieved the usual high levels of client satisfaction in 2014 – not only by handing over projects on time and on budget, but also by assisting customers with subsequent warranty claims and claims for damages.

During the period the Real Estate Management Department secured its first contracts with third parties. The department has introduced a variety of on and offline software tools, and these are optimised on an ongoing basis. Its stress on quality-conscious property management and high staff training standards is borne out by its excellent record in terms of customer satisfaction.

HYPO NOE Real Consult's service portfolio was widened by the establishment of the Real Estate Marketing and Estate Agency Department on 1 August 2014. The department markets Group developments, and operates on the Lower Austrian and Viennese third-party property markets.

HYPO NOE Real Consult is working to acquire customers in all of the above business segments, though the markets concerned are fiercely contested. The company is responsible for managing several project companies in charge of property developments and for running municipal property companies and Group owned properties. In the course of regular valuations, all of the entire existing property portfolio and the new developments were assessed and adjusted in accordance with current market prices and expected project profits.

We believe that the action taken in 2014 has laid the foundations for a good performance across all HYPO NOE Real Consult GmbH's operations in 2015.

HYPO NOE FIRST FACILITY GMBH

Today HYPO NOE First Facility GmbH, founded 30 years ago, is a leading provider of integrated facility management (FM) and technical FM (e.g. electrical, HVAC and sanitary installations) services for technically advanced and complex properties, forming a key link in the HYPO NOE Group's real estate value chain. The main geographical markets served are Lower Austria, Vienna and the Danube region. HYPO NOE First Facility GmbH follows its clients into selected CEE countries and represents their interests with respect to the buildings they occupy, leaving them free to concentrate on their core business. The main customer groups are property funds, banks and insurance companies, as well as a growing number of public sector clients.

The facility management market remains highly segmented. The company's market environment is characterised by increasing saturation and resultant predatory competition. While service FM businesses (e.g. those with their origins in the cleaning industry) are striving to break into the technical FM market, property management companies are increasingly including FM in their offerings.

The market situation in the CEE countries is largely unchanged. Due to the weakness of the property market, tenders for new projects are few and far between and there is massive price competition. There is a tendency for some market players to outsource technical and infrastructure FM services directly, and to partly dispense with higher level external FM.

In 2014 HYPO NOE First Facility took further action to adapt to the changed business environment, and this gave it a comparatively competitive cost structure. Thanks to the strengthening of the marketing and technical services operations the company is now among the industry leaders in terms of the revenue shares represented by daywork, project work and other new orders. During the year the company pressed ahead with its quality initiative, and these efforts were rewarded with ISO 9001 re-certification through a surveillance audit.

Implementation of computer aided facility management (CAFM) software was rolled out on schedule to include all the major projects. The resultant improvements in

transparency, speed, process reliability and efficiency have had a positive impact on customer satisfaction and costs.

The HYPO NOE First Facility 2020 strategy, mapped out during the second half of the year, calls for a focus on market segments in which the company has clear unique sales propositions. The company's core business is still large FM projects run by permanent operations management teams - its traditional key competency. HYPO NOE First Facility teams up with other Group companies to develop business models that meet the needs of Lower Austrian health care provision. It is also working on expanding the range of building services it offers. This involves folding the strengths of the HYPO NOE Group (such as finance and project management) and of HYPO NOE First Facility (facility operation over periods of 20-25 years) into a unique package of services for public sector clients. The first reference projects of this kind are already under way.

We believe that the energetic drive to implement this strategy, and related organisational development with a view to exploiting potential synergies across the entire real estate value chain in the Group, can lay the groundwork for a sustainable improvement in performance. While new energy management services are being introduced, HYPO NOE First Facility is also broadening its skills and service offerings in the health sector. The aim is to win the trust of many new customers through the firm's expertise and advantage in terms of economies of scale, and to convince new business partners of the quality of its services.

While the business climate in Austria was very testing in 2014, activities abroad prospered. The company recorded significant growth in business volume in Bulgaria, Romania and Serbia while the order book in Hungary held up well. We also won a lot more daywork orders in Hungary in 2014, and this played a major part in stabilising this subsidiary's performance. We expect a slight slowdown in business in some countries due to lower project and daywork orders, and the sale of properties built by Austrian developers and funds to international and regional funds, which will lead to the re-tendering of services.

In light of the above observations, and a fall in prices equivalent to lower double digits in percentage terms since 2011, we expect demand growth to pause for breath

over the next few years. From 2016 on we see prices rebounding and results improving due to the aforementioned economies of scale.

HUMAN RESOURCE MANAGEMENT

A service mentality, coupled with transparency, creativity and an appreciation of our responsibilities to society and the environment make a decisive contribution to the Group's long-term success

With this in mind, targeted training and development programmes designed to enhance the skills and abilities of all our people are a leading management priority. Open and respectful dialogue between employees at all levels of the hierarchy is the cornerstone of a positive corporate culture in which problems can be quickly addressed and resolved.

Staff from the Human Resource Department support both management and employees in all HR-related matters, designing proactive personnel policies that help the Group to achieve its targets.

Human resources in 2014: facts and figures

At year-end 2014 the HYPO NOE Group had 913 employees (31 Dec. 2013: 913), 38 of whom were on parental leave. The workforce comprised 509 male and 404 female staff (31 Dec. 2013: 496 male and 417 female). In terms of full-time equivalents (FTEs), there were 828.5 employees at year-end (31 Dec. 2013: 836.8). The head count falls to 789.0 FTE as at 31 December 2014 if non-active employees are excluded. Seven people were employed at our representative offices abroad (2013: six). In 2014 a total of 119 vacancies were filled (2013: 124).

Organisational issues

The changeover to new, integrated and, above all, more efficient HR management software was completed in 2013. 2014 was the first full year in which the software was in operation across the Company.

The focus in the year under review was on redesigning HYPO NOE Landesbank AG's customer services in nine regions. These are the first point of contact for all customer service matters across the Group. Work also started on restructuring the real estate business.

HR development

Human resource development is geared towards providing long-term support for the Group's strategy, and promoting the achievement of the Bank's strategic and operational targets. It is also intended to ensure that we comply with regulatory and other statutory requirements related to training and development.

Standardised Group-wide appraisals form the basis for planning personal and professional development measures and achieving development targets. The appraisals fed into a wide range of professional and personal development initiatives that were designed and implemented in 2014.

Launched in 2013, the modular management development course for corporate coordinators, department heads and senior executives concluded during the reporting period with the introduction of 360° feedback. The course was aimed at strengthening the participants' leadership skills and taking our management culture to the next level. There was also a strong emphasis on resource-based management and on creating a suitable framework for this approach throughout the organisation.

Our Group-wide "Best of Leadership" initiative, which helps up-and-coming managers to assume new management responsibilities, was broadened to include the topic of self-management as well as experience-based elements. This step was taken with a view to increasing the initiative's long-term effectiveness.

With an eye on ensuring compliance with statutory and regulatory requirements, the performance evaluation - which was already in place for managers - was extended to all employees. A Group agreement was concluded to this effect.

During the year, all participants successfully completed the induction course and basic training which form part of the collective agreement for employees of the Austrian provincial mortgage banks.

The table below shows the changes in employee numbers over time.

2014	HC			Ave. HC p.a.	FTE		
	Total	m	w		Total	m	w
HYPO NOE Gruppe Bank AG	332	182	150	333.3	301.5	170.2	131.2
HYPO NOE Landesbank AG	358	182	176	355.1	319.9	178.7	141.2
HYPO NOE Real Consult GmbH	50	24	26	47.8	43.5	22.5	21.0
HYPO NOE Leasing GmbH	33	13	20	32.1	30.3	13.0	17.3
HYPO NOE Valuation & Advisory GmbH	5	4	1	5.1	5.0	4.0	1.0
HYPO NOE First Facility GmbH	131	102	29	132.8	124.8	99.6	25.2
HYPO NOE Versicherungsservice GmbH	3	2	1	2.0	2.5	2.0	0.5
HYPO NOE Immobilienmanagement GmbH	-	-	-	1.0	-	-	-
NÖ Hypo Beteiligungsholding GmbH*	1	-	1	0.8	1.0	-	1.0
HYPO NOE Group	913	509	404	910.0	828.5	490.1	338.4

2013	HC			Ave. HC p.a.	FTE		
	Total	m	w		Total	m	w
HYPO NOE Gruppe Bank AG	344	183	161	328.3	310.7	174.1	136.7
HYPO NOE Landesbank AG	345	175	170	330.8	314.2	172.5	141.7
HYPO NOE Real Consult GmbH	50	20	30	50.9	44.1	19.0	25.2
HYPO NOE Leasing GmbH	30	10	20	31.1	27.4	10.0	17.4
HYPO NOE Valuation & Advisory GmbH	5	3	2	4.5	5.0	3.0	2.0
HYPO NOE First Facility GmbH	136	103	33	149.6	132.3	101.9	30.4
HYPO NOE Versicherungsservice GmbH	1	1	-	1.5	1.0	1.0	-
HYPO NOE Immobilienmanagement GmbH	2	1	1	1.3	2.0	1.0	1.0
NÖ Hypo Beteiligungsholding GmbH*	-	-	-	-	-	-	-
HYPO NOE Group	913	496	417	898.1	836.8	482.4	354.4

Key: m = male; f = female; FTE = full time equivalent; HC = head count
Owing to the decimal places, rounding is used when calculating the totals

* Employees from 2014

Teambuilding measures centred on retreats and coaching sessions were also implemented in 2014. A number of Group-wide events were held with the aim of bringing staff from various parts of the company closer together.

Sustainability and human resource management

The topic of sustainability gained added significance last year with the publication of HYPO NOE Gruppe Bank AG's first sustainability report.

In the year under review, the subject of sustainability was covered in our official staff and customer surveys for the first time. Employees were also offered training on sustainability-related matters with a view to raising awareness of this key issue.

The health of our employees was another priority in 2014. Seminars took place on the subject of body signals and stress, and a Group-wide survey on quality of life, the ability to work and working conditions in accordance with employee protection legislation was carried out using the ABI Plus tool. There was also an emphasis on personal advice and support for Group employees required to take long-term sick leave.

Outlook for 2015

The activities of the HR team concentrate mainly on staff development and workplace health promotion (WHP). In addition to evaluating sources of stress and other types of negative mental strain, focus groups will look at various aspects of WHP and put together appropriate packages of measures. The newly extended biannual health check-ups will also be carried out. Another addition to the HR portfolio is the Employee Assistance Service, which provides support free of charge in crisis situations. Employees are not required to give their names.

Eleven participants were nominated for the Group's development programme for high potentials and experts, under which staff with outstanding potential explore their personal development opportunities and enhance their abilities.

Finally, management appraisals and a management skills development programme based on the appraisal results will be implemented for heads of department and senior executives who have recently joined the Company.

RISK REPORT

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

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

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

The disclosure of risks is based on the Group's internal risk management and risk reporting systems, and on IFRS 7 Financial Instruments: Disclosures.

RISK MANAGEMENT SYSTEM

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

The Group's organisational structure provides for a clear separation of front and back office functions (four-eyes principle) at every level up to the Management Board. The front office functions originate business and give

initial clearance to transactions, while the back office functions cast an independent vote (second opinion) that confers final approval. The internal control regulations require the unanimous approval of the front and back office functions for certain business decisions. There is also a structured process for the approval of exposures requiring resolutions of the Group's Supervisory Board.

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

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

The rules and procedures for introducing new areas of business or products, and for entering new markets, require detailed prior analysis of the relevant business risks. Without exception, transactions entailing risks are only permitted if the latter are explicitly covered and authorised in the Group's risk documentation. The Group normally restricts its exposures to areas where it has the necessary expertise to assess and manage the specific risks involved. Where the risk situation is unclear, or where there are methodological uncertainties, the principle of prudence prevails.

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 use, the Group may be exposed to unknown and unexpected

risks. The risk management techniques and strategies cannot be expected to be wholly effective in every market environment and against all types of risks.

AGGREGATE RISK MANAGEMENT AND RISK-BEARING CAPACITY (ICAAP)

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

The HYPO NOE Group identifies, quantifies, monitors and manages risks in accordance with the applicable statutory and commercial requirements. The minimum capital requirement is calculated using the standardised approach (Pillar 1, Basel III regulations). All material risks are actively managed as part of the Group's internal risk management process (Pillar 2, ICAAP regulations) and in compliance with the disclosure requirements (Pillar 3, Basel III regulations). The key elements of this ongoing process are the planning, aggregation, management and monitoring of all risks, assessment of the adequacy of economic capital in relation to the risk profile, and the use and ongoing refinement of appropriate risk management systems.

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

1. The economic capital management control loop serves to protect against the dangers of creditor liquidation. Risks are evaluated at a high confidence level (99.9% with a holding period of one year) and compared with

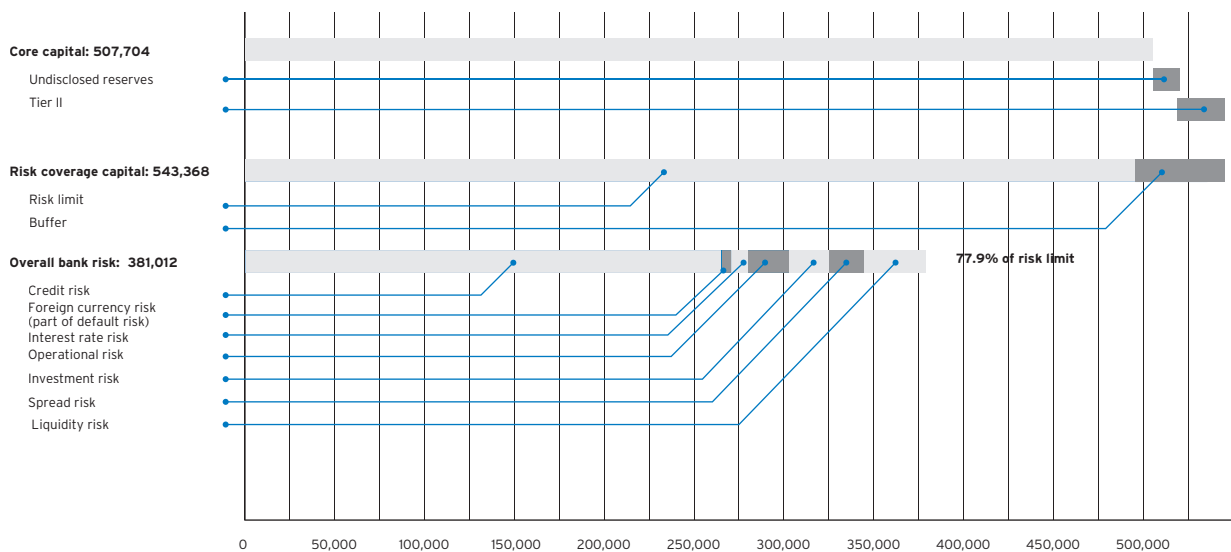
the risk coverage capital available in the event of liquidation.

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

The HYPO NOE Group's risks and risk limits (including buffers) for the purposes of economic capital management as at 31 December 2014 are shown below.

In spite of the adverse market environment in the year under review, as at 31 December 2014 the Group utilised only 77.9% of the aggregate risk limit (including an adequate buffer), which was significantly lower than at 31 December 2013 (86.2%). The calculations of risk positions and risk coverage capital presented here take into account the effects of the FMA notice of 1 March 2015, which imposed a moratorium on debt repayments by HETA and is described in the section on credit risk below.

Under the Federal Act on the Recovery and Resolution of Banks, which came into force on 1 January 2015, the HYPO NOE Group is for the first time required to submit a restructuring plan to the Austrian regulator - by the end of the third quarter of 2015. The Group began drawing up a reconstruction plan compliant with the Act in good time: a final draft was prepared and had received quality assurance approval by external experts by the end of 2014. When incorporated into day-to-day operations, the details of the reconstruction plan will form an integral part of the Group's risk and capital management framework.



SIGNIFICANT RISK-RELATED DEVELOPMENTS IN 2014

Credit risk

One of the key challenges in credit risk is the worsening trend in the probability of default by borrowers. If the situation continues to deteriorate, higher loan loss provisions and an increase in risk capital requirements in the internal capital adequacy assessment process (ICAAP) are to be expected. This has been taken into account in the budgetary planning process and, on the basis of an economic analysis, a conservative rating migration of existing customers has been assumed. The Bank's risk bearing capacity has been calculated on the basis of these conservative assumptions. The monthly risk management report and credit risk report analyse the changes in borrowers' credit ratings in the course of the year as a result of migration.

Continued refinement of the credit risk management system is seen as a long-term strategic growth driver for the HYPO NOE Group. It includes the improvement

of the organisational processes for the management of risk (watchlist, ongoing evaluation of provisions), tighter monitoring, and active portfolio management (risk transfer and use of modern risk management techniques).

Liquidity risk

The core liquidity risk management issues in 2014 were: final technical implementation of the new regulatory requirements for liquidity risk; first-time reporting to the Austrian regulatory authorities of the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR); implementation of funding planning, together with measures to ensure future compliance with LCR and NSFR regulatory requirements; and further refining the liquidity risk, liquidity management and cost of liquidity models.

Bank-wide stress testing

As part of the internal Bank-wide stress tests, in 2014 a comprehensive economic study provided the basis for the annual analysis of scenarios relevant to the HYPO NOE Group's business model (e.g. economic decline in

Eastern Europe, intensification of the EU sovereign debt crisis). The impact of the scenarios on credit, investment, interest rates and liquidity risk at subsidiary and Group level, in terms both of regulatory and economic risk-bearing capacity, was simulated. The results were presented to management and suitable countermeasures were devised. Bank-wide stress tests based on the selected scenarios are carried out every quarter.

Basel III

Basel III came into force on 1 January 2014, and complying with a succession of new reporting requirements (including LCR and the European Banking Authority's (EBA) FINREP Revision 3), together with ongoing work on complying with other EBA requirements, took up the rest of the year. The transition from Austrian Business Code (UGB) to IFRS consolidated financial reporting proved particularly challenging.

IFRS 9

International Financial Reporting Standard (IFRS) 9 Financial Instruments is due to come into effect for financial years beginning on or after 1 January 2018, assuming EU endorsement. In 2014 we carried out a major conceptual study and evaluation of the implementation requirements; analysis of potential effects had already taken place in 2013. In 2014 the main focus was on technical details, and a number of IT solutions were evaluated. The implementation of IFRS 9 will have material consequences for the HYPO NOE Group.

Risk management systems

Incorporating the recovery plan as an integral part of the day-to-day risk and capital management framework will be a major focus of the Group's development activities in 2015. At the same time, the HYPO NOE Group will again be investing heavily in IT infrastructure, as well as process, methodology and staff development, in order to ensure that the risk control systems remain compatible with the authorised levels of risk tolerance and our business objectives.

Country analysis

We are continuing to monitor developments in Italy, Ireland, Greece, Spain, Hungary and Cyprus very closely. The HYPO NOE Group has no exposure in Portugal. The Hungarian local authority bonds were redeemed in full, and receivables from the Republic of Hungary were also reduced. The balance of the Hungarian exposure is constantly monitored. This year we also made selective investments in Spanish government bonds on the basis of our amended risk assessment, and in a short-term Irish bank bond. The HYPO NOE Group has no direct exposure to Ukraine or Russia.

In Cyprus, a state-guaranteed loan to a government-related organisation is currently outstanding. Repayment is at the moment proceeding in line with the loan agreement, but this is dependent on the allocation of sufficient funding from the national budget.

CREDIT RISK

Credit risk is the danger of a deterioration in creditworthiness, and ultimately the risk of default by a counterparty or the guarantor. Credit risks are of various different types, depending on the products involved: loans involve classic credit risk, for derivatives there is counterparty risk, and for securities issuer risk. Credit risk also includes investment risks and foreign exchange risks leading to customer default.

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

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

For private customers, the Group currently employs an applications rating procedure together with behaviour rating for day-to-day evaluation. Business customers are assessed using different rating instruments for start-

ups, businesses preparing accounts on a cash basis and those using accrual accounting. There are also separate processes for local authorities and for banks. Credit ratings for specialised lending are carried out using the slotting approach based on income-producing real estate (IPRE) and project finance ratings. For condominium apartments under the *Wohnungseigentumsgesetz* (Condominium Act) credit ratings are evaluated using an in-house rating application. Other customer categories are currently rated internally on the basis of expert analyses and external information.

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

Credit risk analysis

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

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

Grade	Description	HYPO NOE Group master scale	Corresponding external ratings	
		Rating grade	Moody's	S&P
Investment	Top grade	1A - 1E	Aaa - Aa3	AAA - AA-
	Excellent or very good	2A - 2E	A1 - Baa3	A+ - BBB-
Non-investment	Good, medium or acceptable	3A - 3E	Ba1 - B1	BB+ - B+
	Unsatisfactory	4A - 4B	B2 - B3	B
	Watch list	4C - 4E	Caa1 - C	B- - C
	Default	5A - 5E	D	D

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

In addition, the operational credit risk management units are responsible for monitoring early warning indicators (principally generated by Credit Services) in order to identify potential problem customers as early as possible, so as to be able to initiate countermeasures in good time.

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

Below a given rating level, exposures are classified as “watch loans”, or transferred for intensive care to the Workout Management Department. Forborne exposures (i.e. loans for which the terms and conditions have been amended for reasons of creditworthiness) are monitored by the market units in conjunction with operational credit risk management or by the Workout Management Department.

The HYPO NOE Group applies rigorous standards as to what constitutes default. All customers meeting at least one of the following criteria are immediately treated as in default:

- Substantial loan more than 90 days overdue (regulatory definition);
- Recognition of an individual impairment allowance, or non-recognition where there is adequate collateral;
- Credit rating related restructuring;
- Insolvency, composition and bankruptcy;
- Loan writedowns or write-offs.

Risk provisions

Specific or collective impairment allowances are recognised for identifiable lending risks.

The individual impairment allowances are determined on the basis of an assessment of the customer's financial situation, taking into account the current valuations of collaterals, repayment structures and maturities.

Future cash flows (expected repayments) are discounted using the original effective interest rate. If there are collaterals for receivables (e.g. charges on real property or guarantees), the future cash flows from their recoverable amounts less the selling costs must be deducted when measuring the impairment loss. An impairment loss is measured on the basis of the present value of the total of estimated future cash - including expected interest payments - as of the dates they fall due.

Collective impairment allowances are recognised on a portfolio basis for reductions in the value of the Group lending portfolio (losses incurred but not reported) as at the end of the reporting period. It is assumed that there are incurred but unreported losses in respect of a given percentage of customers without default ratings at the end of the reporting period.

In calculating these risk provisions, all exposures affected by credit risk that are measured at their carrying values (loans and receivables, and financial instruments held to maturity), and all committed lines of credit and contingent liabilities of HYPO NOE Gruppe Bank and HYPO NOE Landesbank are taken into account. Financial instruments that are not classified as held to maturity and derivatives do not form part of the calculations, as they are already measured at fair value. Housing construction loans backed by the Lower Austrian state government are likewise excluded.

Collective impairment allowances are recognised on the basis of expected losses, taking into account: (a) the risk volume, (b) the historical probability of default (PD), (c) the loss given default (LGD), (d) individual customer collaterals, (e) the regulatory risk weightings of special financing arrangements, and (f) the period of time between occurrence of the loss and its identification (loss identification period or LIP). For reasons of prudence no cure factor is initially included.

The collective impairment allowance is calculated for loans and advances to banks and customers with internal ratings of 2A to 4E on the HYPO NOE Group master scale described above. For 2014, the loss identification period was assumed to be four months for all loans (i.e. the LIP factor is 4/12).

The collective impairment allowance is calculated using the following formula:

$$\text{Impairment allowance} = \text{expected loss} * \text{LIP factor}$$

The collective impairment allowances are reported under "Risk provisions" on the assets side of the IFRS statement of financial position, and under "Credit provisions" on the equity and liabilities side.

Credit risk monitoring

For individual customers, risk monitoring is the responsibility of the operational credit risk management units concerned, which check credit ratings, monitor blacklists drawn up by Credit Services and process loan applications potentially entailing significant risks. In addition, relationship managers are required to prepare reviews when necessary, and in any event at least once a year and irrespective of the amount of the exposures and the credit ratings. The reviews are submitted for the attention of the managers with the requisite decision-making authority. Customers giving cause for concern (where

significant risk is involved) are monitored by the operational credit risk management units. Where there is a significant deterioration in the risk situation, the exposures are transferred to the specialists in the Workout Management Department, who are not involved in front office approval.

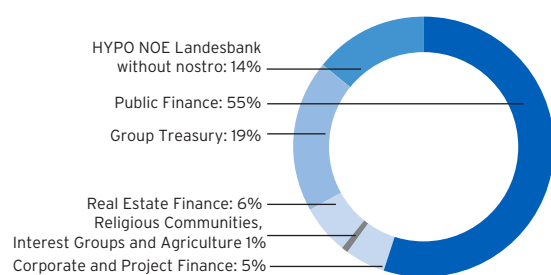
Credit facilities for own investments, money market deposits and derivatives are submitted to the Supervisory Board for authorisation twice a year. Compliance with the limits imposed is monitored on an ongoing basis, and reports are regularly submitted to the Supervisory Board. Approval for such credit lines is chiefly requested for sovereigns, new business from Austrian and international banking groups with good investment grade ratings, or existing customers with good ratings as defined by the master scale.

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

Credit risk management

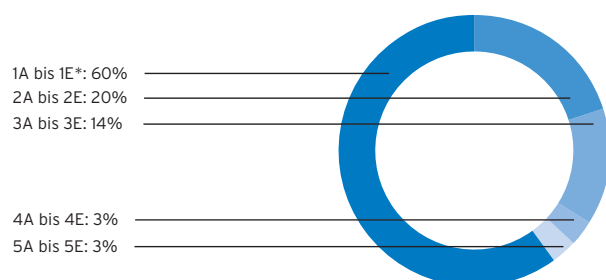
The credit risk management system is based on the following control units:

Control unit	Exposure (EUR '000) ¹	
	31 Dec. 2014	31 Dec. 2013
Public Finance	8,719,370	8,811,327
Corporate & Project Finance	859,321	776,458
Religious Communities, Special Interest Groups and Agriculture	101,434	-
Real Estate Finance	1,005,528	999,673
Group Treasury	3,000,992	2,379,081
HYPO NOE Landesbank (excl. nostro)	2,164,140	2,067,916
Total	15,850,785	15,034,455



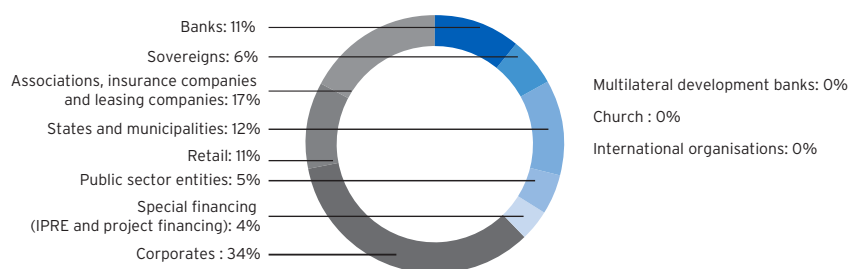
Exposures are also classified by credit ratings, as follows:

Rating category	Exposure (EUR '000) ¹	
	31 Dec. 2014	31 Dec. 2013
1A-1E	9,550,764	8,413,331
2A-2E	3,152,913	3,807,309
3A-3E	2,249,692	2,122,072
4A-4E	483,951	437,941
5A-5E	413,464	253,802
Total	15,850,785	15,034,455



The credit risk management system is also applied via the portfolio segments shown below.

Segment	Exposure (EUR '000)*	
	31 Dec. 2014	31 Dec. 2013
Banks	1,722,839	1,618,077
Sovereigns	895,353	661,062
State governments and local authorities	1,823,647	1,886,351
Multilateral development banks	24,092	19,214
International organisations	56,125	-
Public sector entities	759,265	779,969
Special purpose finance (IPRE and project finance)	655,570	693,135
Corporates	5,380,884	4,996,036
Retail	1,759,154	1,698,583
Church	28,019	20,978
Associations, insurance companies and leasing companies	2,745,835	2,661,049
Total	15,850,785	15,034,455



*The exposure volume is the exposure plus 50% of the unused agreed credit facility. The securities are recognised at fair value.

Disclosures in accordance with IFRS 7

Credit risk mitigation

The measurement and classification of collateral are governed by strict organisational rules and procedures, which distinguish between the fair value of collateral recognised for regulatory purposes and its economic value. As a general rule the relationship manager checks the legal status and the economic value of the collateral - with particular reference to the actual market environment - when the application is received, at least once every year when the loan or facility comes up for reapproval, and whenever circumstances require. As part of the credit review process, the operational credit risk management units check the information, the assumptions and the underlying parameters.

The principal categories of collateral admissible for Basel III purposes that are relevant to the HYPO NOE Group are guarantees (largely in the public sector), mortgages and other pledges. A considerable proportion of the Group's total lending relates to the purchase of subsidised home loans from the Lower Austrian state government. Additional security for this lending is provided by a guarantee from the state government, and the credit risk on these exposures is therefore low.

Default risk

For financial instruments whose carrying amounts represent the maximum default risk, this information is not required. The maximum default risk for the HYPO NOE Group's contingent liabilities is shown below.

Contingent liabilities (EUR '000)	31 Dec. 2014	31 Dec. 2013	Change
Acceptances and endorsements	109	327	-218
Liabilities arising from guarantees and provision of collateral	141,731	182,221	-40,490
Credit risk	1,223,716	1,515,671	-291,955
Summe	1.365.556	1.698.219	-332.663

Disclosures of maturities, collaterals and impaired or past due financial assets

The table below shows the value of the collateral as calculated for regulatory purposes. The receivables of the leasing subsidiary, amounting to approximate-

ly EUR 2,007,847thsd (2013: EUR 1,549,795thsd), are shown gross of collateral.

31 Dec. 2014 (EUR '000)	Not past due	Less than 90 days overdue	90 or more days overdue	Total
Gross carrying amount (not individually impaired)	13,046,372	122,464	15,336	13,184,172
Gross carrying amount (individually impaired)	301,111	8,669	69,900	379,680
Gross carrying amount	13,347,482	131,133	85,236	13,563,851
of which collateral received	-	-	-	4,591,373
Collective impairment allowances	-5,035	-135	-27	-5,197
Individual impairment allowances	-39,647	-6,575	-57,143	-103,365
Net carrying amount	13,302,800	124,423	28,066	13,455,289

31 Dec. 2013 (EUR '000)	Not past due	Less than 90 days overdue	90 or more days overdue	Total
Gross carrying amount (not individually impaired)	11,145,987	36,187	3,230	11,185,405
Gross carrying amount (individually impaired)	129,914	7,815	97,103	234,833
Gross carrying amount	11,275,901	44,002	100,333	11,420,238
of which collateral received	-	-	-	5,122,200
Collective impairment allowances	-4,726	-51	-18	-4,795
Individual impairment allowances	-39,828	-2,841	-63,691	-106,360
Net carrying amount	11,231,347	41,110	36,625	11,309,083

As in 2013, there were no cases of collateral taken into possession with the intention of disposal.

The tables below show risk provisions grouped by maturities of the underlying transactions and segmented as required for regulatory reporting purposes.

31 Dec. 2014 (EUR '000)	Not past due	Less than 90 days overdue	More than 90 days overdue	Total
Risk provisions for customers: individual impairment allowances	-39,647	-6,575	-57,143	-103,365
Unitary states	-4,661	-	-	-4,661
Non-credit institutions (banks)	-122	-	-313	-435
Corporates	-30,133	-6,093	-33,819	-70,045
Retail	-4,731	-482	-23,011	-28,224
Risk provisions for customers and banks: collective impairment allowances	-5,035	-135	-27	-5,197
Total risk provisions	-44,682	-6,710	-57,170	-108,562

31 Dec. 2013 (EUR '000)	Not past due	Less than 90 days overdue	More than 90 days overdue	Total
Risk provisions for customers: individual impairment allowances	-39,828	-2,842	-63,691	-106,360
Non-credit institutions (banks)	-4,466	-	-	-4,466
Corporates	-30,020	-2,251	-38,626	-70,897
Retail	-5,342	-591	-25,065	-30,997
Risk provisions for banks: individual impairment allowances	-	-	-	-
Risk provisions for customers and banks: collective impairment allowances	-4,726	-51	-18	-4,795
Total risk provisions	-44,554	-2,893	-63,709	-111,156

Forborne exposures

The tables below show the changes in rescheduled loans, together with analysis by region, by business segment, and by maturity. The receivables consist both of rescheduled instalments and overdue arrears.

Despite the increase in rescheduled receivables at 31 December 2014, the total amount was small in compari-

son to the total net carrying amount of the receivables. The increase in Central and Eastern Europe (CEE) was principally attributable to a Hungarian borrower in the property sector and a Bulgarian customer in the energy sector. The increase in the rest of the world segment was mainly attributable to one German borrower in the energy sector.

EUR '000 Outstanding loans as at 1 Jan. 2014	Increases (+)	Decreases (-)	Outstanding loans as at 31 Dec. 2014	Interest income in profit or loss for existing receivables	Individual impairment allowances	Collective impairment allowances
19,929	91,282	-10,487	100,724	1,818	-31,913	-37

EUR '000 Outstanding loans as at 1 Jan. 2013	Increases (+)	Decreases (-)	Outstanding loans as at 31 Dec. 2013	Interest income in profit or loss for existing receivables	Individual impairment allowances	Collective impairment allowances
17,416	11,075	-8,561	19,929	1,093	-12,655	-13

Geographical analysis

EUR '000	31 Dec. 2014	31 Dec. 2013
Domestic customers	28,838	19,929
CEE	56,271	-
Rest of the world	15,616	-
Total	100,724	19,929

Segment

EUR '000	31 Dec. 2014	31 Dec. 2013
Bank Group	77,549	14,316
Landesbank	23,175	5,613
Total	100,724	19,929

31 Dec. 2014 (EUR '000)	Not past due	Less than 90 days overdue	90 days or more overdue	Total	Collateral received
Gross carrying amount (not individually impaired)	11,765	318	555	12,638	8,151
Gross carrying amount (individually impaired)	82,444	4,290	1,352	88,086	3,838
Collective impairment allowances	-36	-1	-	-37	-
Individual impairment allowances	-26,567	-4,158	-1,188	-31,913	-
Net carrying amount	67,606	449	719	68,774	11,889

31 Dec. 2013 (EUR '000)	Not past due	Less than 90 days overdue	90 days or more overdue	Total	Collateral received
Gross carrying amount (not individually impaired)	4,024	379	-	4,403	2,505
Gross carrying amount (individually impaired)	15,435	-	92	15,527	340
Collective impairment allowances	-13	-	-	-13	-
Individual impairment allowances	-12,611	-	-44	-12,655	-
Net carrying amount	6,834	379	48	7,261	2,845

Current risk situation

The Group's portfolio of loans and investments largely consists of low-risk loans to public sector borrowers such as sovereigns, the Austrian federal government, state governments and local authorities (and their associated enterprises), as well as loans to banks with good external ratings (predominantly own investments, derivatives and money market investments) and – generally well collateralised – loans to housing construction companies (both large housing associations and private sector builders). Within these low-risk areas there are nevertheless significant risk concentrations (unsecured lending per individual borrower) in the loan portfolio.

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

HYPO NOE Gruppe Bank AG also finances property projects with excellent or good credit ratings, as well as selected public sector loans, infrastructure enterprises

and foreign corporate customers. HYPO NOE Landesbank AG specialises in retail banking, large-scale housing construction (both housing associations and private sector housing) and SME finance.

The notice on HETA issued by the FMA on 1 March 2015 gave rise to a situation that directly affects the HYPO NOE Group. In 2006 and 2007 the HYPO NOE Group subscribed to Hypo Alpe-Adria-Bank International AG bonds guaranteed by the State of Carinthia and maturing in 2017. These bonds are subject to the aforementioned FMA notice. There are no other secured or unsecured loans or advances to HETA. The HETA bonds held by the Group fall due in the second half of 2016 and 2017 – in other words, after the FMA's moratorium has expired. In its special notice, the FMA concludes that in addition to HETA's current overindebtedness, the company would become insolvent in the near future (i.e. after 2016 at the latest) unless regulatory measures were taken. It is therefore possible that the FMA could extend the moratorium, impose further measures pursuant to the Federal Act on the Recovery and Resolution of Banks (including creditor participation by means of instruments

that could result in HETA defaulting on its obligations) or take similar steps which would affect repayments of principals as well as interest payments amounting to around EUR 8.6m. In light of their prior deliberations, the management boards of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG decided to recognise impairments of EUR 63.9m in profit or loss based on a valuation model.

This model was applied since there was no active market for HETA debt issues as at the end of the reporting period. This assessment reflected the low trading volumes for HETA debt, as well as significant variations between the stock exchange prices posted by the various market participants in the price information systems and the extremely high bid/ask spread quoted in the systems. The valuation model is based on unobservable estimates regarding the timing and size of outstanding payments of principal and interest on HETA bonds backed by the State of Carinthia (see Note 10.3 Fair value disclosures in accordance with IFRS 7 and IFRS 13).

Relevant and publicly available information on the HETA situation was used. The risk associated with future payments was taken into account by means of reasonable discounts. The effect of delayed payments was taken into consideration by means of discounting that used risk-free discount rates commensurate with the currencies and maturities of the bonds.

The HYPO NOE Group will be able to cope with the potential outcomes of the moratorium placed on HETA.

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

As a result of the FMA notice of 1 March 2015, HETA is not permitted to repay amounts owing to Pfandbrief-

bank. However, Pfandbriefbank (Österreich) AG must redeem debt instruments issued to third parties on behalf of HETA. If Pfandbriefbank (Österreich) AG does not receive sufficient funding from its member institutions and guarantors for the outstanding payments, and is without recourse, this would lead to a cross default on all debt instruments issued by Pfandbriefbank (Österreich) AG. These amount to around EUR 5.5bn and creditors would be entitled to demand repayment directly from any member institution and guarantor.

Consequently, as part of an agreement with the member institutions and the State of Carinthia, the Management Board of HYPO NOE Gruppe Bank AG undertook to provide financing for one-eighth of the EUR 1.2bn of debt instruments issued on behalf of HETA, a share of around EUR 155m. This amount includes the share of the State of Lower Austria and that of HYPO NOE Gruppe Bank AG, of which around EUR 84m falls due in 2015. In a session of the Lower Austrian parliament on 19 March 2015 and at a meeting of the Lower Austrian government on 24 March 2015, the State of Lower Austria agreed to assume reciprocal liability for the obligations of HYPO NOE Gruppe Bank AG, in fulfilment of its joint and several liability pursuant to the Pfandbriefstelle Act. In the measurement process, this reciprocal liability was recognised as a financial guarantee received in accordance with paragraph 9 IAS 39, and recognition of a risk provision was not necessary. In return, HYPO NOE Gruppe Bank AG undertook to pay an appropriate consideration (based on the set-off of refinancing costs incurred) as well as full compensation for the drawdowns in the form of a debtor warrant contingent on the Bank's future profits. The conditions for the warrant had not been met at the end of the reporting period. With regard to this agreement, there is a risk that other member institutions or guarantors do not fulfil their obligations under the Pfandbriefstelle Act. In such an event, new agreements may have to be concluded.

There are also holdings of debt instruments issued by a State of Carinthia-owned company which fall due between 2023 and 2029.

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

The HYPO NOE Group regularly calculates the statistically expected loss associated with credit risk exposures on the basis of the default probabilities and the relevant collateral. The aim is to ensure that the expected loss on the overall portfolio is adequately covered by risk provisions, and that a conservative approach is taken to any possible shortfalls in risk coverage.

Group Strategic Risk Management regularly checks the non-performing asset (NPA) ratios and NPA coverage of individual members of the Group. The NPA ratio is defined as the total exposure on all default (5A-5E rated) customers divided by total credit risk exposure. As at 31 December 2014, the HYPO NOE Group's NPA ratio was 3.43% (2013: 1.92%). The NPA coverage is defined as risk provisions (individual and collective impairment allowances, and credit provisions) divided by the total exposure on default customers (5A-5E rated). Group coverage as at 31 December 2014 was 38.6% (2013: 51.8%).

The non-performing loan (NPL) ratio, defined as total exposure on default customers divided by total loans and advances to customers, is calculated at Group level. As at 31 December 2014 the NPL ratio was 2.30% (2013: 2.37%).

MARKET RISK

General

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

Bank-specific market risks comprise:

- Interest rate risk on the banking book
- Credit spread risk
- Foreign exchange risk
- Options risk (volatility risk)
- Trading book risk
- Basis risk in hedge accounting
- CVA risk (OTC derivatives excluding credit derivatives)
- Commodity price risk
- Share price risk
- Fund price risk

The major market price risks in the HYPO NOE Group are interest rate risk on the banking book and credit

spread risk (particularly on the nostro portfolio) arising in part as a result of ordinary banking activities such as fixed-interest lending and management of liquidity reserves. The HYPO NOE Group has detailed monitoring and control processes for these risks. Business strategy considerations mean that foreign exchange rate risk and option risk (e.g. embedded upper and lower interest rate limits) are also managed. As a result of changes in the underlying environment in financial markets (e.g. multiple curve approaches, OIS discounting on collateralised derivatives, etc.) and in regulatory provisions (Basel III, IFRS 9, etc.) the management of basis risk in hedge and CVA accounting is assuming ever greater importance.

In the HYPO NOE Group no risk capital is earmarked for commodity price risk, share price risk and fund risk, because no substantial risks have been assumed in these market risk categories.

The organisation of the treasury function is based on a clear operational and disciplinary separation of trading activities from processing and control. The division between front and back office functions ensures that the four-eyes principle is adhered to. Structures, decision-making authorities and processes are laid down by the authorisation rules, the minimum requirements for investment and trading activities, and the procedures for the introduction of new products. Market risk may only be incurred within the authorised limits and with respect to authorised products.

IFRS 7 requirements

The HYPO NOE Group's conservative risk policies on open currency positions are supported by very strict internal limits. Sensitivity to currency risk is therefore negligible. The various interest rate scenarios are shown in the interest rate risk section of the banking book. The IFRS 13 Level 3 sensitivity analysis is shown in the Notes (Note 10.3.4 Level 3 sensitivity analysis).

Interest rate risk on the banking book

In its approach to the measurement and control of interest rate risk, the HYPO NOE Group distinguishes between period net interest income risk, which primarily addresses the risk of net interest rate fluctuations in a given period, and present value risk, which measures the

loss in underlying value of a particular portfolio as a result of interest rate-induced changes in present values.

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

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

Interest rate risk management

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

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

For the nostro portfolio and IFRS earnings- or equity-related sub-portfolios, 1 bp parallel shift limits are in force. For non-linear positions, appropriate limits depending on the risk profile and corresponding to a 1 bp parallel shift limit are imposed.

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

Banking book

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

Individual portfolios

In addition to monitoring and control of the banking book as a whole, limits are also set and monitored for IFRS earnings- or equity-related sub-portfolios as part of the control system. The individual portfolios are as follows:

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

Even with a perfectly selected fixed-interest position and the structural contribution from maturity mismatch,

there are fluctuations in net interest earnings as a result of differences in the behaviour of the various reference rates (three-month Euribor, six-month Euribor, etc.) or of the same reference rates but different interest fixing dates.

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

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

Current risk situation

The Oesterreichische Nationalbank statistics indicate that in 2014 interest rate risk was moderate relative to the regulatory limit (20% of eligible capital), at 7.59% (2013: 6.82%): fixed interest rate risks on own issues, on securities in the Bank's nostro accounts and on loans and advances to customers are as a matter of principle eliminated by microhedging when acquired or issued. Other derivative interest rate risks or open on-balance-sheet interest rate risk positions are only assumed within strictly defined internal limits and following a rigorous assessment. As a result, the level of such risks is low.

Internal risk reporting

As part of the HYPO NOE Group's risk monitoring activities, interest rate risk is analysed monthly using gap analysis and interest rate sensitivity (average of the five worst of ten scenarios). For the banking book as a whole there is a 1 bp parallel shift limit, and for the nostro portfolio and the IFRS earnings- or equity-related sub-portfolios there are comparable shift limits. The results are reported to the Bank's relevant specialist departments

and units, and discussed in the monthly Asset-Liability Management Committee (ALCO) meetings. In addition to parallel shifts (100 and 200 base points), twists in the yield curve (both on money markets and on capital markets) are also modelled in the scenarios.

Banking book

The sensitivity analysis captures interest rates in a variety of currency areas as risk factors. This makes it possible to apply a constant, standard measure of risk to all interest-rate-sensitive products. The analysis enables interest rate risks in various areas of business to be compared, and positions aggregated and netted across the Bank as a whole. In addition, interest rate risk can be compared over time.

When using sensitivity analyses, the following problems need to be borne in mind:

- ▣ The scenarios may not be good indicators of future events - especially where these are extreme. This could lead to underestimation or overestimation of the risks.
- ▣ The assumptions about changes in the risk factors and the relationships between them (e.g. simultaneous twists in the euro and Swiss franc yield curves) may turn out to be false, particularly if extreme events occur. There is no standard methodology for developing interest rate scenarios, and applying other scenarios would generate different outputs.
- ▣ The scenarios applied do not provide any indications of the potential losses in situations that are not modelled by them.

In 2014 risk utilisation averaged 46.4% of the total limit of EUR 35.5m (2013: 52.4% of total limit of EUR 35.5m).

The following tables show the results of the interest risk positions taken by the HYPO NOE Group as at 31 December 2014 (on p. 90) and 31 December 2013 (on p. 91):

Interest rate risks (assets-liabilities)

	31 Dec. 2014 (EUR '000)			31 Dec. 2013 (EUR '000)		
	On-balance sheet	Off-balance sheet	Total	On-balance sheet	Off-balance sheet	Total
Up to 1 month	1,970,685	-984,153	986,533	2,099,774	-906,265	1,193,509
From 1 to 3 months	632,908	-2,974,061	-2,341,153	895,373	-2,680,748	-1,785,375
From 3 to 6 months	1,393,830	-714,457	679,373	1,969,835	-1,993,680	-23,846
From 6 months to 1 year	-138,826	433,495	294,669	-145,950	683,418	537,468
From 1 to 2 years	-550,274	493,731	-56,543	-322,509	65,337	-257,172
From 2 to 3 years	-1,215,872	1,299,627	83,755	-333,746	504,681	170,935
From 3 to 4 years	-157,518	515,092	357,573	-1,550,450	1,628,342	77,892
From 4 to 5 years	-268,843	590,275	321,432	-187,481	541,063	353,582
From 5 to 7 years	-818,480	962,375	143,896	-614,179	936,029	321,850
From 7 to 10 years	-301,895	494,308	192,413	-403,361	543,404	140,044
From 10 to 15 years	-334,129	135,690	-198,439	-324,665	127,342	-197,323
From 15 to 20 years	68,881	-95,574	-26,693	-526,621	508,939	-17,681
Over 20 years	211,155	-225,157	-14,002	-60,062	40,029	-20,033

The table below shows the results of the various interest rate scenarios for the HYPO NOE Group as a whole, and how it is reflected in the internal limits, as at 31 December 2014 (right-hand table: 31 December 2013).

Interest rate scenario (EUR '000) Total banking book	As at 31 Dec. 2014		As at 31 Dec. 2013	
	Change in present value	Negative change in present value	Change in present value	Negative change in present value
No shift				
Shift +100 bp	-18,648	-18,648	-17,635	-17,635
Shift -100 bp	11,863		14,424	
Shift +200 bp*	-35,128	-35,128	-33,781	-33,781
Shift -200 bp	27,335		17,257	
Twist CM +100 bp	2,630		-2,029	-2,029
Twist CM -100 bp	-5,495	-5,495	2,472	
Twist MM +100 bp	-19,242	-19,242	-9,470	-9,470
Twist MM -100 bp	7,913		7,604	
Twist 1d +100 bp 30y -250 bp	-4,545	-4,545	-2,525	-2,525
Twist 1d +100 bp 30y -250 bp	7,067		1,512	
Internal risk**	-	-16,612	-	-13,088
Warning level (95% of limit)	-33,725		-33,725	
Limit/utilisation (%)	-35,500	46.79%	-35,500	36.87%

*Regulatory scenario **Average of five worst deteriorations in net present value

Sub-portfolios

The present value of the 1 bp interest rate shift is a uniform, standard measure of risk for monitoring and control of interest-sensitive positions. This measure makes it possible to compare interest rate risks on different sub-portfolios.

The internal risk utilisation of the various sub-portfolios was low to moderate throughout 2014. The following table shows the results of the interest sensitivity analysis for the HYPO NOE Group as at 31 December 2014:

The HYPO NOE Group is constantly refining its interest risk management system. During 2014 the following improvements were implemented:

- ▣ Sub-limits were introduced for the nostro portfolio and IFRS earnings- and equity-related sub-portfolios. These are the subject of regular monitoring and reporting.

Credit spread risk

Credit spread risks are particularly important in connection with the Group's own investments, and these risks are monitored and reported on in the monthly risk management report. The credit spread risk is calculated for the whole nostro portfolio in the banking book using a value-at-risk approach based on historic credit spread scenarios. This indicator measures the potential loss in value from widening spreads that would be realised by selling the whole securities portfolio on a gone concern basis.

Foreign exchange risk

The HYPO NOE Group's conservative risk policies are supported by very strict internal limits on open currency positions. The use of refinancing in the same currency and FX derivatives means that foreign exchange risks for the Group are effectively eliminated. Sensitivity to foreign exchange risk is therefore negligible.

Options risk

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

Trading book risk

The Group does not engage in any business that requires it to maintain a large trading book as defined by the Capital Requirements Regulation. It maintains a small trading book in accordance with Article 94 CRR.

Basis risk in hedge accounting

Hedges do not always offer effective protection against valuation losses, because there can be differences be-

tween the hedging instrument and the position hedged in the terms and conditions, specific features or other basis risks. Changes in the financial market environment (e.g. multiple curve approaches or OIS discounting of hedged derivatives) can potentially cause present value IFRS earnings losses on balance sheet microhedges, reflecting the resulting hedging inefficiencies. These effects are regularly analysed and monitored by Group Strategic Risk Management.

CVA risk

In 2013 the HYPO NOE Group refined its valuation methodology to take into account counterparty risk in determination of the fair value of derivative instruments (credit valuation adjustment, CVA) and began taking into account own credit risk in determining the fair value of derivative instruments (debt valuation adjustment, DVA). This change resulted in a market-based valuation process, and the effects are recognised in Group profit and loss as they arise.

Internal sub-portfolios (EUR '000) for interest rate risk monitoring as at 31 Dec. 2014

	Shift +1 bp	Limit	Utilisation (%)
Nostro portfolio	-146	-315	46.35%
AFS reserve	-146	-375	38.93%
IFRS earnings portfolio (linear)	-	-40	-
IFRS earnings portfolio (nonlinear)	-	-25	-

LIQUIDITY RISK

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

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

Liquidity risk management

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

- ▣ This defines the fundamental liquidity management objectives:
- ▣ Maintenance of an appropriate liquidity buffer to ensure solvency at all times, on the basis of a system of stress tests and limits
- ▣ Optimisation of the refinancing structure with respect to risk tolerance, maturity transformation and costs
- ▣ Detailed planning of the medium to long-term refinancing strategy
- ▣ Coordination of issuing activities in the money and capital markets
- ▣ Pricing commensurate with risks and costs
- ▣ Compliance with statutory regulations and environmental conditions

These objectives define the core elements of the HYPO NOE Group's liquidity risk management:

- ▣ Identifying and regularly evaluating liquidity risks
- ▣ Identifying and regularly reviewing suitable models and processes for measuring liquidity risks
- ▣ Quantifying liquidity risks on the basis of the processes established
- ▣ Identifying and complying with statutory regulations and environmental conditions
- ▣ Determining management's risk tolerance and appetite
- ▣ Maintaining an appropriate liquidity buffer at all times
- ▣ Limiting and monitoring liquidity risks on the basis of the chosen risk tolerance
- ▣ Appropriate reporting

- ▣ Identifying potential emergency situations, preparing contingency plans and their regular review to ensure they are up-to-date
- ▣ Efficient and timely management of operational liquidity
- ▣ Implementing and monitoring the medium to long-term refinancing strategy
- ▣ Determining processes and procedures for risk-related allocation of liquidity costs

Implementing intraday liquidity risk management

In order to manage, plan and monitor the Group's daily liquidity requirements, each week the Group Strategic Risk Management Department provides Group Treasury with a report on daily liquidity gaps in existing business for the next 30 days, broken down by currency. Group Treasury forecasts liquidity requirements for the following days by applying assumptions on roll over business and new business. It manages liquidity with the help of funding from the European Central Bank (ECB) as well as collateralised and uncollateralised money market refinancing.

Implementation of liquidity risk management

The Group Strategic Risk Management Department prepares a detailed monthly liquidity risk report for the purpose of analysis and control of operational and structural liquidity and to monitor compliance with the liquidity risk limits. Operational liquidity and structural liquidity risk are presented and analysed over a period of 12 months for a normal scenario and for three stress scenarios (bank name crisis, market crisis and combined crisis).

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

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

New business and prolongations require an annually updated budget and medium-term planning with a five-year planning horizon. The overall responsibility lies with ALM and Group Strategic Planning staff units, which report directly to the CEO. Compliance with liquidity risk limits based on current medium-term planning assumptions and the budget is reviewed and approved by the Group Strategic Risk Management Department before authorisation by the Management Board. Detailed planning is the responsibility of the applicable market units. Funding planning is performed by the Group Treasury Department. Major decisions with respect to new issues that deviate significantly from this framework are taken on a case-by-case basis by the Management Board on the basis of recommendations by Group Treasury.

For the scenarios analysed, the net cash flows are aggregated into periodic and cumulative maturity bands on a daily, weekly, monthly and yearly basis.

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

■ For the **bank name crisis** scenario, a deterioration in HYPO NOE's individual liquidity is simulated. Other

market participants are not at first affected by the crisis, but react directly by withdrawing their deposits from the HYPO NOE Group. At the same time, the Group's refinancing options in the money and capital markets become severely reduced or are non-existent.

■ In the **market crisis** scenario, a general deterioration in the liquidity of money and capital is assumed, and access to money and capital market refinancing is also taken to be very limited. In addition, the free liquidity reserve can be expected to fall in value as a result of declining market prices, as market participants' risk aversion increases. The effects on customer deposits are assumed to be smaller than in a bank name crisis and indeed – given that in a general crisis customers' need for security is increased – the fact that the Group is owned by the State of Lower Austria may even be seen as positive.

■ The **combined crisis** links a bank name crisis with a market crisis. It should be noted that in such a crisis the stress factors of the two components are not simply added, but that special parameters come into play. Refinancing in the money or capital markets is hardly possible at all, the liquidity buffer shrinks as market prices fall, and customer deposits are withdrawn in larger volumes, although not to the same extent as in a bank name crisis, since other market participants are also affected.

With a limit of eight weeks (early warning, 12 weeks), the HYPO NOE Group's time to wall as at 31 December 2014 was a respectable 34 weeks. In addition to time to wall, the regulatory LCR is an important control metric for operational liquidity. The LCR is calculated monthly as at the end of the current month, the end of the coming month and the end of the next year. It is a performance target in the Group's planning processes. The LCR reported to the regulator as at 31 December 2014 was 108%, and the Group's target for 2015 is to achieve 100%. To control unsecured bank money market exposures, volume limits based on maturities were installed in 2014. Daily monitoring and reporting is the responsibility of the Group Strategic Risk Management Department. The 30-day limit of EUR 500m, the 90-day limit of EUR 800m and the up to one year limit of EUR 1,000m were all observed throughout 2014.

■ For structural liquidity risk, the period and cumulative liquidity gaps are presented in one-year maturity

bands, including both contractually fixed cash flows and modelled payment streams for all existing business. The modelling assumptions are those of the normal scenario. The new business and prolongation assumptions from the medium-term planning are also reflected, in order to provide liquidity forecasting and monitoring over the entire planning horizon. Beyond the planning horizon, the final step is to include the structural liquidity of existing and planned business.

- The HYPO NOE Group uses economic capital as a major metric for structural liquidity risk. Economic capital measures the maximum possible net interest loss that can be absorbed. For the liquidity risk it is calculated using higher costs, because of potentially higher refinancing spreads over a year. The basis is provided by the new business planning and the roll-over assumptions in the normal scenario. On the basis of historical funding costs, the maximum expected increase in refinancing costs over the period of a year is calculated with a given confidence level for each major funding instrument. Actual performance is then monitored. The economic capital for a limit of EUR 12m was EUR 6.3m as at 31 December 2014. In addition to the economic capital, there is a structural one-year gap limit of EUR 1bn.

In addition to these limits, there are early warning indicators to identify impending critical liquidity situations as early as possible, so that the Bank can initiate timely countermeasures. The early warning indicators are monitored by Group Treasury at least weekly and more often if required, and reported to Group Strategic Risk Management.

The complete liquidity risk report, including all limits, early warning indicators and graphics is sent to Group Treasury and Group ALM & Strategic Planning every month. The Management Board receives regular reports on the liquidity position and limit utilisation from ALCO and RICO.

In addition to the regular stress tests, as part of the quarterly stress tests for the Group as a whole the effects on all the Bank's indicators and risks in various stress scenarios are analysed, and the aggregate risk capacity of the Group is evaluated. Where appropriate, short-term measures or medium to long-term structural improvements to the business model are undertaken to improve

the HYPO NOE Group's ability to resist crises. For the liquidity risk, the effect on net interest income and economic capital calculated on the basis of the refinancing costs in the various scenarios and the specific burden of aggregate refinancing is taken into account, while at the same time the Bank's solvency over the whole of the multi-year stress test period is monitored.

Contingency plan

There is a liquidity contingency plan, to ensure that effective liquidity management can be maintained even in a market crisis. The plan sets out the responsibilities in case of emergencies, the composition of the crisis management teams, the internal and external communication channels, and the actions to be taken. In emergency situations a crisis management team takes over control of liquidity management and decides on a case-by-case basis on the action to be taken. The contingency plan was thoroughly revised in 2014, and in a multi-stage selection process an assortment of measures useful in bringing a liquidity crisis under control was identified, analysed and documented. For each of the measures, their practicality and usefulness in a variety of basic types of stress scenarios was evaluated, the quantitative and qualitative effects were worked out, and the individual steps in the process of implementation were established.

Current risk situation

The HYPO NOE Group's liquidity situation remains satisfactory. The Group has sufficient access to short-term and long-term refinancing options, and building on this base will remain the focus for the coming years. As well as sufficient assets eligible as collateral for ECB tenders, there is a broad funding portfolio available – additional evidence that the current 12-month liquidity position is satisfactory.

In spite of the extreme volatility of the market in 2014, long-term refinancing was very successful. The measures taken to safeguard medium to long-term liquidity in a difficult market environment for Austrian banks were very successfully implemented: uncollateralised capital market refinancing, in particular, was secured on very advantageous terms.

The HYPO NOE Group's excellent credit rating enabled a private placement of a NOK 1bn unsecured loan with an institutional investor in Scandinavia.

Also in 2014, the Bank for the first time issued a seven-year EUR 500m benchmark bond backed by its mortgage cover pool. Similarly to HYPO NOE's public sector cover pool, its mortgage cover pool enjoys Moody's top Aaa credit rating. Particular attention is being paid to issues with long maturities, as issues of bonds backed by state governments are due to end in 2017.

Throughout 2014, the Basel III, LCR and NSFR regulatory indicators for liquidity risk limitation were calculated on the basis of the published standards and reported to the Austrian regulatory authorities. Compliance with the statutory regulations will be underpinned by the integration of the requirements into the internal liquidity risk management and planning processes together with the strict Group-wide procedures and operational control processes already established by the Group Treasury and Strategic Risk Management departments.

Further developments

The HYPO NOE Group refines its liquidity risk management on an ongoing basis. During 2014 the following improvements were implemented:

- ▣ Continuing development of the groupwide liquidity contingency plan
- ▣ Improvements to internal liquidity risk reporting
- ▣ Further refinement of the stress scenarios (assumptions, earnings components, etc.)
- ▣ Further development of notional cash flow scenarios and roll-over assumptions
- ▣ Ongoing development of the Group reporting system
- ▣ Continuing adaptation and refinement of the economic capital concept
- ▣ Further development of the limits system
- ▣ Continuing development of the liquidity costs model

Maturity analysis of financial liabilities

The table below presents a maturity analysis of the undiscounted earliest possible contractual cash flows in connection with both non-derivative and derivative financial liabilities and off-balance-sheet loan commitments as at 31 December 2014 and 2013. The cash flows consist of payments of interest as well as principal. In the case of liabilities with variable cash flows the future cash flows are calculated on the basis of forward rates.

EUR '000	31 Dec. 2014	31 Dec. 2013
Deposits from banks		
Repayable on demand or no fixed term	33,481	59,612
Up to 3 months	1,066,570	889,911
From 3 months to 1 year	208,980	139,446
From 1 to 5 years	753,322	695,969
Over 5 years	565,377	364,760
Total	2,627,730	2,149,698
Deposits from customers		
Repayable on demand or no fixed term	815,849	665,334
Up to 3 months	247,987	149,375
From 3 months to 1 year	595,198	491,882
From 1 to 5 years	582,622	804,944
Over 5 years	63,400	57,408
Total	2,305,056	2,168,943
Debts evidenced by certificates		
Repayable on demand or no fixed term	586	587
Up to 3 months	235,807	251,735
From 3 months to 1 year	265,549	661,441
From 1 to 5 years	4,310,064	4,048,827
Over 5 years	3,741,305	3,200,774
Total	8,553,311	8,163,364
Liabilities held for trading		
Repayable on demand	-	-
Up to 3 months	1,311	902
From 3 months to 1 year	166	16
From 1 to 5 years	21,481	27,605
Over 5 years	568,182	361,253
Total	591,140	389,775
Negative fair value of derivatives (hedge accounting)		
Repayable on demand or no fixed term	-	-
Up to 3 months	68	268
From 3 months to 1 year	6,465	1,026
From 1 to 5 years	69,370	51,159
Over 5 years	801,964	370,650
Total	877,867	423,103
Subordinated capital		
Repayable on demand	14,749	13,767
Up to 3 months	17,151	12,778
From 3 months to 1 year	29,401	17,150
From 1 to 5 years	36,004	19,334
Over 5 years	7,071	2,932
Total	104,376	65,960

EUR '000	31 Dec. 2014	31 Dec. 2013
Subordinated capital		
Repayable on demand	-	-
Up to 3 months	-	-
From 3 months to 1 year	-	-
From 1 to 5 years	206,059	210,512
Over 5 years	-	-
Total	206,059	210,512

Maturities of existing financial guarantees

EUR '000	31 Dec. 2014	31 Dec. 2013
Repayable on demand	1,608	1,862
Up to 3 months	878	953
From 3 months to 1 year	24,939	32,305
From 1 to 5 years	77,846	97,941
Over 5 years	36,460	49,160
Total	141,731	182,221

OPERATIONAL RISK

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

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

- ▣ Ongoing identification and analysis of operational risk events, including introducing measures to avoid similar events in future and reporting immediately to the Management Board
- ▣ Ongoing monitoring of the implementation and success of the measures, and submission of a quarterly status report to the Management Board

- ▣ Using key risk indicators to monitor the potential future operational risk profile
- ▣ Evaluating factors that could alter the risk profile, such as the introduction of new products or the outsourcing of activities
- ▣ Ongoing adaptation and improvement of existing guidelines
- ▣ Using the emergency plans that form part of the business continuity management (BCM) system to manage the risks that threaten business continuity
- ▣ Strict observance of the four-eye management principle to reduce the likelihood of the occurrence of risks
- ▣ Continuing education and training as part of staff development
- ▣ Insurance

There is also a particular emphasis on continuous improvements in the effectiveness and efficiency of operational risk management processes. The extension and improvement of the internal control system (ICS) is intended to minimise the likelihood and effects of operational risk. Risks are systematically identified and as-

sessed, controls are agreed and, where necessary, key processes are adapted.

Current risk situation

Detailed information on operational losses in the year under review has been collected in a database. Improvements are seen as a major way of controlling operational risk: as operational risk events and near-miss incidents occur, appropriate improvements must be defined and implemented. As part of business continuity management, the existing emergency scenarios have been extended and various emergency simulations have been carried out. The existing early warning system and the key lead indicators for risks were revised in 2014. Overall, the review showed that the results were satisfactory and as planned. The Group's methodology for dealing with operational risk and the internal control system have been successfully rolled out in another subsidiary, HYPO NOE Real Consult GmbH.

One organisational development in 2014 was the successful completion of the Group project to strengthen and develop the internal control system: the Group ICS guideline was implemented and ICS reporting was introduced. In the process of the 2014 review, the controls were adapted to reflect the current risk situation.

The identification of the risk content of new products using a standard risk evaluation application was integrated into the product launch process.

Outlook for 2015

In 2015 the internal control system will be further extended and improved. An additional focus will be on revising risk assessment for operational risks. The intro-

duction of a new database for operational risk should improve the opportunities for analysis.

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 now in place.

Reputational risk is the danger of direct or indirect harm to the Group's reputation, and the opportunity costs entailed by such damage. Damage to the HYPO NOE Group's reputation can occur through problems with stakeholders – customers, providers of finance, staff, business partners, or the community. The reasons may lie in failure to live up to stakeholders' expectations.

The basis for fulfilling those expectations is essentially a matter of putting effective business processes in place, and of sound risk monitoring and management. The Group's code of conduct sets out the common values and principles shared by all HYPO NOE employees. The HYPO NOE Group also takes care to avoid business policies and activities associated with unusual tax or legal risks, or with major environmental risks.

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

OTHER RISKS

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

Business risk

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

Joint and several liability for Pfandbriefstelle liabilities

As a member bank of Pfandbriefstelle der österreichischen Landes-Hypothekenbanken, under section 2(1) Pfandbriefstelle Act HYPO NOE Gruppe Bank AG is jointly and severally liable, together with the other members, for all the liabilities of the Pfandbriefstelle. This liability is the same for all the member banks and their universal successors. Under section 2(2) Pfandbriefstelle Act, the members' guarantors (the respective state governments) are likewise jointly and severally liable for all liabilities incurred up to 2 April 2003, and for all liabilities incurred between 2 April 2003 and 1 April 2007 where the maturities do not extend beyond 30 September 2017. It should be noted in this context that as of 15 January 2015 the operating activities of the Pfandbriefstelle were taken over by Pfandbriefbank (Österreich) AG with

retroactive effect from 31 December 2013. The Pfandbriefstelle is currently the sole shareholder in Pfandbriefbank (Österreich) AG.

According to the Pfandbriefstelle's statutory audit report the guarantors' liabilities as at 31 December 2014 were approximately EUR 5.5bn (31 Dec. 2013: EUR 6.2bn). This is approximately equal to the total liabilities of the Pfandbriefstelle as at 31 December 2014.

On 1 March 2015 the FMA issued a notice imposing a moratorium on debt repayments by HETA until 31 May 2016. This led to increased risk. In line with HYPO NOE Gruppe Bank AG's liability pursuant to section 2(1) Pfandbriefstelle Act in conjunction with section 92(9) Banking Act, the Management Board resolved to finance one-eighth of the obligations of Pfandbriefbank (Österreich) AG relating to the outstanding state-government-backed HETA debt instruments affected by the aforementioned moratorium imposed by notice by the FMA. The State of Lower Austria agreed to guarantee this financing, in fulfilment of its joint and several liability as a guarantor in the meaning of section 2(2) Pfandbriefstelle Act in conjunction with section 92(9) Banking Act. With regard to this agreement, readers are referred to the section on the current risk situation in the chapter on credit risk, above.

LEGAL RISKS

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

As at 31 December 2014 there were provisions against legal risks from pending proceedings connected with derivatives and credit restructuring.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM (ICS)

INTERNAL AUDIT

The importance of internal audit as part of a bank's internal control systems is shown by the fact that it is one of the few functions that are statutory requirements under the Austrian Banking Act (section 42[1]).

Banks must establish an internal audit department that reports directly to senior management, and is exclusively devoted to comprehensive, ongoing review of the legality, orderliness and expediency of the operations of the entire enterprise. Internal audit must be adequately resourced to perform its role properly, taking account of the volume of business.

HYPO NOE Group's internal auditing activities are based on annual audit plans approved by the Group Management Board which, in turn, form part of a multi-year audit road map. This ensures that the audit cycle takes in all areas of operations.

The main focus is on the auditing activities required by law, and particularly close attention is also paid to the various categories of risk (risk-based auditing), i.e. operational, market and credit risk, and to risk management as a whole, as well as efficiency and quality issues. The Audit Department was also involved in a variety of projects. The other departments made extensive use of the Department's advisory services.

In 2014, audits were carried out in accordance with the approved annual plan. Special audit assignments were also undertaken as requested by the Management

Board. As a rule, the audit reports contain suggestions for improvements. Implementation of these recommendations is part of the quality assurance side of the auditing work.

The purpose of our internal auditing activities is not only to identify weaknesses but also to provide independent and objective audit services and advice aimed at creating value, improving business processes, and as a result enhancing the overall performance of the HYPO NOE Group.

In addition, the internal audit function assists the organisation in attaining its objectives by evaluating and helping to improve the effectiveness of its risk management, internal controls, and management and supervisory processes on the basis of a systematic and targeted approach.

The Management Board was notified of the audit findings orally and in writing, in a timely manner, and the Supervisory Board Audit Committee received regular written and oral information; a summary of this information was provided to the Supervisory Board itself.

Sufficient numbers of suitably qualified staff (ongoing staff training and development are a matter of course), an audit culture that takes account of current knowledge and needs, and effective networking within the organisation ensure that the Audit Department delivers optimum performance and fulfils its responsibilities in the Group.

RELATIONSHIP BETWEEN THE ICS AND THE ACCOUNTING PROCESS

In 2014 the ongoing development of methods for the identification, quantification, monitoring and management of operational risk, and of the ICS as a whole was once again a high priority.

The ICS encompasses all of the control and audit activities directed to ensuring that our processes comply with the law and our internal standards, and are adhered to. Within the system, distinctions are drawn between risk management and internal audit activities, and the accounting activities associated with the preparation of the annual financial statements in conformity with the relevant standards.

The ICS ensures that business information is correctly captured, analysed and assessed, and incorporated into the Bank's accounting.

The main features of the Bank's internal control and risk management system, and their significance for the accounting process are summarised below.

The Management Board is responsible for designing and establishing an internal control and risk management system that meets the Bank's needs with regard to its accounting process.

The Group Accounting Department is responsible for all accounting matters and for issuing instructions designed to maintain compliance with Group-wide standards. Directives have been drawn up to assist it in performing its duties.

The ICS encompasses accounting-related instructions and processes aimed at correct and appropriate recording of business transactions, including:

- The employment of the Group's assets;
- Recording of all the information required to draw up the annual financial statements;
- Prevention of unauthorised purchases and sales which could have a material impact on the annual results; and
- Establishment of risk-based decision-making authorities and monitoring instruments.
- The chart of accounts is tailored to the special requirements of the Bank.
- Vouchers are stored according to systematic, chronological criteria, and provide an adequate audit trail.
- The processes involved in the preparation of the separate parent entity and consolidated financial statements, and parent and Group operational and financial reviews have been documented, as have the related risks and controls.
- The departments involved in the accounting process are adequately resourced in terms of the quantity and quality of their staff. Standardised training programmes ensure that staff have the necessary skills for their roles in the system. However, the bedrock of the control system is the integrity and ethical standards of the individual employees concerned. The example set by senior executives is extremely important.
- The functions of the main departments involved in the accounting process – Group Accounting and Controlling – are clearly demarcated and managed as separate departments at Management Board level.
- Departmental responsibilities are unambiguously assigned.
- The computer systems employed are protected against unauthorised access by appropriate control mechanisms.
- Accounting data is audited for its completeness and correctness on a sample basis.
- All data-entry processes related to accounting are subject to the four-eye principle; checks are carried out by Accounting, or by trained staff in the various operational departments, in accordance with internal regulations.
- The computer centre validates posting lists, revenue reports, valuation lists, lists of Banking Act and CRR/CRD IV requirements and so on, and corrects them where necessary on a daily and monthly basis, subjecting them to automated checks. Group Accounting performs plausibility checks and prepares trial balances.
- Monthly reports are sent to the Oesterreichische Nationalbank in accordance with the statutory reporting

requirements for banks. These are forwarded via the computer centre, and Group Accounting performs plausibility checks and corrects any errors.

- IT security checks are one of the cornerstones of the internal control system. Sensitive activities are fire-walled by taking a restrictive approach to IT authorisations.

Monitoring of the ICS takes place at different levels. Internal organisational arrangements underpin monitoring of the ICS at the process level. Supervisors ensure that controls are actually performed, for example, by performing spot checks.

All internal audit activities are subject to Group-wide standards based on the Austrian Banking Act and CRR/CRD IV, the FMA Minimum Standards for Internal Auditing and international best practice. The independent internal audit function regularly reviews compliance by departments and other organisational units with the internal regulations. In 2014, the audits carried out in Accounting/Group Accounting focused on the cost of materials (voucher routing, instructions), fixed assets, hedge accounting, enforcement and IFRSs.

The Management Board ensures that Company-wide monitoring of the ICS is in place by laying the organi-

sational groundwork (designation of those responsible, creation of appropriate information systems, etc.).

The Supervisory Board Audit Committee exercises its oversight function by holding regular discussions on the current status of the ICS. The ICS ensures that all transactions are properly recorded, processed and documented. It also makes sure that asset and liability items in the annual financial statements are recognised, reported and measured in accordance with the applicable legal and regulatory requirements.

The ICS is adapted to changed circumstances and requirements on an ongoing basis. Like any control system, however well it is resourced, operated and monitored, the internal accounting control system can only provide an adequate and not an absolute assurance that its objectives will be attained. The identification of any changes required in the light of new risks, and ongoing monitoring of the system and assessment of its effectiveness are seen as key tasks. The main priorities in this respect will be improving the effectiveness and efficiency of operational processes, minimising operational risk by making improvements to those processes, and refining the ICS.

RESEARCH AND DEVELOPMENT

Business performance was again a major focus in 2014. Building on the successes of the previous year, we made progress in boosting customer satisfaction and loyalty. Increased cooperation between all subsidiaries reinforced the drive to increase cohesion within the Group. The new real-estate value chain introduced in 2013, which covers all steps from planning through to financing and project execution, was implemented during the reporting period.

The further development of our multi-channel strategy and the integration of our online and offline presence was also a priority. Our objective is to ensure that customers experience the brand as a whole rather than an individual channel. The online activities of all the subsidiaries will be relaunched on a single HYPO NOE portal, as part of our extended online and offline advisory processes. In 2014, the HYPO NOE website relaunch project got under way as part of the umbrella brand strategy, with a view to implementing a unified online presence. The HYPO NOE Group's website will be updated to reflect the new organisational set-up and will also incorporate the latest technological developments. The aim is to create a state-of-the-art, solution-driven product and service platform tailored to specific target groups. By treating clients as equal partners and providing corresponding levels of service, the site will enhance customer loyalty and support customer acquisition.

An excellent example of our capacity to innovate was the introduction of the new barTAN cash withdrawal system. The service enables small cash withdrawals to be made quickly and easily from any barTAN-enabled ATM without the need for a cash card. All that is required is a barTAN code sent as a text message via the online or mobile banking platform.

Entering transaction details has become even easier for users of our mobile banking service. The HYPO NOE mobile banking app now features QR code reader function-

ality to automatically scan in details. Payments are then made as usual after entering a TAN.

Piloting of an online video-based customer advice service began in the final quarter of 2014. However, this is by no means a way of distancing ourselves from our customers. On the contrary, personal service is the most important channel of communication we have with our customers, and this will remain the case. The pilot will enable us to learn how we can best provide customers with a new, innovative way of communicating with their advisers. Our main priority is to increase the level of support available to customers and to make operation as user-friendly as possible.

The latest technology is also being employed for internal communications. In summer 2014, the HIP information portal went live, a modern web 2.0 platform which enables HYPO NOE employees to easily exchange information and facilitates efficient teamwork. HIP supports long-term knowledge management, improves cooperation across different departments and locations, and helps to reduce e-mail traffic. It also promotes a team ethic and closer relationships, as well as enhancing employees' sense of loyalty to the Group. Increasing numbers of visitors and posts, and the establishment of several topic-focused HIP communities reflect the successful roll-out of this Group-wide project.

In 2015 the portal will be updated to better meet the needs of employees, and functions that support additional business and communication processes will be gradually introduced.

Process management is now firmly established within the Group as a means of improving internal procedures and avoiding communication breakdowns. In 2014 work started on implementing the next step: process-based business management.

GROUP OUTLOOK FOR 2014

Economic environment

The world economy is still feeling the effects of the financial crisis. The impact differed from country to country, and individual states have taken different approaches in an effort to come to terms with its consequences. Clearly, falling inflation will have a positive impact on private consumption, and hopes of an upturn in European economic performance rest on the resulting increase in real incomes. However, the sharp decline in crude oil prices will have a downside, and national economies that are heavily dependent on raw material exports will be especially hard hit. We also need to keep track of geopolitical developments, which could give rise to either risks or opportunities in 2015.

Eurozone banks may be in for a relatively difficult year in terms of the profitability of their retail operations owing to the ECB's increased use of unconventional monetary policy tools following its adoption of quantitative easing (QE) on 22 January 2015. The ECB's dual responsibility for setting and implementing monetary policy as well as the supervision of the key financial institutions in the eurozone brings challenges of its own. Banks are being required to hold increasing levels of capital and significant reserves of highly liquid assets, but the costs of holding such assets are rising constantly as a consequence of broad-based market interventions by the ECB. The largely successful recapitalisation of the Spanish banking sector is one of several examples which suggest that further progress will be made in transforming the European banking industry in 2015, although the pace of change will vary between countries.

The situation in Greece will play a decisive part in determining the future of the euro area and ultimately the policies adopted by the ECB. However, in light of the steps taken to date, the eurozone is unlikely to descend into a new financial crisis. The risk of a Greek exit from the eurozone, or "Grexit", which could also potentially

endanger the stability of the EUR/CHF exchange rate, will probably persist for some time.

However, if the eurozone economic recovery gathers speed and global trade picks up again, this will open up growth opportunities for the Austrian economy. The country's businesses should be well placed to capitalise on these opportunities thanks to their generally low levels of debt, well balanced cost ratios and attractive product ranges offered on the world's leading markets. The Oesterreichische Nationalbank is forecasting a gentle upturn in growth on account of low oil prices and the weak euro. This could prompt a rise in investment owing to the favourable financing terms currently on offer – lending to companies has increased gradually since mid-2014.

Regional growth trends in Central and Eastern Europe in 2015 are likely to mirror those seen last year. The initial indications are that the effects on the Danube region of the current conflict between Russia and Ukraine will largely depend on the structure of countries' trade and energy resources. Although many countries rely heavily on Russia for their energy supplies, dependency on the country as an export destination is limited. Stress tests for national exports, simulating a 10% decline in exports to Russia, carried out by the Vienna Institute for International Economic Studies (WIIW) suggest that the Danube region countries would suffer an average decline in GDP of 0.1-0.3 percentage points. NPL ratios differ sharply between individual Danube region countries. The average for the Czech Republic, Poland and Slovakia is an acceptable 5-7%. The ratios are significantly higher in Bulgaria, Hungary and Romania, but in some cases there is evidence of an improvement. A question mark still hangs over the impact on the Danube region's financial stability of lively domestic demand in Central and Eastern Europe, the geopolitical situation in Russia and

Ukraine, as well as the resulting potential drop in external demand for services from local Danube region banks.

In addition to international and geopolitical factors, Austrian economic growth in 2015 will also depend on reform programmes implemented at home, in particular tax reform. The slowdown in economic growth and the related increase in government debt from 74.5% to 87% of GDP represent major restrictions on any stimulus packages proposed by politicians. In spite of the rise in employment, joblessness will continue its upward trend in 2015 due to the rapid expansion in the working population. In January 2015 the WIFO forecast a rise from last year's figure of 8.4% to 9.2% this year (based on

the Public Employment Service Austria (AMS) definition). Low interest rates are not sufficient to kick-start investment, and companies' willingness to invest will remain "subdued", as the WIFO put it in January 2015. There is also no change in sight as far as incomes and consumption are concerned. In the next five years, disposable household income (an indicator of purchasing power) is likely to increase by 1.1% a year compared to the annual average for the 2010-2014 period. In practice, though, only asset income and transfer payments will go up, with gross real per capita wages set to grow by a mere 0.1% per year. The WIFO expects gross real wages to stagnate in 2015 and 2016.

Outlook for Group performance

A focus on our core regional market, coupled with selective growth and close proximity to customers, remained the Group's main strengths in 2015. We are firmly established as the bank for the state of Lower Austria, and are now concentrating on setting down strong roots across the country. With a steadily growing customer base, HYPO NOE Landesbank AG's 30 branches are a reflection of our close ties with the region. We will be working to enhance the branches' strategic position as vital customer service channels and points of first contact.

The HYPO NOE Group has an excellent track record in real estate and infrastructure financing in Lower Austria, Vienna and the Danube region. This core competence is central to our corporate image, and allows us to create a competitive advantage by offering normal market terms, flexible solutions, and quick and reliable project implementation. In 2015 we are also planning to continue building on our excellent position in public finance. We have posted strong performance in this core segment thanks to our stable domestic ownership structure and operating policies designed to project a trustworthy, reliable image. Corporate finance in our core market is expected to be the Group's principal source of growth, and our efforts in 2015 will focus in particular on developing the Religious Communities, Special Interest Groups and Agriculture.

However, we also anticipate continued pressure on net interest income owing to the interest rate situation and the prevailing economic climate. Following increases in the past few years, taxes and levies are set to rise once more in 2015 due to additional allocations to the deposit insurance fund and costs associated with supervision by the ECB.

Implementing the raft of new regulatory requirements will again place a considerable burden on the Group in the year ahead. Step-by-step introduction of the Basel III regulations, including amended and extended reporting systems, will continue during the year. Preparations for this have been well under way for several years now. The implementation phase got off to an excellent start last year and will continue in 2015. We are also paying particularly close attention to changes in the legal framework, which among other things will result in amendments in the application of IFRSs in the next few years. To this end, an IT project was launched which is aimed at enhancing the Group's risk management and financial architecture. Another important initiative in terms of information and communications is the new HYPO NOE Group website, which is scheduled to go live in 2015. In organisational terms, identifying potential synergies and minimising redundancies in processes involving different Group companies remains one of our central aims.

We will also be driving forward our Group-wide process optimisation efforts, with a view to integrating the continuous improvement process more closely into our organisational structures.

Following the lead taken by HYPO NOE Gruppe Bank AG in 2014, the HYPO NOE Group will publish its first Group-wide sustainability report in accordance with the international Global Reporting Initiative (GRI) G4 guidelines in 2015. The report will outline the contribution made by both banks and the strategically important subsidiaries to promoting sustainable regional development, as well as describing the current status of our social and environmental initiatives. The Group will set out a comprehensive sustainability programme designed to integrate existing individual activities and form a package of strategic measures. Over the next few years the Group will also look to improve its performance by addressing the areas covered by the report. This task is the responsibility of senior management and represents a new and significant component of the Group's strategy.

Effective cost management coupled with efficient strategic human resource planning, HR development aimed at strengthening our employees' skills and abilities, and workplace health promotion will remain the core concerns for the Group's human resource management activities.

As far as refinancing is concerned, covered bonds and senior unsecured debt issues with longer maturities are

two vital elements for the Group. In 2015 these instruments will play a significant part in creating a broad long-term refinancing base. Investors in HYPO NOE Group will again be able to rely on a regular stream of transparent information through a number of channels in 2015, including our website and investor newsletter, as well as face-to-face discussions and of course our regular roadshows. Thanks to its solid foundations, excellent equity and liquidity position and strong owner, the Group will be able to cope with the potential outcomes of the moratorium placed on HETA. HYPO NOE Gruppe Bank AG currently has short-term liquidity reserves totalling around EUR 2 billion and a liquidity coverage ratio (LCR) of over 100% – well above the statutory minimum requirement.

The HETA situation, in particular the development of winding-up measures and their impact, will have to be constantly monitored. Another issue will be the instigation of legal action to assert claims for the repayment of loans.

The Group's capital ratios will remain significantly above the levels specified in the Basel III regulations, and HYPO NOE is still on a sound footing in terms of capital adequacy and liquidity. Together with the steps taken in the past few years, our risk-aware, earnings-driven approach means that the HYPO NOE Group can look forward to a positive year in 2015.

EVENTS AFTER THE REPORTING PERIOD

On 15 January 2015, the Swiss National Bank unexpectedly decided to remove the floor of CHF 1.20 to the euro. This prompted detailed analysis on the part of HYPO NOE Group. If the expert forecasts (median exchange rate of CHF 1.05 to the euro over the next 12 months) published by Reuters on 5 February 2015 prove correct, the EUR-denominated value of foreign currency loans bearing CHF foreign exchange risk for HYPO NOE Group borrowers would increase from EUR 1.218 bn - based on the ECB's EUR/CHF reference rate as at 31 December 2014 - to EUR 1.394 bn - based on the expert forecast of the EUR/CHF exchange rate published on 5 February 2015.

As at 31 December 2014, the rating structure of foreign currency loans bearing CHF foreign exchange risk for HYPO NOE Group borrowers and the equivalent EUR values were as follows:

- Investment grade (rating grade 1A-2E)
EUR 916m
- Non-investment grade (rating grade 3A-4E)
EUR 262m
- Default (rating grade 5A-5E)
EUR 40m

Due to the strict limits on foreign currency exposures, the HYPO NOE Group does not have any significant open foreign exchange risk positions. Any potential impairment losses would mainly affect the Landesbank segment, although these cannot be estimated owing to the broad fluctuation margin of future exchange rates and uncertainty surrounding customer behaviour. The retail portfolio accounted for 8.6% of the assets of the Landesbank segment. A range of proactive measures aimed at reducing foreign exchange risk in this portfolio have already been taken.

In its recommendation of 28 January 2015, the ECB drew attention to the need for conservative dividend distribu-

tion policies, with the aim of strengthening credit institutions' equity base. In the course of its equity planning process for the 2015-2019 period, the HYPO NOE Group will thoroughly and conscientiously implement all of the proposed measures in order to fully meet the relevant statutory capital adequacy requirements.

On 1 March 2015 the FMA issued a notice imposing a moratorium on debt repayments by HETA until 31 May 2016. This led to increased risk, as described in the section on the current risk situation above. With regard to the holding of EUR 225m in HETA bonds backed by state governments, the Management Board allocated a risk provision of EUR 63.9m, recognised in profit or loss. In line with the Group's liability pursuant to section 2(1) Pfandbriefstelle Act in conjunction with section 92(9) Banking Act, the Management Board also resolved to finance one-eighth of the obligations of Pfandbriefbank (Österreich) AG relating to the outstanding state-government-backed HETA debt instruments affected by the aforementioned moratorium imposed by notice by the FMA. The State of Lower Austria agreed to guarantee this financing, in fulfilment of its joint and several liability as a guarantor in the meaning of section 2(2) Pfandbriefstelle Act in conjunction with section 92(9) Banking Act. For further details on this agreement, readers are referred to the chapter on credit risk (section entitled "Current risk situation") in the risk report.

In view of the moratorium imposed on HETA, rating agency Standard & Poor's (S&P) left its assessment of the probability of public support for government-related entities (GRES) unchanged, meaning that HYPO NOE Gruppe Bank AG retained its solid A rating with a stable outlook. According to S&P, this outlook reflects its view that the federal government will not place any restrictions on the federal states' support for institutions in their ownership.

On 10 March 2015 rating agency Moody's announced that the covered bond programmes of the state mortgage banks it monitors - including HYPO NOE Gruppe Bank AG - were placed under review for downgrade in light of the FMA moratorium on HETA.

St. Pölten , 2 April 2015

The Management Board

A handwritten signature in blue ink, appearing to read 'Harold'.

Peter Harold

Chairman of the Management Board

A handwritten signature in blue ink, appearing to read 'Nikolai de Arnoldi'.

Nikolai de Arnoldi

Member of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

IN ACCORDANCE WITH IFRS

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**HYPONOE
GRUPPE**

STATEMENT OF COMPREHENSIVE INCOME

Profit or loss (EUR '000)	Notes	2014	2013	Change
Interest and similar income	7.1	592,781	569,974	22,807
<i>of which income from investments accounted for using the equity method</i>		-2,521	-6,619	4,098
Interest and similar expense	7.2	-465,393	-454,542	-10,851
Net interest income		127,388	115,433	11,956
Credit provisions	7.3	-6,717	-4,781	-1,936
Net interest income after risk provisions		120,671	110,652	10,020
Fee and commission income		16,882	16,305	577
Fee and commission expense		-2,903	-3,011	108
Net fee and commission income	7.4	13,979	13,294	685
Net trading income	7.5	-1,815	-934	-881
General administrative expenses	7.6	-127,092	-116,487	-10,604
Net other operating income	7.7	23,659	73,247	-49,588
Net gains or losses on disposal of consolidated subsidiaries	7.8	-	150	-150
Net gains or losses on available-for-sale financial assets	7.9	-64,958	-479	-64,479
Net gains or losses on financial assets designated as at fair value through profit or loss	7.10	44	50	-6
Net gains or losses on hedges	7.11	-2,369	-8,983	6,614
Net gains or losses on other financial investments	7.13	-1,930	4,512	-6,442
Loss/profit for the year before tax		-39,810	75,021	-114,832
Income tax expense	7.14	8,822	-21,326	30,148
Loss/profit for the year after tax		-30,988	53,695	-84,684
Non-controlling interests	7.15	-350	-18	-332
Loss/profit attributable to owners of the parent		-31,338	53,677	-85,016

Other comprehensive income (EUR '000)	2014	2013
Loss/profit attributable to owners of the parent	-31,338	53,677
Items that will not be reclassified to profit or loss		
Change in actuarial gains or losses (before tax)	-480	1,129
Change in deferred tax	120	-282
Items that may be reclassified subsequently to profit or loss		
Change in available-for-sale financial instruments (before tax)	69,114	19,520
Change in cash flow hedge (before tax)	-	-2,500
Exchange differences on translating foreign operations accounted for using the equity method (before tax)	-61	-16
Change in deferred tax	-17,263	-4,251
Total other comprehensive income	51,430	13,600
Total comprehensive income attributable to owners of the parent	20,092	67,277

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets (EUR '000)	Notes	31 Dec. 2014	31 Dec. 2013	Change
Cash and balances at central banks	8.1	99,025	56,609	42,416
Loans and advances to banks	8.3	944,046	773,381	170,665
Loans and advances to customers	8.4	11,194,066	10,590,574	603,492
Risk provisions	8.5	-108,562	-111,156	2,594
Assets held for trading	8.6	652,995	457,965	195,030
Positive fair value of hedges (hedge accounting)	8.7	663,827	377,938	285,889
Available-for-sale financial assets	8.8	2,245,409	1,801,467	443,942
Financial assets designated as at fair value through profit or loss	8.9	4,244	4,200	44
Investments accounted for using the equity method	8.10	27,105	44,437	-17,332
Investment property	8.11	67,752	65,545	2,207
Intangible assets	8.13	1,352	2,172	-820
Property, plant and equipment	8.13	80,913	86,460	-5,547
Current tax assets	8.14	10,856	-	10,856
Deferred tax assets	8.14	2,417	3,874	-1,457
Other assets	8.15	38,532	56,280	-17,748
Non-current assets held for sale (IFRS 5)	8.16	2,983	-	2,983
Total assets		15,926,960	14,209,746	1,717,214

Equity and liabilities (EUR '000)	Notes	31 Dec. 2014	31 Dec. 2013	Change
Deposits from banks	8.18	2,627,730	2,149,698	478,032
Deposits from customers	8.19	2,305,056	2,168,943	136,113
Debts evidenced by certificates	8.20	8,553,311	8,163,364	389,947
Liabilities held for trading	8.21	591,140	389,775	201,365
Negative fair value of hedges (hedge accounting)	8.22	877,867	423,103	454,764
Provisions	8.23	49,291	50,362	-1,071
Current tax liabilities	8.24	10,753	12,454	-1,701
Deferred tax liabilities	8.24	30,651	21,175	9,476
Other liabilities	8.25	104,376	65,960	38,416
Subordinated capital	8.26	206,059	210,512	-4,453
Equity (including non-controlling interests*)	8.27	570,726	554,400	16,326
Equity attributable to owners of the parent		562,355	553,254	9,101
Non-controlling interests		8,371	1,146	7,225
Total equity and liabilities		15,926,960	14,209,746	1,717,214

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 Dec. 2014 (EUR '000)	Balance at 1 Jan. 2014	Profit/loss for the year	Dividends paid	Changes in scope of consolidation	Other comprehensive income	Transfers	Balance at 31 Dec. 2014
Share capital	51,981	-	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	-	191,824
Retained earnings	329,439	-31,338	-11,000	-	-	13	287,115
IAS 19 reserve	-4,651	-	-	-	-360	-	-5,011
Available-for-sale reserve	-15,324	-	-	-	51,836	-6	36,505
Cash flow hedge reserve	-	-	-	-	-	-	-
Currency translation reserve	-15	-	-	-	-45	-	-60
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	553,254	-31,338	-11,000	-	51,430	8	562,355
Non-controlling interests	1,146	350	-	6,875	-	-	8,371
TOTAL EQUITY	554,400	-30,988	-11,000	6,875	51,430	8	570,726

31 Dec. 2013 (EUR '000)	Balance at 1 Jan. 2013	Profit/loss for the year	Dividends paid	Changes in scope of consolidation	Other comprehensive income	Transfers	Balance at 31 Dec. 2013
Share capital	51,981	-	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	-	191,824
Retained earnings	286,762	53,677	-11,000	-	-	-	329,439
IAS 19 reserve	-5,498	-	-	-	847	-	-4,651
Available-for-sale reserve	-29,964	-	-	-	14,640	-	-15,324
Cash flow hedge reserve	1,875	-	-	-	-1,875	-	-
Currency translation reserve	-3	-	-	-	-12	-	-15
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	496,977	53,677	-11,000	-	13,600	-	553,254
Non-controlling interests	565	18	-	563	-	-	1,146
TOTAL EQUITY	497,542	53,695	-11,000	563	13,600	-	554,400

See Note 4.18 for notes to the consolidated statement of changes in equity (including non-controlling interests) and Note 8.27 Equity for additional disclosures.

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

EUR 48,408thsd (2013: EUR 43thsd) in after-tax gains on available-for-sale (AFS) financial instruments were recycled from other comprehensive income to profit or loss.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	Notes	31 Dec. 2014	31 Dec. 2013
Loss/profit for the year after tax (before non-controlling interests)		-30,988	53,695
Non-cash comprehensive income items			
Amortisation and depreciation or write-ups		76,037	9,140
Allocations to and reversals of provisions and risk provisions		14,595	20,305
Gains on disposal of financial assets and property, plant and equipment		796	-5,434
Other adjustments		120,143	-30,521
Changes in assets and liabilities due to operating activities after adjustments for non-cash components			
Loans and advances to banks		-170,943	121,154
Loans and advances to customers		19,476	-52,400
Available-for-sale financial assets		-441,780	43,040
Other operating assets		89,706	-12,764
Deposits from banks		219,757	-595,326
Deposits from customers		141,309	-40,788
Debts evidenced by certificates		67,009	493,841
Other operating liabilities		-41,156	-11,435
Cash flows from operating activities		63,962	-7,494
Proceeds from sale of/redemption of:			
Financial assets held to maturity		-	10,009
Other investments		3,000	599
Property, plant and equipment, intangible assets and investment property		1,248	3,944
Purchase of:			
Other investments		-357	-185
Property, plant and equipment, intangible assets and investment property		-8,068	-11,343
Proceeds from disposal of subsidiaries	7.8	-	26
Acquisition of subsidiaries	3.1	-623	-7,151
Cash flows from investing activities		-4,799	-4,101
Dividends paid		-11,000	-11,000
Subordinated debt		-5,906	8,077
Cash flows from financing activities		-16,906	-2,923
Effects of exchange rate changes on cash and cash equivalents		159	-517

EUR '000	Notes	31 Dec. 2014	31 Dec. 2013
Cash and cash equivalents at end of previous period		56,609	71,644
Cash flows from operating activities		63,962	-7,494
Cash flows from investing activities		-4,799	-4,101
Cash flows from financing activities		-16,906	-2,923
Effects of exchange rate changes on cash and cash equivalents		159	-517
Cash and cash equivalents at end of period		99,025	56,609
Payments for taxes, interest and dividends (included in cash flows from operating activities)			
Income taxes refunded/paid		-11,193	-26,212
Interest received		589,559	573,138
Interest paid		-467,039	-454,046
Dividends received		1,014	16

Cash and cash equivalents consist of cash on hand and balances at central banks (see Note 8.1 Cash and balances at central banks). See Note 6 for additional information on the consolidated statement of cash flows.

NOTES

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**HYPO NOE
GRUPPE**

1. GENERAL INFORMATION

HYPO NOE Gruppe Bank AG, domiciled at Hypogasse 1, 3100 St. Pölten, Austria is the ultimate parent of the companies included in consolidation. It is registered in the register of companies under FN 99073 x. HYPO NOE Gruppe Bank AG has operated a branch at Wipplingerstrasse 4, 1010 Vienna since 2008.

HYPO NOE Gruppe Bank AG is one of Austria's largest Landesbanken (state banks), and provides a comprehensive range of financial and facility management services in conjunction with its subsidiaries. As the parent company of a group that also includes **HYPO NOE Leasing GmbH** and **HYPO NOE Real Consult GmbH**, **HYPO NOE Gruppe Bank AG** mainly serves large state and local government clients. It specialises in providing services related to public finance, real estate finance and treasury for clients based in Austria and abroad. **HYPO NOE Landesbank AG** is a full-service bank for retail customers, professionals and business customers in Lower Austria and Vienna with 30 branches. **HYPO NOE First Facility GmbH** is one of the leading full-line facility management service providers in Austria and the CEE region.

The 2014 consolidated financial statements will be published in the Wiener Zeitung on 25 April 2015, and posted under Investor Relations/Publications/Reports on the Group's website (www.hyponoe.at).

2. ACCOUNTING POLICIES

The consolidated financial statements of the HYPO NOE Group for the year ended 31 December 2014 were drawn up in accordance with section 245a UGB (Austrian Business Code) and section 59a *Bankwesengesetz* (Banking Act), as well as Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002. The statements were prepared on the basis of the International Financial Reporting Standards (IFRSs) 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 (IFRIC).

The consolidated financial statements have been prepared in accordance with the IFRS/IAS standards and interpretations thereof adopted and published by the European Union up to 31 December 2014, and applicable to the business activities of the HYPO NOE Group.

AMENDED STANDARDS APPLIED TO THE 2014 FINANCIAL STATEMENTS

Apart from the Annual Improvements to IFRSs, the following amended standards are relevant to the 2014 consolidated financial statements:

IFRS 10 Consolidated Financial Statements - mandatory in the EU for reporting periods beginning on or after 1 January 2014

IFRS 10 creates a consistent definition of control, and thus a uniform basis for establishing whether a parent-subsidiary relationship exists, and for determining the scope of consolidation. This standard replaces IAS 27 Consolidated and Separate Financial Statements (2008) and SIC 12 Consolidation - Special Purpose Entities, both of which were relevant to the Group's financial reporting.

This did not result in any significant changes in the scope of consolidation in the Group's financial statements.

IFRS 11 Joint Arrangements - mandatory in the EU for reporting periods beginning on or after 1 January 2014

IFRS 11 establishes principles for financial reporting by parties to arrangements where there is joint control of a joint venture or joint operation. The new standard replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities - Non-Monetary Contribution by Venturers. The main change from IAS 31 is the elimination of proportionate consolidation as a method of accounting for joint ventures; the equity method now has to be used. As the HYPO NOE Group does not employ proportionate consolidation of joint ventures, the new standard will not affect the manner in which it accounts for such ventures. There are no joint operations.

IFRS 12 Disclosure of Interests in Other Entities - mandatory in the EU for reporting periods beginning on or after 1 January 2014

IFRS 12 governs the disclosures in the notes regarding subsidiaries, associates, unconsolidated structured entities and joint arrangements. The additional disclosure requirements have resulted in an increased administrative workload for the HYPO NOE Group.

IAS 28 (2011) Investments in Associates and Joint Ventures – mandatory in the EU for reporting periods beginning on or after 1 January 2014

IAS 28 has been harmonised with IFRS 10, IFRS 11 and IFRS 12.

These adjustments have no influence on the consolidated financial reporting of the HYPO NOE Group.

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) – mandatory for reporting periods beginning on or after 1 January 2014

The offsetting model established by IAS 32 is retained as such, but the new disclosure requirements call for the statement of the gross amounts before offsetting and the net amounts after offsetting in the notes. The standard set out in IFRS 7 was met in the notes to the 2013 annual financial statements.

IAS 36: disclosures on the recoverable amount of non-financial assets – mandatory for reporting periods beginning on or after 1 January 2014

The amendment to IAS 36 has removed the need to apply the standard to all cash-generating units. Disclosure of the recoverable amount is now only required when an impairment loss is recognised during a particular reporting period.

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) – mandatory for reporting periods beginning on or after 1 January 2014

Amendments to IAS 39 and IFRS 9: The continuation of hedges is permitted provided that novation is based on a statutory or regulatory obligation to interpose a central counterparty. Consequently this has no effect on the Group's hedge accounting.

IFRIC 21 Levies – mandatory for reporting periods beginning on or after 1 January 2014

IFRIC 21 offers guidelines on recognising a liability to pay a levy imposed by a government. The Interpretation addresses the accounting for levies imposed on companies by governments (including regulators and similar bodies) in accordance with laws and/or regulations. It does not apply to taxes (see IAS 12 Income Taxes), fines and other penalties, liabilities arising from emissions trading programmes, nor to cash outflows covered by other standards. This has no influence on the consolidated financial reporting of the HYPO NOE Group.

NEW AND AMENDED STANDARDS NOT APPLIED TO THE 2014 FINANCIAL STATEMENTS

The following standards which entered into effect in 2014 were not applied, as they were not relevant to any material transactions within the HYPO NOE Group. They could, however, affect the accounting treatment of future transactions or agreements.

IAS 27 (2011) Separate Financial Statements - mandatory in the EU for reporting periods beginning on or after 1 January 2014

IAS 27 has been revised to bring it into line with IFRS 10, IFRS 11 and IFRS 12.

These adjustments have no influence on the consolidated financial reporting of the HYPO NOE Group.

NEW AND AMENDED STANDARDS ADOPTED, BUT NOT YET APPLIED

The following IFRS standards and interpretations which have already been issued, but are not yet mandatory, are relevant to the consolidated financial statements, but have not been applied early:

Amendments to IAS 19 Employee Benefits - mandatory for reporting periods beginning on or after 1 July 2014

The amendment relates to the recognition of contributions by employees or third parties to defined benefit pension plans. Under IAS 19, contributions made by employees or third parties may be recognised as a reduction in the service cost in the reporting period in which they fall due, provided that all of the contributions are related to services rendered during the reporting period in question.

This will have no influence on the preparation of the HYPO NOE Group's consolidated financial statements.

IFRS 14 Regulatory Deferral Accounts - mandatory for reporting periods beginning on or after 1 January 2016

This has no influence on the consolidated financial reporting of the HYPO NOE Group, as the standard relates to the unique characteristics of gas and electricity system operators.

IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: amendments with regard to bearer plants - mandatory for reporting periods beginning on or after 1 January 2016

This standard applies to entities performing agricultural activities and thus has no influence on the consolidated financial reporting of the HYPO NOE Group.

**IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets:
Clarification of Acceptable Methods of Depreciation and Amortisation -
mandatory for reporting periods beginning on or after 1 January 2016**

This clarification states that a method of amortisation that is based on revenue generated from an activity that includes the use of an asset is not appropriate because it reflects a pattern of economic benefits being generated, but not a pattern of their consumption.

The clarification does not affect the HYPO NOE Group's financial statements.

**IFRS 11 Joint Arrangements: amendment related to accounting
for acquisitions of interests in joint operations -
mandatory for reporting periods beginning on or after 1 January 2016**

The current version of IFRS 11 Joint Arrangements does not provide guidance on accounting for the acquisition of interests in joint operations where these activities constitute a business. IFRS 11 will be amended in such a way that entities acquiring interests in joint operations that constitute a business, as defined in IFRS 3, will be required to apply all of the principles on accounting for business combinations in IFRS 3 and other IFRSs that do not conflict with the guidance in IFRS 11.

**IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests
in Other Entities and IAS 28 Investments in Associates and Joint Ventures: investment entities -
mandatory for reporting periods beginning on or after 1 January 2016**

These amendments relate to application of the consolidation exception for investment entities.

**IAS 27 Separate Financial Statements: amendment relating to
the equity method in separate financial statements -
mandatory for reporting periods beginning on or after 1 January 2016**

The amendment does not affect the HYPO NOE Group's financial statements.

**IAS 1 Presentation of Financial Statements: Disclosure Initiative -
mandatory for reporting periods beginning on or after 1 January 2016**

The amendments to IAS 1 are aimed at removing perceived obstacles to the application of judgement when preparing financial statements.

IFRS 15 Revenue from Contracts with Customers – mandatory for reporting periods beginning on or after 1 January 2017

IFRS 15 supersedes the following standards:

IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

IFRS 15 sets out a standardised model for identifying performance obligations and transferring control of goods or services. The standard also specifies when and in what amount reporting entities must recognise revenue. Companies are encouraged to provide users of financial statements with more useful and informative details than was previously the case. To achieve this, the standard outlines a five-step model applicable to all contracts with customers, based on a number of key principles.

IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – mandatory for reporting periods beginning on or after 1 January 2016

The European Financial Reporting Advisory Group (EFRAG) recommended that the EU Commission suspend the endorsement process for the amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture.

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

IFRS 9 introduces new requirements for the classification and measurement of financial assets. The technical implementation will involve a considerable workload for the HYPO NOE Group with regard to the categorisation of financial instruments. Under IFRS 9 financial assets are classified and measured on the basis of the business model for managing such assets and the contractual cash flow characteristics of the assets. IFRS 9 also introduces a number of amendments with regard to financial liabilities, as well as changes relating to the impairment of financial assets (anticipated credit losses) and hedge accounting. The application of these standards is expected to have an impact on the Group's financial assets and on impairments, but not on its financial liabilities.

In 2014 we carried out a major conceptual study and evaluation of the implementation requirements; analysis of potential effects had already taken place in 2013. In 2014 the main focus was on technical details, and a number of IT solutions were evaluated.

In 2015 the HYPO NOE Group will build on the progress made in previous years on the Bank's internal IFRS 9 project and identify further technical and professional requirements for the implementation of the standard, in order to prepare as effectively as possible for its introduction. The implementation of IFRS 9 will have material consequences for the HYPO NOE Group's financial statements.

3. ACCOUNTING AND MEASUREMENT METHODS

The consolidated financial statements of the HYPO NOE Group for the year ended 31 December 2014 comprise the statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes. The segment information is contained in the notes.

The risk report forms part of the operational and financial review, prepared in compliance with section 267 UGB (Austrian Business Code). Disclosures required by IFRS 7 and IFRS 13 that relate to the nature and extent of risks associated with financial instruments are also discussed in the risk report.

These consolidated financial statements are based on the separate financial statements of all the consolidated Group companies as at 31 December 2014, drawn up in accordance with IFRS. The HYPO NOE Group applies uniform Group-wide accounting policies.

The consolidated financial statements have been prepared on a going concern basis.

The Group's significant accounting policies are discussed below.

The methods described are uniformly and consistently applied to these consolidated financial statements unless otherwise stated.

Income and expenses are recognised on an accrual basis. They are recorded and reported in the periods to which they are attributable. Premiums and discounts are amortised using the effective interest method; the accrued interest is included in the item under which the underlying financial instrument is carried.

All the estimates and judgements required by IFRS accounting 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 which appear reasonable under the circumstances. Particularly frequent use of estimates and assumptions was made when valuing investments, recognising deferred tax assets attributable to tax loss carryforwards (see Note 4.10 Tax assets and liabilities), recognising credit provisions (estimating recoverable amounts and calculating default probabilities; see Note 3.10 Risk provisions), recognising provisions (e.g. regarding the discount rate used in connection with employee benefits; see Note 4.15 Provisions and Note 8.23.2 Disclosures on employee benefits), as well as performing fair value measurement (on the basis of observable market data; see Note 10.3.2 Fair value hierarchy disclosures). Where estimates were necessary, the assumptions made in respect of the items concerned are explained in the corresponding notes.

The reporting currency is the euro. All figures are presented in thousand euro (EUR thsd/EUR '000) unless otherwise stated. The tables below may contain rounding differences.

Accounting-related consequences as at 31 December 2014 resulting from the Austrian Federal Government's decision to reject further support measures for Heta Asset Resolution AG, and from the subsequent notice of the Financial Market Authority (FMA) of 1 March 2015 imposing a moratorium on debt repayments until 31 May 2016

The measures imposed on all creditors in relation to the eligible liabilities of Heta Asset Resolution AG (HETA) covered by the FMA notice of 1 March 2015 gave rise to a situation that has triggered wide-ranging discussions in the mortgage bank segment and among Austria's federal states. The HETA debt instruments held by the Group are affected by the aforementioned notice. They have a total nominal value of EUR 225m and all are guaranteed in full by the State of Carinthia (pursuant to section 1356 *Allgemeines Bürgerliches Gesetzbuch* [Austrian Civil Code]). There is no further exposure to HETA. The HETA bonds held by the Group fall due in the second half of 2016 and 2017. Although the contractually agreed capital repayments are due after expiry of the moratorium imposed by the authorities, they are connected with the haircut announced by the FMA and are thus considered payable in 2016. The same applies to the interest on HETA bonds of around EUR 4.0m payable until 31 May 2016 and some EUR 4.6m payable up to maturity.

In light of recent developments, the management board of HYPO NOE Gruppe Bank AG decided to allocate a provision of EUR 63.9m, recognised in profit or loss. The provision was based on a model which was applied due to the lack of an active market for HETA debt issues as at the end of the reporting period. The following indicators were used to determine the existence of an inactive market: (a) non-existent or very low trading volumes or levels of trading activity, (b) significant variations between the stock exchange prices posted by the various market participants in the price information systems, and (c) very high bid/ask spread quoted in the price information systems. The indicators pointed to the existence of an inactive market both at the end of the reporting period and at the time the FMA issued its notice on HETA. The valuation model is based on unobservable estimates regarding the timing and size of outstanding payments of principal and interest on HETA bonds backed by the State of Carinthia. Relevant and publicly available information on the HETA situation was used. The risk associated with future payments was taken into account by means of reasonable discounts. The effect of delayed payments was taken into consideration by means of discounting that used risk-free discount rates commensurate with the currencies and maturities of the bonds.

3.1 BASIS OF CONSOLIDATION

The scope of consolidation of the HYPO NOE Group includes all the subsidiaries that are directly or indirectly controlled by the parent, and are material to the presentation of the Group's assets, finances and earnings. The scope of consolidation is reviewed on an ongoing basis. Apart from the parent, HYPO NOE Gruppe Bank AG, the statements include a total of 74 domestic subsidiaries in which the parent meets the criteria for control. Besides the parent bank, a total of 64 domestic subsidiaries were included in consolidation in the previous reporting period.

In addition, 15 domestic and six foreign companies are accounted for using the equity method. In 2013 the equity method was used to account for 37 domestic and six foreign companies in the Group's consolidated financial statements.

The Group's holdings in these companies are set out in Note 3.2.

Subsidiaries are included in the consolidated financial statements from the date on which control is obtained and the criteria for a parent company are thus met. Under IFRS 10, control exists when all of the following three conditions are fulfilled:

- The parent has power over the investee
- The parent has exposure, or rights, to variable returns from its involvement with the investee
- The parent has the ability to use its power over the investee to affect the amount of the investor's returns

Control was previously defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 provides additional guidance on the situations in which an investor controls an investee.

Upon initial application the parent carried out an assessment of the scope of consolidation to establish whether IFRS 10 was applicable.

Consolidation is performed in accordance with IFRS 3 Business Combinations, using the purchase method. The identifiable assets acquired, liabilities assumed and non-controlling interests are recognised at their fair values as at the acquisition date. Any excess of the cost over the fair value of the net assets acquired is reported as goodwill. Negative differences are recognised directly in profit or loss following an additional review. The carrying value of the goodwill is tested for impairment once a year and whenever there is an indication of impairment. Such indicators include material deviations from the original strategic objectives, forecasts or the business plan of the companies in question, as well as deteriorations in market conditions.

The forecasts (budgets) provided by the management of the respective company form the basis of the impairment test, and these are compared with historic values and the conditions on the particular market.

Value in use is calculated using the discounted cash flow (DCF) method, applying a discount rate based on the weighted average cost of capital (WACC).

Under IFRS 1, it is not necessary to apply IFRS 3 to business combinations that occurred before the effective date of IFRS 3. Because of this the consolidation method used for the UGB consolidated financial statements was applied. The cost of the investments was netted against the share of the carrying value of their equity held at the date of consolidation. The resultant positive and negative differences arising on consolidation were set off against the reserves.

The share of the equity and profit or loss of majority-owned subsidiaries of the HYPO NOE Group attributable to non-controlling interests is separately reported, as "Non-controlling interests" in the statement of changes in equity and also in item 7.15, after net profit or loss, in the statement of comprehensive income.

The results of subsidiaries acquired or divested during the year are recognised in the statement of comprehensive income, in accordance with the actual acquisition or disposal dates.

All material intra-group transactions are eliminated on consolidation.

The HYPO NOE Group does not apply proportionate consolidation, as it does not hold stakes in joint arrangements in the meaning of IFRS 11. The parent company analysed the classification of the Group's investments in joint arrangements and re-evaluated them in accordance with IFRS 11. No changes were made in the classification.

Joint ventures (IFRS 11) and associates (IAS 28) are accounted for using the equity method unless they are immaterial to the presentation of the Group's assets, finances and earnings (see Note 3.2 Investments). If an entity accounted for using the equity method applies accounting policies diverging from those of the Group, adjustments are made to align the investee's accounting policies to the Group IFRS policies. Joint ventures and associates are reported under a separate item in the statement of financial position (Note 8.10 Investments accounted for using the equity

method), and under "Income from investments accounted for using the equity method" as a sub-item of "Interest and similar income" (Note 7.1 Interest and similar income).

Interests in non-consolidated subsidiaries and other investments are measured at fair value or at amortised cost. Impairment is recognised immediately and is reported under Note 8.8 Available-for-sale financial assets and Note 3.2 Investments.

CHANGES IN 2014

Formations

The following new formations were included in the consolidated financial statements for the first time in 2014.

The formation of SRE Immobilien Deutschland GmbH - a wholly owned subsidiary of Strategic Real Estate GmbH - was registered on 19 August 2014. Owing to its immateriality, the former was not consolidated but is reported as an AFS investment in which the Group has interests of more than 50%.

Stettnerweg 11-15 Liegenschaftsentwicklungs GmbH was registered on 22 October 2014 as a wholly owned subsidiary of HYPO Niederösterreichische Liegenschaft GmbH and is consolidated.

Acquisitions

NÖ. HYPO LEASING DECUS Grundstückvermietungs GmbH acquired a 90% interest in Haymogasse 102 Immobilienentwicklung GmbH, which was included in the HYPO NOE Group's consolidated financial statements with effect from 25 January 2014 - the date on which the change was registered.

Under a purchase agreement signed on 23 May 2014, HYPO NOE Leasing GmbH acquired 90% of VB Real Estate Leasing Kommunal GmbH, and Telos Mobilien-Leasinggesellschaft m.b.H. acquired the remaining 10%. The company is included in these consolidated financial statements of the HYPO NOE Group. The renaming of the company as METIS Grundstückverwaltungs GmbH was registered on 30 July 2014.

Change in consolidation

Due to changes in control in accordance with IFRS 10 the following companies, which had previously been accounted for using the equity method, were included in the consolidated financial statements. The Group obtained control by means of agreements with its partners which took effect from 15 May 2014. In addition, HYPO NOE Leasing GmbH acquired an additional 1% interest in addition to its 50% holdings in each company.

- FORIS Grundstückvermietungs Gesellschaft m.b.H.
- VALET-Grundstückverwaltungs Gesellschaft m.b.H.
- LITUS Grundstückvermietungs Gesellschaft m.b.H.
- Adoria Grundstückvermietungs Gesellschaft m.b.H.
- CONATUS Grundstückvermietungs Gesellschaft m.b.H.
- Aventin Grundstückverwaltungs Gesellschaft m.b.H.
- Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.

Due to the merger of NÖ Bürgschaften GmbH with NÖ Beteiligungsfinanzierungen GmbH, an associate, the Group's holding in NÖ Beteiligungsfinanzierungen GmbH decreased from 21% to 13.35%. This interest is no longer accounted for using the equity method, as the merger led to the loss of significant influence. The remaining interest is reported as an AFS investment in which the Group holds a stake of less than 20%.

The interests in the following joint ventures in the Leasing segment are below the materiality threshold and are thus no longer accounted for using the equity method, but treated as non-consolidated AFS investments with an interest of 20-50% (reported under AFS investment as holdings in associates). Measurement based on the equity method is no longer required, mainly because the lease agreements concluded by the project companies have matured.

- CULINA Grundstückvermietungs Gesellschaft m.b.H.
- FACILITAS Grundstückvermietungs Gesellschaft m.b.H.
- NÖ. HYPO LEASING - Sparkasse Region St. Pölten Grundstückvermietungs Gesellschaft m.b.H.
- TRABITUS Grundstückvermietungs Gesellschaft m.b.H.
- UNDA Grundstückvermietungs Gesellschaft m.b.H.
- Purge Grundstücksverwaltungs-Gesellschaft m.b.H.
- NÖ Raiffeisen Kommunalprojekte Service Gesellschaft m.b.H. & NÖ.HYPO Leasinggesellschaft m.b.H. - Strahlentherapie OG
- N.Ö. Gemeindegebäudeleasing Gesellschaft m.b.H. in Liquidation
- N.Ö. Kommunalgebäudeleasing Gesellschaft m.b.H.
- NÖ-KL Kommunalgebäudeleasing Gesellschaft m.b.H.
- Quirinal Grundstücksverwaltungs Gesellschaft m.b.H.

The Gruppe Bank segment's interest in KASERNEN Projektentwicklungs- und Beteiligungs GmbH is below the materiality threshold and are thus no longer accounted for using the equity method, but recognised as a non-consolidated AFS investment of 20-50% (reported under AFS investments as holdings in associates). Measurement based on the equity method is no longer required.

Disposals

Backhausen GmbH, which was accounted for using the equity method, was divested by way of a purchase and sale agreement dated 3 September 2014.

A put option in respect of a 25% interest in HYPO Capital Management AG was exercised, but the transaction was uncompleted as at the end of the reporting period. The interest in the company, which is subject to equity-method accounting, and the value of the put option are reported as other assets held for sale in accordance with IFRS 5.

Changes of name

The renaming of SRE Ungarn Holding 1 GmbH, a consolidated Group company, as SRE Immobilien GmbH was entered in the register of companies on 19 July 2014.

DETAILED DISCLOSURES ON ACQUISITIONS

Haymogasse 102 Immobilienentwicklung GmbH

METIS Grundstückverwaltungs GmbH

The total cost for the acquisition of Haymogasse 102 Immobilienentwicklung GmbH and METIS Grundstückverwaltungs GmbH is reported, since the individual transactions were immaterial.

The acquisition of Haymogasse 102 Immobilienentwicklung GmbH was designed to generate added value from real estate development projects, while METIS Grundstückverwaltungs GmbH complements the current leasing portfolio.

The purchase price totalled EUR 623thsd.

The transaction costs of EUR 9thsd were recognised as legal and consultancy costs in 2014.

The transactions generated a profit (acquisition at below fair value) of EUR 273thsd, which is recognised in profit or loss and included under net other operating income in the statement of comprehensive income (Note 7.7).

The identified assets acquired and liabilities assumed as at the consolidation date, measured at fair value, are set out below.

EUR '000	Fair value as at acquisition date
Assets	
Loans and advances to banks	477
Loans and advances to customers	4,396
Tax assets	15
Other assets	2,080
Total assets - assets acquired	6,968
Liabilities	
Deposits from banks	2,928
Deposits from customers	2,294
Tax liabilities	183
Other liabilities	618
Total equity and liabilities - liabilities assumed	6,023
Net assets	945
Acquisition of net assets	896
Non-controlling interests	49
Profit from acquisitions at below fair value	273
Consideration (paid entirely in cash)	623

None of the goodwill is expected to be tax deductible.

The contribution of Haymogasse 102 Immobilienentwicklung GmbH and METIS Grundstückverwaltungs GmbH to the HYPO NOE Group's loss before tax since consolidation is shown in the following table:

Profit/loss	EUR '000
Interest and similar income	41
Interest and similar expense	-61
Net interest income after risk provisions	-20
Net fee and commission income	-7
General administrative expenses	-174
Net other operating income	93
Loss for the year before tax	-108

The cash flow from the two acquired subsidiaries is shown below:

Cash flows from the acquisition of subsidiaries	EUR '000
Consideration paid in cash and cash equivalents	-623
less cash and cash equivalents acquired	-
Cash flows from the acquisition of subsidiaries	-623

CHANGES IN THE SCOPE OF CONSOLIDATION

As seven leasing companies have been consolidated and are no longer accounted for using the equity method, this resulted in the following year-on-year changes in material assets and liabilities reported in the consolidated statement of financial position:

Change from accounting using the equity method to consolidation	31 Dec. 2014
EUR '000	
Assets	
Loans and advances to customers	280,659
Investments accounted for using the equity method	-6,860
Other assets	194
Liabilities	
Deposits from banks	97,977
Deposits from customers	13,483
Tax liabilities	2,289
Other liabilities	12,718
Subordinated capital	1,453

The effect of non-controlling interests on equity, amounting to EUR 6,826thsd, is shown in the consolidated statement of changes in equity.

The contributions to earnings in the table below do not include consolidation effects.

Total contribution to earnings, 2014	EUR '000
Interest and similar income	5,029
<i>of which income from investments accounted for using the equity method</i>	110
Interest and similar expense	-3,195
Net interest income after risk provisions	1,834
General administrative expenses	-661
Net other operating income	376
Profit/loss for the year before tax	1,549

The non-controlling interests are reported in Note 7.15.

3.2 INVESTMENTS

3.2.1 Subsidiaries

The following consolidated, directly or indirectly held Group companies were included in the IFRS consolidated financial statements of HYPO NOE Gruppe Bank AG as at 31 December 2014:

Company name	Domicile	Holding	of which indirect interest	Reporting date	Segment
75 consolidated subsidiaries					
HYPO NOE Gruppe Bank AG	St. Pölten			31 Dec. 2014	Gruppe Bank
HYPO NOE Landesbank AG	St. Pölten	100.00%	-	31 Dec. 2014	Landesbank
HYPO NOE Leasing GmbH	St. Pölten	100.00%	-	31 Dec. 2014	Leasing
CALCULATOR Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2014	Leasing
CURIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2014	Leasing
FAVIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
NÖ. Verwaltungszentrum - Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
PROVENTUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
Sana Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
Telos Mobilien - Leasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
Treisma Grundstücksverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
VIA-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
HYPO Niederösterreich- Immobilienleasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
FORIS Grundstückvermietungs Gesellschaft m.b.H.	Vienna	51.00%	26.00%	31 Dec. 2014	Leasing
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%	31 Dec. 2014	Leasing
HYPO Niederösterreichische Liegenschaft GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2014	Other
NEUROM Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
NÖ. HYPO LEASING URBANITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing

Company name	Domicile	Holding	of which indirect interest	Reporting date	Segment
AELIUM Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
NÖ. HYPO LEASING Landeskliniken Equipment GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
Obere Donaustrasse 61 Liegenschaftserrichtungs- und -verwertungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2014	Other
NÖ. HYPO LEASING AGILITAS Grundstücksvermietung Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2014	Leasing
ALARIS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2014	Leasing
CALLIDUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
CLIVUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
COMITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
NÖ. HYPO LEASING FIRMITAS Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
NÖ. HYPO LEASING GERUSIA Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2014	Leasing
LITUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%	31 Dec. 2014	Leasing
PINUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	99.00%	99.00%	31 Dec. 2014	Leasing
NÖ. HYPO LEASING STRUCTOR Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2014	Leasing
VIRTUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	65.00%	65.00%	31 Dec. 2014	Leasing
Adoria Grundstückvermietungs Gesellschaft m.b.H.	Vienna	51.00%	26.00%	31 Dec. 2014	Leasing
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%	31 Dec. 2014	Leasing
VESCUM Grundstückvermietungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
VITALITAS Grundstückverwaltung GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
METIS Grundstückverwaltungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	Horn	51.00%	51.00%	31 Dec. 2014	Leasing
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	Vienna	51.00%	51.00%	31 Dec. 2014	Leasing
SATORIA Grundstückvermietung GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	66.67%	66.67%	31 Dec. 2014	Leasing
Landeskrankenhaus Tulln-Immobilienvermietung Gesellschaft m.b.H.	St. Pölten	100.00%	56.42%	31 Dec. 2014	Leasing
Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Other
HYPO-REAL 93 Mobilien-Leasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
NÖ. HYPO LEASING DECUS Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	-	31 Dec. 2014	Other
NÖ. HYPO LEASING MENTIO Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
NÖ. HYPO LEASING NITOR Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
NÖ. HYPO LEASING MEATUS Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2014	Leasing

Company name	Domicile	Holding	of which indirect interest	Reporting date	Segment
NÖ. HYPO LEASING ASTEWOG Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2014	Leasing
NEMUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2014	Leasing
HYPO NOE Real Consult GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2014	Other
HYPO NOE Immobilienmanagement GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2014	Other
HBV Beteiligungs-GmbH	St. Pölten	100.00%	-	31 Dec. 2014	Other
ZELUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Leasing
Benkerwiese Verwaltungs- und Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2014	Other
Steinmüllergasse 64 Development GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2014	Other
Benkerwiese Mietergemeinschaft GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2014	Other
Josef-Heinzl-Gasse 1 Immobilienentwicklung GmbH	St. Pölten	90.00%	90.00%	31 Dec. 2014	Other
Neustift-am-Walde 32 Immobilienentwicklung GmbH	St. Pölten	90.00%	90.00%	31 Dec. 2014	Other
Haymogasse 102 Immobilienentwicklung GmbH	St. Pölten	90.00%	90.00%	31 Dec. 2014	Other
Stettnerweg 11-15 Liegenschaftsentwicklungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2014	Other
HYPO NOE First Facility GmbH	Vienna	100.00%	100.00%	31 Dec. 2014	Other
HYPO NOE Versicherungsservice GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2014	Landesbank
Strategic Equity Beteiligungs-GmbH	St. Pölten	100.00%	49.00%	31 Dec. 2014	Other
Hauptplatz 18 Entwicklungs- und Verwertungs GmbH	St. Pölten	64.00%	64.00%	31 Dec. 2014	Other
Strategic Real Estate GmbH	St. Pölten	100.00%	49.00%	31 Dec. 2014	Other
SRE Immobilien GmbH	Vienna	100.00%	100.00%	31 Dec. 2014	Other
HYPO NOE Valuation & Advisory GmbH	St. Pölten	100.00%	10.00%	31 Dec. 2014	Other
NÖ Hypo Beteiligungsholding GmbH	St. Pölten	100.00%	-	31 Dec. 2014	Other
HYPO Immobilien-Beteiligungsholding GmbH	St. Pölten	100.00%	-	31 Dec. 2014	Other
HYPO Alpha Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2014	Other
HYPO Beta Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2014	Other
HYPO Gamma Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2014	Other
HYPO Delta Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2014	Other

3.2.2 Summarised financial information regarding subsidiaries partly held by non-controlling interests

The table below provides financial information on subsidiaries that hold non-controlling interests, broken down by segment. The share of non-controlling interests in the profit or loss of each company is shown under Note 7.15. The non-controlling interests do not share in other comprehensive income.

Assets and liabilities in accordance with IFRS before intra-group elimination (EUR '000)	Subsidiaries with non-controlling interests in the Leasing segment		Subsidiaries with non-controlling interests in the Other segment	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Loans and advances to banks	157	56	158	360
Loans and advances to customers	474,625	147,504	-	-
Investment property	-	-	3,669	1,825
Deferred tax assets	-	-	13	13
Other assets	1,761	915	9,361	6,107
Total assets	476,543	148,475	13,201	8,305
Deposits from banks	420,342	141,703	7,379	6,756
Deposits from customers	13,500	4	1,008	-
Current tax liabilities	-974	-	-	-
Deferred tax liabilities	4,415	755	136	-
Other liabilities	19,778	4,254	269	175
Subordinated capital	2,907	-	-	-
Equity	16,575	1,759	4,409	1,374
<i>Parent shareholders' equity</i>	8,684	1,142	3,929	845
<i>Non-controlling interests</i>	7,891	617	480	529
Total equity and liabilities	476,543	148,475	13,201	8,305

No dividends were distributed to non-controlling interests in 2014. After adjustment for non-cash components of assets and liabilities, no cash flow contribution was recognised in the consolidated statement of cash flows.

3.2.3 Associates and joint ventures

The following table shows the carrying amount and the share in profit or loss of each company, as well as the annual, interim or consolidated financial statements used in the calculation of the carrying amount. The first figure stated for each company refers to the current reporting period, and the second figure is the comparative amount for the previous reporting period. Where the date of the annual financial statements used differs from the date of the consolidated financial statements, the companies concerned are managed by third parties. Due to a lack of control, the Group has no influence regarding the early preparation of the financial statements. The delay in contributions to profit or loss was deemed to be immaterial on the basis of previous comparative amounts.

The cash flow contributions of associates and joint ventures are not material.

Four joint ventures accounted for using the equity method in accordance with IAS 28

Management board positions held by key management as well as other details are provided in Note 10.7 Disclosures on related-party relationships.

The following joint ventures are included in the Leasing segment. Leasing projects are implemented on the basis of agreements with partners. In general, joint control of the companies has been agreed, and the Group therefore classifies these companies as joint ventures. Joint ventures do not share in other comprehensive income.

Company name	Domicile	Holding	of which indirect interest	EUR '000		Reporting date
				Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	
Palatin Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	50.00%	50.00%	569	8	31 Dec. 2014
				796	10	31 Dec. 2013
Viminal Grundstückverwaltungs Gesellschaft m.b.H.	Vienna	50.00%	50.00%	265	12	31 Dec. 2014
				462	13	31 Dec. 2012
NÖ. HYPO Leasing und Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG	St. Pölten	50.00%	50.00%	1,093	50	30 Sep. 2014
				1,054	28	31 Dec. 2012

The following joint ventures are included in the Gruppe Bank segment. Joint control is exercised by means of unanimous resolutions on the appointment of management board members. Details of these material subsidiaries are provided in the following information on the Gruppe Bank segment's joint ventures and associates accounted for using the equity method.

Company name	Domicile	Holding	of which indirect interest	EUR '000		Reporting date
				Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	
				1,828	247	31 Dec. 2013
Niederösterreichische Vorsorgekasse AG	St. Pölten	49.00%	-	1,677	157	31 Dec. 2012
Joint ventures - subtotal as at 31 Dec. 2014				3,754	317	
Joint ventures - subtotal as at 31 Dec. 2013				3,989	208	

Consolidation of seven joint ventures previously accounted for using the equity method in the Leasing segment:

Company name	Domicile	Holding	of which indirect interest	EUR '000		Reporting date
				Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	
FORIS Grundstückvermietungs Gesellschaft m.b.H.	Vienna	51.00%	26.00%	-	7	31 Dec. 2014
		50.00%	25.00%	982	70	31 Dec. 2012
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%	-	15	31 Dec. 2014
		50.00%	50.00%	763	-174	31 Dec. 2013
LITUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%	-	27	31 Dec. 2014
		50.00%	25.00%	1,371	19	31 Dec. 2013
Adoria Grundstückvermietungs Gesellschaft m.b.H.	Vienna	51.00%	26.00%	-	25	31 Dec. 2014
		50.00%	25.00%	616	12	31 Dec. 2012
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%	-	-26	31 Dec. 2014
		50.00%	25.00%	-	-217	31 Dec. 2012
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	Horn	51.00%	51.00%	-	-2	31 Dec. 2014
		50.00%	50.00%	1,448	17	31 Dec. 2012
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	Vienna	51.00%	51.00%	-	201	31 Dec. 2014
		50.00%	50.00%	1,787	530	31 Dec. 2012

Company name	Domicile	Holding	of which indirect interest	EUR '000		Reporting date
				Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	
Deconsolidation of 11 joint ventures in the Leasing segment:						
CULINA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%	-	-215	31 Dec. 2014
				293	6	31 Dec. 2013
FACILITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%	-	-50	31 Dec. 2013
				59	-12	31 Dec. 2012
NÖ. HYPO LEASING - Sparkasse Region St. Pölten Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	50.00%	-	-127	31 Dec. 2014
				147	-6	31 Dec. 2013
TRABITUS Grundstückvermietungs Gesellschaft m.b.H.	Vienna	50.00%	25.00%	-	-160	30 Sep. 2014
				169	11	31 Dec. 2012
UNDA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%	-	-38	31 Dec. 2013
				47	-1	31 Dec. 2012
Purge Grundstücksverwaltungs-Gesellschaft m.b.H.	Vienna	50.00%	50.00%	-	7	31 Dec. 2013
				11	-7	31 Dec. 2012
NÖ Raiffeisen Kommunalprojekte Service Gesellschaft m.b.H. & NÖ.HYPO Leasing-gesellschaft m.b.H. - Strahlentherapie OG	St. Pölten	50.00%	50.00%	-	-75	30 Sep. 2014
				75	3	31 Dec. 2013
N.Ö. Gemeindegebäudeleasing Gesellschaft m.b.H. in Liquidation	Vienna	33.30%	-	-	-	31 Dec. 2013
				33	-71	31 Dec. 2012
N.Ö. Kommunalgebäudeleasing Gesellschaft m.b.H.	Vienna	33.30%	-	-	6	31 Dec. 2013
				-	-238	31 Dec. 2012
NÖ-KL Kommunalgebäudeleasing Gesellschaft m.b.H.	Vienna	33.30%	-	-	-344	31 Dec. 2013
				350	-51	31 Dec. 2012
Quirinal Grundstücksverwaltungs Gesellschaft m.b.H.	Vienna	33.33%	-	-	39	30 Sep. 2014
				171	6	31 Dec. 2012
Deconsolidated joint ventures - subtotal as at 31 Dec. 2014				-	-709	
Deconsolidated joint ventures - subtotal as at 31 Dec. 2013				8,322	-103	

17 associates accounted for using the equity method in accordance with IAS 28

The positions held by key management on the management boards of associates as well as other details are provided in Note 10.7 Disclosures on related-party relationships.

The following associates are included in the Gruppe Bank segment. Financial information on the material investments of the Gruppe Bank segment are provided below. Associates in which the Gruppe Bank segment has an interest do not share in other comprehensive income.

Company name	Domicile	Holding	of which indirect interest	EUR '000		Reporting date
				Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	
Gemeinnützige Wohnungsgesellschaft „Austria“ Aktiengesellschaft	Mödling	44.39%	44.39%	Included in EWU consolidated financial statements		
„Wohnungseigentümer“ Gemeinnützige Wohnbaugesellschaft m.b.H.	Mödling	44.75%	44.75%			
GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H.	Maria Enzersdorf	42.60%	42.60%			
EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft (consolidated financial statements)	Vienna	44.79%	-	19,811	-3,235	31 Dec. 2014
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	Korneuburg	32.50%	-	23,135	-7,278	31 Dec. 2013
				1,212	393	31 Dec. 2013
				1,079	252	31 Dec. 2012

The following two associates form part of the Leasing segment. These companies do not share in the Group's other comprehensive income.

Company name	Domicile	Holding	of which indirect interest	EUR '000		Reporting date
				Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	
Hotel- und Sportstätten-Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG	St. Pölten	45.41%	45.41%	665	82	31 Dec. 2014
NÖ. Landeshauptstadt - Planungsgesellschaft m.b.H.	St. Pölten	39.00%	39.00%	583	-10	31 Dec. 2013
				329	-41	31 Dec. 2013
				369	-33	31 Dec. 2012

The table below shows the associates in the Other segment. Where the segment's interest is above 50%, the associate is accounted for using the equity method owing to significant influence and materiality criteria.

The share of other comprehensive income attributable to currency translation of EUR -61thsd (31 Dec. 2013: EUR -16thsd) relates to currency translations in connection with foreign associates in the Other segment.

Company name	Domicile	Holding	of which indirect interest	EUR '000		Reporting date
				Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	
Hart & Haring Liegenschafts-entwicklungs GmbH	Vienna	25.00%	25.00%	-	-	31 Dec. 2014
				-	-9	31 Dec. 2013
Franz-Glaser-Gasse 28 Immo-bilienentwicklung GmbH	St. Pölten	50.00%	50.00%	46	-174	31 Dec. 2014
				-	-	31 Dec. 2013
Ernst Hora Elektroinstallationen Gesellschaft m.b.H.	Vienna	100.00%	100.00%	-	-	31 Dec. 2014
				-	-	31 Dec. 2013
first facility Ingatlankezelő Koriátolt Felelősségű Társaság	Budapest	100.00%	100.00%	566	72	31 Dec. 2013
				546	-327	31 Dec. 2012
				70	71	31 Dec. 2013
first facility Imobilie SRL	Bucharest	55.00%	55.00%	78	8	31 Dec. 2012
				429	103	31 Dec. 2013
first facility Bulgaria EOOD	Sofia	100.00%	100.00%	326	-55	31 Dec. 2013
				10	-5	31 Dec. 2013
first facility Macedonia dooel	Skopje	100.00%	100.00%	16	-19	31 Dec. 2013
				114	-	31 Dec. 2013
first facility - Slovakia s.r.o.	Bratislava	100.00%	100.00%	114	10	31 Dec. 2012
				16	-19	31 Dec. 2013
first facility d.o.o	Belgrade	51.00%	51.00%	41	-71	31 Dec. 2012
				82	52	31 Dec. 2014
Niederösterreichische Facility Management GmbH	Wiener Neustadt	40.00%	40.00%	499	-419	31 Dec. 2013
Associates - subtotal at 31 Dec. 2014				23,351	-2,701	
Associates - subtotal at 31 Dec. 2013				26,786	-7,951	

Deconsolidation of three associates and one reclassification as held for sale in accordance with IFRS 5 in 2014

Company name	Domicile	Holding	of which indirect interest	EUR '000		Reporting date
				Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	
Gruppe Bank segment						
KASERNEN Projektentwicklungs- und Beteiligungs GmbH	Vienna	- 25.00%	- -	- 134	- 24	31 Dec. 2013 31 Dec. 2012
				Reclassification in accordance with IFRS 5, 2014	238	31 Dec. 2013
HYPO Capital Management AG	Vienna	25.00%	-	2,382	336	31 Dec. 2012
Other segment						
		- -	- -	- 1,436	564 237	31 Mar. 2014 31 Dec. 2013
Backhausen GmbH	St. Pölten	44.00%	44.00%			
		- -	- -	Derecognition in 2013		
V2 FM GmbH	Vienna	-	-	-	518	31 Dec. 2012
Landesbank segment						
Bonitas Versicherungsservice Gesellschaft m.b.H.	St. Pölten	- -	- -	Derecognition in 2013		
		- 13.35%	- 13.35%	- -	92 -230	31 Dec. 2012 31 Dec. 2013
NÖ Beteiligungsfinanzierungen GmbH	Vienna	21.00%	21.00%	1,386	19	31 Dec. 2012
Deconsolidated associates - subtotal at 31 Dec. 2014				-	572	
Deconsolidated associates - subtotal at 31 Dec. 2013				5,338	1,226	

For further information on the following totals, see Note 8.10 Investments accounted for using the equity method and Note 7.1 Interest and similar income.

Company name	Domicile	Holding	of which indirect interest	EUR '000		Reporting date
				Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	
Total from investments accounted for using the equity method, 31 Dec. 2014				27,105	-2,521	
Total from investments accounted for using the equity method, 31 Dec. 2013				44,437	-6,619	

DETAILED DISCLOSURES ON MATERIAL JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD AND ASSOCIATES IN THE GRUPPE BANK SEGMENT

The following company is a joint venture accounted for using the equity method:

▣ Niederösterreichische Vorsorgekasse AG

Joint control is exercised by means of unanimous resolutions on the appointment of management board members.

The following sub-group, including its subsidiaries, forms part of the Gruppe Bank segment and is reported as an associate accounted for using the equity method:

▣ EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft

with its subsidiaries

▣ Gemeinnützige Wohnungsgesellschaft „Austria“ Aktiengesellschaft

▣ "Wohnungseigentümer" Gemeinnützige Wohnbaugesellschaft m.b.H.

▣ GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H.

Significant influence is exercised by means of the appointment of members of the Group's key management to positions at these companies.

The positions held by key management on the management boards of associates and joint ventures, as well as other details are provided in Note 10.7 Disclosures on related-party relationships.

As a separate financial services provider and provident fund, **Niederösterreichische Vorsorgekasse AG** manages employees' termination benefit claims. Statutory contributions for employees are paid by employers. As there is a requirement for unanimous resolutions on the appointment of the management board, the company is classified as being under joint control.

The subsidiaries of **EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft** are mainly concerned with the acquisition, disposal and management of land, buildings and apartments on behalf of third parties, and also operate as construction companies. In addition, the EWU Group provides data traffic services to other non-profit housing development associations, which are subject to the Austrian Wohnungsgemeinnützigkeitsgesetz (Non-profit Housing Act). The Act includes capital protection provisions in the form of restrictions on the treatment of members pursuant to property law, including the maximum distributable profit and the stipulation that in the event of dissolution of a company, any profit must be used for charitable purposes. In terms of measurement, it should be noted that the equity method specified in IAS 28 (accounting principles applied in provisional financial statements) does not take account of the restrictions in the Non-profit Housing Act. Measurement was therefore based on the concept of value in use, taking account of the present value of expected dividend payments and the benefits derived from future surplus cash flows. These are reported as adjustment items pursuant to the capital protection provisions in the Non-profit Housing Act. With regard to equity, the disclosures are based on the provisional financial statements prepared in accordance with the Austrian Business Code and reconciled with IFRS, while balancing items are used in the financial information. With an interest of 44.79%, the Group has sufficient voting rights to influence the company's core activities.

Summary financial information on the material associates of the Gruppe Bank segment is provided in the table below.

DETAILED DISCLOSURES ON ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

	Niederösterreichische Vorsorgekasse AG		EWU Wohnbau Unterneh- mensbeteiligungs-Aktieng- esellschaft (consolidated financial statements)	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Proportion of ownership	49.00%	49.00%	44.79%	44.79%
EUR '000 - assets and liabilities as basis for inclusion in annual financial statements				
Non-current assets	4,481	3,833	1,480,226	1,409,416
Current assets	84	321	127,877	114,424
<i>of which cash and cash equivalents</i>	84	76	76,680	57,660
Long-term borrowings	-76	-73	-1,504,081	-1,419,497
Current liabilities	-562	-538	-24,894	-28,906
Net assets (100%)	3,927	3,544	79,128	75,437
Group share of net assets	1,924	1,736	35,441	33,788
Adjustment items pursuant to the capital protection provisions in the Non-profit Housing Act	-	-	-15,541	-10,546
Dividends received	-96	-60	-90	-107
Carrying amount of interests in associates	1,828	1,677	19,811	23,135
EUR '000 - profit/loss as basis for inclusion in annual report				
Net interest income	194	52	497	703
Other income	1,874	1,692	124,834	117,867
Operating expense	-1,400	-1,316	-121,432	-111,024
Profit before tax	669	428	3,899	7,546
Income tax expense	-165	-107	-8	-11
Profit for the period (100%)	504	321	3,891	7,535
Group share of adjustment items pursuant to the capital protection provisions in the Non-profit Housing Act	-	-	-4,978	-10,653
Group share of profit/loss	247	157	-3,235	-7,278

3.2.4 Holdings in excess of 20% in associates classified as financial instruments in accordance with IAS 39

Owing to their being immaterial, the following companies are reported as AFS investments in which the Group has interests of over 50%.

Company name	Domicile	Holding	of which indirect interest	EUR '000		Reporting date
				Registered capital	Profit/loss reported in register of companies*	
Non-consolidated AFS investments (interest more than 50%)						
Castellum Schallaburg Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	-145	-6	31 Dec. 2013
				-139	-22	31 Dec. 2012
VIA DOMINORUM Grundstückverwertungs Gesellschaft m.b.H.	St. Pölten	95.00%	95.00%	-4,615	1,929	31 Dec. 2013
				-6,544	497	31 Dec. 2012
WPS-Wirtschaftspark Sieghartskirchen Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	-66	1,280	31 Dec. 2013
				-1,346	-63	31 Dec. 2012
Wilax Wien-Laxenburg NÖ Veranstaltungs Gesellschaft mbH	St. Pölten	100.00%	100.00%	18	6	31 Dec. 2013
				12	-2	31 Dec. 2012
Wohnpark Schrems Liegenschaftsverwertungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	-138	-14	31 Dec. 2013
				-124	-18	31 Dec. 2012
SRE Sziget Center Korlátolt Felelősségű Társaság	Budapest	100.00%	100.00%	1	-	31 Dec. 2013
				1	-	31 Dec. 2013
				35	-	Formation
SRE Immobilien Deutschland GmbH	Vienna	100.00%	100.00%			*

*Founded in 2014

The following companies, in which the Group has interests of 20-50%, were treated as AFS investments due to immateriality.

Company name	Domicile	Holding	of which indirect interest	EUR '000		Reporting date
				Registered capital	Profit/loss reported in register of companies*	
Non-consolidated AFS investments (interest 20-50%)						
NÖ Kulturwirtschaft GesmbH. (consolidated financial statements)	St. Pölten	40.52%	40.52%	6,505	-89	31 Dec. 2013
				6,576	1,962	31 Dec. 2012
Psychosoziales Zentrum Schiltern Gesellschaft m.b.H.	Schiltern, Langenlois	26.67%	-	1,463	75	31 Dec. 2013
				1,388	375	31 Dec. 2012
				25	-2	31 Dec. 2013
EFH-Beteiligungsgesellschaft m.b.H.	Vienna	50.00%	-	27	-3	31 Dec. 2012
				62	1	31 Dec. 2013
SPORTZENTRUM Niederösterreich GmbH	St. Pölten	49.00%	49.00%	61	1	31 Dec. 2012
CULINA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%	156	135	31 Dec. 2013
						*
FACILITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%	-981	74	31 Dec. 2013
						*
NÖ. HYPO LEASING - Sparkasse Region St. Pölten Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	50.00%	42	23	31 Dec. 2013
						*
TRABITUS Grundstückvermietungs Gesellschaft m.b.H.	Vienna	50.00%	25.00%	-1,284	130	31 Dec. 2013
						*
UNDA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%	-362	42	31 Dec. 2013
						*
Purge Grundstücksverwaltungs- Gesellschaft m.b.H.	Vienna	50.00%	50.00%	5	-17	31 Dec. 2013
						*
NÖ Raiffeisen Kommunalprojekte Service Gesellschaft m.b.H. & NÖ.HYPO Leasinggesellschaft m.b.H. - Strahlentherapie OG	St. Pölten	50.00%	50.00%	-1,603	93	31 Dec. 2013
						*
N.Ö. Gemeindegebäudeleasing Gesellschaft m.b.H. in Liquidation	Vienna	33.30%	-	14	-5	31 Dec. 2013
						*
N.Ö. Kommunalgebäudeleasing Gesellschaft m.b.H.	Vienna	33.30%	-	-840	162	31 Dec. 2013
						*
NÖ-KL Kommunalgebäudeleasing Gesellschaft m.b.H.	Vienna	33.30%	-	-1,970	164	31 Dec. 2013
						*
Quirinal Grundstücksverwaltungs Gesellschaft m.b.H.	Vienna	33.33%	-	93	56	31 Dec. 2013
						*
KASERNEN Projektentwicklungs- und Beteiligungs GmbH	Vienna	25.00%	-	566	29	31 Dec. 2013
						*

*These entities were accounted for using the equity method in the 2013 consolidated financial statements

3.3 FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

IAS 39 requires the recognition of all financial assets and liabilities in the consolidated statement of financial position.

The regular way purchase or sale of derivatives and financial instruments is recognised on the trade date.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or the transfer criteria established by IAS 39 are fulfilled. Financial liabilities are derecognised when they are extinguished or the obligations have expired.

Fair value is defined as the purchase price paid in an orderly transaction between market participants at the measurement date.

Financial instruments are initially recognised at fair value plus transaction costs. Quoted market prices form the basis of the subsequent measurement of financial instruments accounted for at fair value. In the absence of a market price or a price quoted on an active market, the future cash flows of a non-option financial instrument are discounted to present value applying an appropriate interest rate (discounted cash flow method). Measurement is performed using standard financial valuation techniques. Widespread options pricing models are used to value options and other financial instruments with similar characteristics, applying current market inputs. Equity instruments are reported at cost if the fair value is not reliably measurable.

The present value of linear derivatives (e.g. interest rate swaps, cross currency swaps, FX forwards and forward rate agreements) is calculated by discounting the replicating cash flows. Over-the-counter (OTC) currency and interest rate options are measured using common option pricing models such as the Black Scholes or Hull White models (Note 10.3 Fair value disclosures in accordance with IFRS 7).

Customer swaps are measured using an internal model based on the DCF method, taking account of the current interest rate and basis spread curves. Widespread models are used in the measurement of embedded options. Counterparty risk and the Bank's exposure to credit risk (credit value adjustment and debt value adjustment) are taken into consideration when calculating the fair value of all unsecured customer derivatives. However, since issuance by customers is at best minimal and it is thus not possible to determine credit spreads on the basis of quoted prices, the credit spreads for instruments with matching maturities are calculated using CDS index curves in line with the customer's credit rating and the sector in which the respective counterparty operates.

3.4 FINANCIAL ASSETS

IAS 39 classifies financial assets into the following four categories:

1. Loans and receivables (LAR)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market (see Note 8.3 Loans and advances to banks and Note 8.4 Loans and advances to customers).

Loans and receivables are measured at amortised cost (gross), and impairments to them as credit provisions, under "Risk provisions" (Note 8.5 Risk provisions and credit provisions).

Additional information on the fair value of loans and receivables measured at amortised cost is given under Note 10.3 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

2. Assets held for trading (HFT)

Financial instruments acquired for the purpose of reselling them in the near term, or forming part of a portfolio that the entity intends to resell in the near term with the objective of generating a profit, must be classified as assets held for trading. This category also includes all derivatives other than those used as hedging instruments.

In the HYPO NOE Group most of the assets classified in this way represent the positive fair value attributable to derivatives used for interest rate or foreign exchange related transactions (Note 8.6 Assets held for trading).

Measurement is at fair value. Realised and unrealised gains and losses, and measurement gains and losses are recognised in profit or loss (Note 7.5 Net trading income).

Where available, market prices are applied in the determination of fair value (Level 1). In the absence of market prices, fair value is calculated on the basis of observable inputs (Level 2). Unobservable inputs may also be applied (Level 3). Detailed information on this item is given under Note 10.3 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

3. Available-for-sale financial assets (AFS)

This is a residual category to which all non-derivative financial assets are assigned that are not classified under another category.

In the case of the HYPO NOE Group these are shares and other variable income securities, bonds, public debt certificates and other fixed income securities, holdings in non-consolidated subsidiaries (over 50%), holdings in associates (20-50%) and other investments (less than 20%) (see Note 8.8 Available-for-sale financial assets).

Subsequent measurement is at fair value. Measurement gains and losses are recognised in the revaluation reserve (AFS reserve) under other comprehensive income, taking deferred tax into account (statement of changes in equity and statement of comprehensive income).

In the event of disposal of the asset, the difference between amortised cost and the carrying amount recognised in equity, under the AFS reserve (revaluation reserve), is reversed through profit or loss in the statement of comprehensive income. Gains and losses are reversed over the remaining life of the asset using the effective interest method. In the event of credit-related impairment, an impairment loss is recognised (Note 7.9 Net gains or losses on available-for-sale financial assets). In the event of reversal of impairment losses, equity instruments are revalued via the AFS reserve, and debt instruments through profit or loss.

Where available, market prices are applied in the determination of fair value (Level 1). In the absence of market prices, fair value is calculated on the basis of observable inputs (Level 2). Unobservable inputs may also be applied (Level 3), and if the fair value cannot be calculated, assets are measured at cost (also Level 3).

In the case of the HYPO NOE Group's holdings in non-consolidated subsidiaries (over 50%), holdings in associates (20-50%) and other investments (less than 20%), the preferred approach for the measurement of fair value is the DCF method. Alternatively, the dividend discount model or the market value method may be applied. The Group's subsidiaries also provide figures in the form of forecasts and budgets.

4. Financial assets designated as at fair value through profit or loss (FVPL)

When the fair value option (FVO) is taken, financial assets that are not held for trading are irrevocably assigned to this category, and are subsequently measured at fair value through profit or loss (Note 8.9 Financial assets designated as at fair value through profit or loss).

However, this classification may only be made if one of the following criteria is met:

- a.) The financial instrument contains one or more significant embedded derivatives
- b.) The approach eliminates or significantly reduces a measurement or recognition inconsistency
- c.) A group of financial assets and/or financial liabilities is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Measurement is at fair value. Realised gains and losses, and unrealised measurement gains and losses are recognised in profit or loss under 7.10 Net gains or losses on financial assets designated as at fair value through profit or loss.

Where available, market prices are applied in the determination of fair value (Level 1). In the absence of market prices, fair value is calculated on the basis of observable inputs (Level 2). Unobservable inputs may also be applied (Level 3). Detailed information on this item is given under Note 10.3 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

In the HYPO NOE Group this item includes debt instruments managed by the former HYPO Absolute Return fund, which Management designated as at fair value through profit or loss on initial recognition.

5. Financial investments held to maturity (HTM)

Non-derivative financial assets with fixed or determinable payments and fixed maturities normally meet the criteria for assignment to this category. In the case of the Group it consists entirely of bonds, public debt certificates and other fixed income securities.

Designation of investments as held to maturity requires an intention and ability to hold these until maturity.

Measurement is at amortised cost, and gains and losses are amortised over the remaining lives of the assets using the effective interest method. Any impairment losses are recognised in profit or loss.

The HYPO NOE Group has no investments assigned to this category.

3.5 FINANCIAL LIABILITIES

IAS 39 classifies financial liabilities into the following four categories:

1. Other financial liabilities

This category comprises the financial liabilities, including debt evidenced by certificates, for which the option of measurement at fair value through profit or loss was not taken (liabilities at cost [LAC]) (see Note 8.18 Deposits from banks, Note 8.19 Deposits from customers and 8.20 Debts evidenced by certificates).

Measurement is normally at amortised cost. Gains and losses are amortised over the remaining lives of the liabilities using the effective interest method, and are taken to interest expense.

Additional information on the fair value of other financial liabilities measured at amortised cost is given under Note 10.3 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

2. Liabilities held for trading (HFT)

Financial instruments purchased for the purpose of reselling them in the near term, or forming part of a portfolio that the entity intends to resell in the near term with the objective of generating a profit, must be classified as liabilities held for trading. This category also includes all derivatives other than those used as hedging instruments.

In the HYPO NOE Group most of the assets classified in this way represent the negative fair value attributable to derivatives used for interest rate or foreign exchange related transactions (Note 8.21 Liabilities held for trading).

Measurement is at fair value. Realised gains and losses, and measurement gains and losses are recognised in profit or loss (Note 7.5 Net trading income).

Where available, market prices are applied in the determination of fair value (Level 1). In the absence of market prices, fair value is calculated on the basis of observable inputs (Level 2). Unobservable inputs may also be applied (Level 3). Detailed information on this item is given under Note 10.3 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

3. Financial liabilities designated as at fair value through profit or loss (FVPL)

When the fair value option (FVO) is taken, financial liabilities that are not held for trading are irrevocably assigned to this category, and subsequently measured at value fair through profit or loss. However, this classification may only be made if:

- a.) The financial instrument contains one or more significant embedded derivatives
- b.) The approach eliminates or significantly reduces a measurement or recognition inconsistency
- c.) A group of financial assets and/or financial liabilities is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Measurement is at fair value. Realised gains and losses, and measurement gains and losses are recognised in profit or loss.

The HYPO NOE Group has no liabilities assigned to this category.

3.6 EMBEDDED DERIVATIVES

Financial instruments are referred to as “structured products” where they consist of a host contract and multiple embedded derivatives, and the latter are an integral component of the contract and cannot be separately traded.

IAS 39 states that embedded derivatives must be separated from the host contracts and accounted for as independent derivatives if:

- ▣ The structured financial instrument is not measured at fair value through profit or loss
- ▣ The economic characteristics and risks of the embedded derivative are not clearly and closely related to those of the host contract
- ▣ The terms of the embedded derivatives meet the definition of a derivative

Measurement gains and losses are recognised in the statement of comprehensive income. Derivatives that are not subject to the separation requirement are measured together with the host contract, in accordance with the general rules for the category concerned.

3.7 HEDGE ACCOUNTING

Derivatives are measured at fair value. Measurement gains and losses are recognised in profit or loss unless the derivative in question meets the criteria for IFRS cash flow hedge accounting.

The IFRS hedge accounting rules govern the measurement of derivatives that are purchased to hedge an underlying transaction. The latter is classified into one of the above categories. A hedging relationship exists where the underlying and hedging transaction, and the hedged risk are designated. The hedging relationship is regarded as highly effective if the fair value or cash flow changes in the underlying and the hedge largely offset each other (hedge ratio of 80-125%). The effectiveness of the hedge must be reliably measurable, and is monitored throughout the annual reporting period. The cumulative dollar offset method is used for retrospective measurement of hedge effectiveness, and regression analysis for prospective measurement.

▣ **Fair value hedge:** A hedge of the exposure of assets and liabilities to changes in fair value. Gains and losses on measurement of the derivative and underlying are reported in the statement of comprehensive income, under "Net gains or losses on hedges" (Note 7.11).

▣ **Cash flow hedge:** A hedge of the exposure to variability in cash flows that is attributable to an identifiable and determinable risk associated with a recognised asset or liability or a highly probable forecast transaction. The effective portion of the change in fair value is recognised in the statement of comprehensive income, under "Change in cash flow hedge". The gain or loss attributable to the ineffective portion is immediately recognised in profit or loss and reported in the statement of comprehensive income, under "Net gains or losses on hedges" (Note 7.11).

The HYPO NOE Group mainly uses fair value hedges. These are employed to hedge the fair value of both assets and liabilities (underlyings). Interest rate risk and currency risk are hedged simultaneously. In addition, cash flow hedges are used to hedge the risk of fluctuations in cash flows (interest payments) from assets and liabilities (underlyings). There were no cash flow hedges as at the end of the reporting period.

Analyses of hedges by the underlying transactions hedged are shown in Note 8.7 Positive fair value of hedges (hedge accounting) and Note 8.22 Negative fair value of hedges (hedge accounting).

3.8 LEASE ACCOUNTING

Additional information on the leasing business can be found under Note 10.5 Leasing disclosures.

The HYPO NOE Group as a lessor

The main determinant of the classification of, and hence the method of accounting for leases is not the legal ownership of the leased property but the substance of the lease. If substantially all the risks and rewards incidental to legal ownership are transferred by the lessor, then under IAS 17 the lease is a finance lease; otherwise it is an operating lease. Most of the lease agreements concluded by the HYPO NOE Group as a lessor are classifiable as finance leases. Consequently, instead of recognising the assets, the present value of the future lease payments is reported under "Loans and advances to customers", taking account of any residual values. Agreed lease payments are apportioned between the finance charge, recognised in profit or loss, and the reduction in the outstanding liability.

The HYPO NOE Group as a lessee

All the lease agreements concluded by the HYPO NOE Group as a lessee are operating leases. This means that leased vehicles are not stated as assets in the consolidated statement of financial position. The lease instalments are recognised as general administrative expenses (see Note 7.6 General administrative expenses).

3.9 INVESTMENT PROPERTY

Land and buildings held to earn rentals or for capital appreciation are classified as investment property. In cases of mixed occupation, significant parts of land and buildings used by third parties are reported as investment property provided that the conditions for separate letting or sale are met. Land held for a currently undetermined future use is also reported in this category (Note 8.11 Investment property).

Investment property is measured at amortised cost. Depreciation is on a straight-line basis, over the normal useful lives of the assets. The following useful lives, which correspond to the actual useful lives of the properties concerned, are applied:

- ▣ Land and buildings 25-50 years

Rental income, depreciation, gains and losses on disposal, and any impairment are recognised in profit or loss (Note 7.1 Interest and similar income and Note 7.13 Net gains or losses on other financial investments).

Fair value is determined on the basis of independent valuations; the valuers use the income approach (Note 10.3.1 Fair value).

3.10 RISK PROVISIONS

Specific or collective impairment allowances are recognised for identifiable lending risks.

The individual impairment allowances are determined on the basis of an assessment of the customer's financial situation, taking into account the Workout Management Unit's current assessment of collateral, the repayment structure and maturities.

Future cash flows (expected repayments) are discounted using the most recent effective interest rate. If there are collaterals for receivables (e.g. charges on real property or guarantees), the future cash flows from their recoverable amounts less the selling costs must be deducted when measuring the impairment loss. An impairment loss is measured on the basis of the present value of the total of estimated future cash – including expected interest payments – as of the dates they fall due.

As part of an agreement with the member institutions and the State of Carinthia, the Management Board of HYPO NOE Gruppe Bank AG undertook to provide financing for one-eighth of the EUR 1.2bn of debt instruments issued on behalf of HETA, a share of around EUR 155m. This amount includes the share of the State of Lower Austria and that of HYPO NOE Gruppe Bank AG, of which around EUR 84m falls due in 2015. In a session of the Lower Austrian parliament on 19 March 2015 and at a meeting of the Lower Austrian government on 24 March 2015, the State of Lower Austria agreed to assume reciprocal liability for the obligations of HYPO NOE Gruppe Bank AG, in fulfilment of its joint and several liability pursuant to the Pfandbriefstelle Act. In the measurement process, this reciprocal liability was recognised as a financial guarantee received in accordance with paragraph 9 IAS 39, and recognition of a risk provision was not necessary. In return, HYPO NOE Gruppe Bank AG undertook to pay an appropriate consideration (based on the set-off of refinancing costs incurred) as well as full compensation for the drawdowns in the form of a debtor warrant contingent on the Bank's future profits. The conditions for the warrant had not been met at the end of the reporting period. With regard to this agreement, there is a risk that other member institutions or guarantors do not fulfil their obligations under the Pfandbriefstelle Act. In such an event, new agreements may have to be concluded.

Collective impairment allowances are recognised on a portfolio basis for reductions in the value of the Group lending portfolio (losses incurred but not reported) as at the end of the reporting period. It is assumed that there are incurred but unreported losses in respect of a given percentage of customers without default ratings at the end of the reporting period.

In calculating these risk provisions, all exposures affected by credit risk that are measured at their carrying values (loans and receivables, and financial instruments held to maturity), and all committed lines of credit and contingent liabilities are allocated either to HYPO NOE Gruppe Bank or HYPO NOE Landesbank. Financial instruments that are not classified as held to maturity and derivatives do not form part of the calculations, as they are measured at fair value.

Housing construction loans backed by the Lower Austrian state government are likewise excluded.

Collective impairment allowances are recognised on the basis of expected losses, taking into account: (a) the risk volume; (b) the historical probability of default (PD), i.e. the results of backtesting the rating system; (c) loss given default (LGD) ratios; (d) personal securities for individual customers; and (e) the regulatory risk weightings of special financing arrangements and the period of time between occurrence of the loss and its identification, i.e. the loss identification period (LIP).

The collective impairment allowance is calculated for loans and advances to banks and customers with internal ratings of 2A to 4E, using the HYPO NOE Group master scale described in the risk report (part of the operational

and financial review). For 2014, the loss identification period was assumed to be four months for all loans (i.e. the LIP factor is 4/12).

The collective impairment allowance is calculated using the following formula:

$$\text{Impairment allowance} = \text{expected loss} * \text{LIP factor}$$

Total risk provision in respect of loans and advances carried as assets is disclosed on the assets side of the consolidated statement of financial position, as a deduction after "Loans and advances to banks" and "Loans and advances to customers" (Note 8.5 Risk provisions and credit provisions). The risk provisions for off-balance-sheet transactions are included in the "Provisions" item (Note 8.23 Provisions). Allocations to and reversals of impairment allowances and risk provisions arising from the lending business are reported in the statement of comprehensive income, under "Credit provisions" (see Note 7.3 Credit provisions for a detailed analysis).

Note 8.5 Risk provisions and credit provisions provides quantified and narrative disclosures on the individual and collective customer impairment allowances. Impairment of AFS assets is discussed under Note 3.4 Financial assets.

An overview of credit provisions can be found in Note 7.3. Further information on credit risk and gross exposure is given in the risk report contained in the operational and financial review.

3.11 REPURCHASE AGREEMENTS

Repurchase agreements are agreements under which the transferor transfers the legal title to assets to the transferee for a specified period, for consideration. At the same time it is agreed that the assets will be retransferred to the transferor at a later date, in return for an agreed sum. In accordance with IAS 39 the transferor continues to recognise the assets as it retains substantially all the risks and rewards of ownership. The transferor recognises a liability, and the transferee a receivable, equal to the amount received/paid. In 2014 the HYPO NOE Group entered into repurchase agreements as a transferor. The amounts concerned are detailed in Note 8.18.2 Repurchase agreements entered into as a transferor.

3.12 CURRENCY TRANSLATION

In compliance with IAS 21, monetary assets and liabilities denominated in foreign currencies, non-monetary items measured at fair value, and unsettled cash transactions are translated at the mid spot rate, and unsettled forward transactions at the mid forward rate ruling at the end of the reporting period.

Non-monetary assets and liabilities carried at amortised cost are stated at the buying rate.

As all of the consolidated subsidiaries draw up their financial statements in euro (the functional currency), it was not necessary to translate any statements into the reporting currency.

4. NOTES ON INDIVIDUAL ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

4.1 CASH AND BALANCES AT CENTRAL BANKS

“Cash and balances at central banks” comprises cash on hand and balances at central banks that are repayable on demand. The balances are stated at nominal value (Note 8.1 Cash and balances at central banks).

Interest income is reported under “Interest and similar income” (Note 7.1).

4.2 LOANS AND ADVANCES

The “Loans and advances to banks” and “Loans and advances to customers” items largely relate to loans, lease receivables (see also Note 10.5 Leasing disclosures), overnight money and time deposits, and unlisted securities. They include accrued interest but are gross of impairment losses (Note 8.3 Loans and advances to bank and Note 8.4 Loans and advances to customers). Measurement is at amortised cost and the net present value of lease receivables.

Interest income is reported under “Interest and similar income” (Note 7.1).

4.3 ASSETS HELD FOR TRADING

This item mainly comprises the positive fair value of derivatives that do not qualify for hedge accounting (Note 8.6 Assets held for trading).

Realised gains and losses, and measurement gains and losses are reported under the “Net trading income” item (Note 7.5).

4.4 POSITIVE AND NEGATIVE FAIR VALUE OF HEDGES (HEDGE ACCOUNTING)

The positive and negative fair value of hedges is reported separately, on the assets, and equity and liabilities sides of the consolidated statement of financial position, provided that they qualify for hedge accounting under IAS 39 (Note 8.7 Positive fair value of hedges (hedge accounting) and 8.22 Negative fair value of hedges (hedge accounting)). Measurement gains and losses on fair value hedges are recognised in profit or loss, under “Net gains or losses on hedges” (Note 7.11).

Current income from hedges is reported under Note 7.1 Interest and similar income.

4.5 AVAILABLE-FOR-SALE (AFS) FINANCIAL ASSETS

This item mainly relates to bonds and other fixed income securities.

It also includes AFS equities and other variable income securities, holdings in non-consolidated subsidiaries and equity interests not held for sale (Note 8.8 Available-for-sale financial assets).

Measurement gains and losses are reported under other comprehensive income, net of deferred tax, as an available-for-sale reserve (consolidated statement of changes in equity and "Other comprehensive income" in the statement of comprehensive income).

Gains and losses on disposal, and measurement gains and losses are recorded under "Net gains and losses on available-for-sale assets" (Note 7.9).

4.6 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

The item is confined to financial assets that were designated as at fair value through profit or loss on initial recognition (Note 8.9 Financial assets designated as at fair value through profit or loss).

4.7 FINANCIAL ASSETS HELD TO MATURITY

Bonds held to maturity are reported under this item. Measurement is at amortised cost.

The Group has no holdings following redemption of the bonds in their entirety in 2013. These assets made no contribution to earnings.

4.8 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in associates and arrangements where there is joint control are recognised at cost, and are included in the consolidated statement of financial position at the date on which a significant influence is obtained. In subsequent periods the carrying amount of the holdings is adjusted for changes in equity and the entire carrying amount is tested for impairment (see Note 8.10 Investments accounted for using the equity method and Note 3.2 Investments).

The Group ceases to use equity-method accounting from the point in time at which the investment no longer represents an associate or a joint venture, or the investment must be classified as held for sale in accordance with IFRS 5. As part of the ongoing review of the scope of consolidation, investments accounted for using the equity method where the interest is below the Group's specified materiality threshold are deconsolidated and reported as available-for-sale financial assets (see Note 8.8).

The Group's share of the annual profit or loss, and any impairment losses or reversals of impairment losses are recorded under "Income from investments accounted for using the equity method", which is a sub-item of "Interest and similar income" (Note 7.1 Interest and similar income). Exchange differences from investments accounted for using the equity method are reported under the Currency translation reserve item in the consolidated statement of changes in equity.

4.9 INTANGIBLE ASSETS, AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets acquired for consideration with determinable useful lives are stated at cost less straight-line amortisation and any impairment losses. Under certain circumstances, intangible assets arising from asset movements are to be stated at reliably measurable development costs less straight line amortisation and any impairment losses. As at the end of the reporting period there were no internally generated intangible assets.

Positive differences (goodwill) arising in the course of business combinations as defined in IFRS 3 are also included under intangible assets. Details are provided under Note 3.1 Basis of consolidation.

Land and buildings, and equipment, fixtures and furnishings used by the HYPO NOE Group in the course of its own business activities are reported as property, plant and equipment. Property, plant and equipment is measured at cost less depreciation.

A breakdown of intangible assets, and property, plant and equipment can be found in Note 8.13.

Depreciation and amortisation are on a straight-line basis over the normal useful lives of the assets. The following useful lives are applied:

▣ Land and buildings	25-50 years
▣ Equipment, fixtures and furnishings	4-10 years
▣ Computer software and hardware	3-5 years

Any indications of impairment in property, plant and equipment are assessed on the basis of expert opinions, and impairments are recognised where necessary. Goodwill is tested for impairment once a year or whenever there is an indication of impairment, and impairment losses are recognised where necessary.

Depreciation and amortisation, and impairments are reported in the statement of comprehensive income (see Note 7.6 General administrative expenses and the detailed disclosures in Note 7.6.3 Depreciation, amortisation and impairment). Gains and losses on disposal of property, plant and equipment are recognised under "Net other operating expenses/income" (Note 7.7).

Professional assessors are responsible for calculating the fair value of land and buildings. When applying the historical cost model, the fair value is only stated when it differs materially from the carrying amount. In the event of any deviation, this is reported in Note 10.3 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

4.10 TAX ASSETS AND LIABILITIES

HYPO NOE Gruppe Bank AG is subject to Austrian taxation. Since 2008 use has been made of the option of group taxation, with HYPO NOE Gruppe Bank AG acting as the tax group parent company. To this end the parent concluded group taxation agreements governing tax contributions, reporting duties and due dates with each group member.

Current and deferred tax assets and liabilities are reported under the respective items in the consolidated statement of financial position (Note 8.14 Tax assets and 8.24 Tax liabilities).

Current tax assets and liabilities are measured at the amount expected to be paid to/recovered from the taxation authorities, on the basis of the current tax rates.

Deferred tax assets and liabilities are measured according to the balance sheet liability method, whereby the tax base of an asset is compared with the IFRS carrying amount, and deferred tax recognised for the temporary difference. If a tax liability is probable when the temporary difference reverses, a deferred tax liability is recognised. Deferred tax assets are recognised for temporary differences that result in tax reductions when they reverse. Offsetting of deferred tax assets and liabilities is performed on a company-by-company basis. Pursuant to IAS 12, deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised for tax loss carryforwards if it is likely that sufficient taxable profit will be available. The HYPO NOE Group's tax loss carryforwards are recognised in Austria and there are no restrictions on their realisation. The relevant calculations are based on updated budgets, and a distinction is made between realisable and non-realisable tax loss carryforwards. The carrying amounts of deferred tax assets arising from tax loss carryforwards and temporary differences are reviewed at the end of each reporting period.

The recognition and reversal of deferred tax assets and liabilities is either in profit or loss, under "Income tax expense", or in equity (Note 7.14 Income tax expense) if the underlying item is recognised outside profit or loss (e.g. the revaluation reserve for AFS financial instruments).

4.11 OTHER ASSETS

The "Other assets" item (Note 8.15 Other assets) largely relates to accruals and deferrals, other non-bank receivables (e.g. trade receivables and amounts due from the tax authorities in respect of other taxes), and property classified as inventory. Property classified as inventory is reported at acquisition or construction cost.

The accounting method used for such property is assessed on the basis of the net realisable value, which is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The net realisable value is determined by means of an expert assessment by HYPO NOE Valuation & Advisory GmbH. Costs are estimated on the basis of the implementation costs for the respective project. Other non-bank receivables are measured at amortised cost.

Earnings arising as a result of measurement are reported under Note 7.7 Net other operating expenses/income.

4.12 NON-CURRENT ASSETS HELD FOR SALE (IFRS 5)

Note 8.16 Non-current assets held for sale (IFRS 5) includes assets arising from disposals and not generated through continued use. Classification only takes place if a non-current asset or disposal group is available for sale immediately in its current condition and disposal is highly likely. If the Management Board commits to a disposal, it is assumed that the disposal will take place within one year of classification.

The disposal is recognised at the lower of the carrying amount or fair value, less the costs to sell.

In the event that the Group has undertaken to dispose of the asset or disposal group, resulting in the sale of an investment in a company accounted for using the equity method, the investment is classified as held for sale, provided the aforementioned conditions are met. From this point the equity method is no longer applied.

In 2014 the Group disposed of one company accounted for using the equity method in accordance with IFRS 5 (see Note 3.1 Basis of consolidation).

4.13 DEPOSITS FROM BANKS AND CUSTOMERS, AND DEBTS EVIDENCED BY CERTIFICATES

Deposits from banks and customers, including debts evidenced by certificates, are carried at amortised cost (Note 8.18 Deposits from banks, Note 8.19 Deposits from customers and Note 8.20 Debts evidenced by certificates). Gains and losses on debts evidenced by certificates are amortised at constant effective rates of interest over the maturities of the liabilities.

Interest expense is reported under "Interest and similar expense" (Note 7.2).

Where hedge accounting is applied, the movements in the fair value of the underlying are recognised in profit or loss, under "Net gains or losses on hedges" (Note 7.11).

4.14 LIABILITIES HELD FOR TRADING

The negative fair value of derivatives held for trading that are measured at fair value is disclosed under this item (Note 8.21 Liabilities held for trading).

Realised gains and losses, and measurement gains and losses are reported under the "Net trading income" item (Note 7.5).

4.15 PROVISIONS

The following items are reported under "Provisions" (Note 8.23):

- ▣ Long-term provisions for pensions and similar obligations; and
- ▣ Other provisions.

Long-term provisions for pensions and similar obligations

There are both defined contribution and defined benefit plans in the HYPO NOE Group. Under the defined contribution schemes, defined contributions are paid to an external fund. As the employer has no legal or other obligation to make additional payments, there is no need to recognise a provision.

There are also defined benefit pension, and termination and jubilee benefit commitments. These plans are "unfunded", in that the benefits are entirely internally funded. The long-term employee benefit provisions are measured using the projected unit credit method, in accordance with IAS 19. Future obligations are measured on the basis of a report by an independent actuary. Recognition in the consolidated statement of financial position is according to the present value of the defined benefit obligation. Actuarial gains and losses on the termination benefit and pension provision are recognised in equity, under the "IAS 19 reserve" item in the statement of changes in equity, and in the statement of comprehensive income, under "Other comprehensive income". Actuarial gains and losses on the jubilee benefit provision are shown under "General administrative expenses" in the statement of comprehensive income (Note 7.6).

Measurement of the long-term employee benefit provisions is based on the statutory retirement ages of 60 for women and 65 for men.

The discount rate applied to measurement at the end of the reporting period was 2.0% p.a. (2013: 3.0% p.a.). As in previous years, this was determined on the basis of investment-grade industrial bonds and finalised in consultation with experts in the eurozone. Future salary increases of 2.5% p.a. (2013: 3.5%) and future pension increases of 2.0% p.a. (2013: 2.5% p.a.) are assumed. As in 2013, an adjustment of 7.0% p.a. for employee turnover was applied to the jubilee benefit provisions.

Measurement is based on the biometric estimates contained in the latest Austrian actuarial table for pension insurance, the AVÖ 2008 - P - Rechnungsgrundlagen für die Pensionsversicherung - Pagler & Pagler, Angestelltenbestand. Use of this table for the measurement of employee benefit obligations is recommended by the Actuarial Association of Austria.

Other provisions

"Other provisions" are recognised when there is a present obligation as a result of a past event, it is probable that it will be necessary to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Long-term provisions are discounted if the effect is material. The measurement of contingent liabilities and impending losses is based on best estimates. Details of the assumptions used in the estimates and an explanation of the amounts can be found in Note 8.23 Provisions.

This item also includes provisions for credit risks (e.g. unused credit lines, guarantees and provision of collateral).

Allocations to and reversals of "Other provisions" are mainly shown under "Net other operating income" (Note 7.7). Movements in provisions for credit risks are reported in the statement of comprehensive income under "Credit provisions" (Note 7.3).

4.16 OTHER LIABILITIES

“Other liabilities” (Note 8.25 Other liabilities) are stated at amortised cost where they relate to accruals and deferrals or “Sundry other liabilities”.

Long-term incentive plan

Since 2012 the HYPO NOE Group has enabled members of top management (key management) to benefit from the long-term profitability of the Company and the growth of shareholder value. The long-term incentive plan (LTIP) is an important means of aligning the interests of key employees with those of the Company, and gives them a strong incentive to work for its long-term success.

The LTIP takes the form of a phantom share plan which replicates the value of the Company's shares. Valuation is according to the adapted Viennese method (weighted net asset value and income approach), and value growth is capped at 11% p.a. The eligible plan members are entitled to convert the phantom shares allocated to them into cash after a five-year minimum holding period has expired. This is reported under Note 7.6.1 Staff costs.

4.17 SUBORDINATED CAPITAL

Subordinated liabilities and supplementary capital are reported as subordinated capital (Note 8.26 Subordinated capital).

Subordinated liabilities are certificated or uncertificated liabilities which, in the event of liquidation or insolvency, are subordinated to the claims of other creditors. Interest expense is reported under “Interest and similar expense” (Note 7.2).

4.18 EQUITY (INCLUDING NON-CONTROLLING INTERESTS)

“Share capital” is the capital paid in by the shareholders in accordance with the articles of association.

The “Capital reserves” contain the share premiums paid in excess of nominal value when shares are issued.

As was the case a year earlier, at 31 December 2014 there were 7,150,000 registered shares of no par value in issue. Of these, 70.49% or 5,040,000 shares were held by NÖ Landes-Beteiligungsholding GmbH and 29.51% or 2,110,000 shares by NÖ BET GmbH. At year-end 2014 the share capital (issued capital) of HYPO NOE Gruppe Bank AG was also unchanged, at EUR 51,980,500.

The retained earnings reserves required by statute and the articles of association, and the other retained earnings, as well as the liability reserve pursuant to section 57(5) Banking Act, the general banking risk fund, the untaxed reserves (net of deferred tax) and consolidated profit/loss (comprising the accumulated profit or loss brought forward, the profit or loss for the year, and dividends) are reported under “Retained earnings”. The differences arising on first-time adoption of IFRS, which were offset against equity, are also reported under “Retained earnings”.

The IAS 19 reserve comprises the actuarial gains and losses on the long-term employee benefit provisions (pensions and termination benefits), net of deferred tax.

The available-for-sale reserve contains the measurement gains and losses (net of deferred tax) on financial assets classified as available for sale.

The financial instruments attributable to the cash flow hedge category (net of deferred tax) are reported under the cash flow hedge reserve.

The non-controlling interests are minority interests in subsidiaries, and are reported as a separate equity item, in accordance with IAS 1.

For the disclosures relating to equity see Note 8.27 Equity. The movements in individual equity items are shown in the consolidated statement of changes in equity.

5. SEGMENT INFORMATION

The bank's segment reporting is in accordance with IFRS 8. The segment information is derived from the quarterly reports drawn up by the Management Board, which is the "chief operating decision maker".

The information provided on individual segments is drawn from the IFRS financial statements of the companies attributed to those segments. The same accounting policies as those described in Note 2 Accounting policies are applied to the preparation of these statements.

The four reportable segments, which are based on the structure of the Group's business activities, and the reconciliation of consolidated profit are as follows:

Gruppe Bank

This segment aggregates the income and expense items related to relationships with large customers – chiefly state and local government clients (Public Finance, Real Estate and Treasury business).

Landesbank

As in the previous reporting period, these sub-group statements are for two subsidiaries, and contain the retail and corporate customer operations, with the emphasis on housing finance as well as the funding for large non-profit housing association building projects provided by HYPO NOE Landesbank AG. The earnings contributions of HYPO NOE Versicherungsservice GmbH from its insurance brokerage business are also included in this segment.

Leasing

This segment groups together the subsidiaries that operate in the leasing business (see Note 3.8 Lease accounting). These are IFRS sub-group financial statements for 46 (2013: 38) consolidated subsidiaries.

In 2014 the following companies were consolidated as a result of acquisition and a change in the accounting method applied, and are included in the Leasing segment:

- FORIS Grundstückvermietungs Gesellschaft m.b.H.
- VALET-Grundstückverwaltungs Gesellschaft m.b.H.
- LITUS Grundstückvermietungs Gesellschaft m.b.H.
- Adoria Grundstückvermietungs Gesellschaft m.b.H.
- CONATUS Grundstückvermietungs Gesellschaft m.b.H.
- Aventin Grundstückverwaltungs Gesellschaft m.b.H.
- Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.
- METIS Grundstückverwaltungs GmbH

Due to their being immaterial, 11 companies previously accounted for using the equity method were consolidated in 2014 (see Note 3.1 Basis of consolidation).

Other

This segment provides information on a sub-group with 26 subsidiaries (2013: 24) which are neither leasing companies nor banks.

The additions to the Other segment in 2014 resulted from the acquisition of Haymogasse 102 Immobilienentwicklung GmbH and the formation of Stettnerweg 11-15 Liegenschaftsentwicklungs GmbH.

The disposal of Backhausen GmbH led to a change in the companies accounted for using the equity method.

Consolidation

This segment is used to provide information on consolidation adjustments.

Further details can be found in Note 9 Segment information (see Note 9.1.1 Segment profit or loss and Note 9.1.2 Segment assets and liabilities). Note 3.2 Investments contains a table listing the consolidated subsidiaries and showing the segments they are assigned to.

6. CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated statement of cash flows in accordance with IAS 7 shows the change in cash and cash equivalents held by the HYPO NOE Group due to the cash flows from operating, investing and financing activities, and movements in exchange rates. The cash flows from operating activities are presented according to the indirect method.

The cash flows from operating activities in the main relate to cash inflows and outflows arising from loans and advances to banks and customers, and from available-for-sale financial assets, as well as deposits from banks and customers, and debts evidenced by certificates.

The cash flows from investing activities largely concern cash inflows and outflows arising from property, plant and equipment, financial assets held to maturity, and the acquisition and disposal of subsidiaries.

Dividends paid to owners of the parent account for the majority of the cash flows from financing activities.

Cash flows from changes in exchange rates relate to transactions denominated in foreign currencies.

Cash and cash equivalents consist of cash on hand and balances at central banks repayable on demand.

7. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

7.1 INTEREST AND SIMILAR INCOME

The loss on investments accounted for using the equity method is chiefly attributable to the remeasurement of the EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft sub-group. "Income from investments accounted for using the equity method" also includes the results of deconsolidation, as in the case of Gesellschaft Backhausen GmbH (Note 3.2 Investments).

7.1.a Interest and similar income

EUR '000	2014	2013
Interest income from:		
Cash and balances at central banks	18	59
Loans and advances to banks	4,420	5,175
Loans and advances to customers	217,511	218,564
Bonds	67,828	58,424
Hedges (hedge accounting)	173,459	172,914
Other interest income	103,178	101,038
<i>of which income from investments accounted for using the equity method</i>	-2,521	-6,619
<i>of which income from investment property:</i>	1,309	1,204
<i>rental income</i>	3,235	2,605
<i>depreciation</i>	-1,926	-1,401
Current income from:		
Leases	25,260	13,782
Shares and other variable-income securities	95	3
Other investments	1,011	14
Total	592,781	569,974

7.1.b Interest and similar income by IAS 39 measurement categories

EUR '000	2014	2013
Interest and similar income from:		
Loans and receivables (LAR)	224,735	226,662
Available-for-sale (AFS) assets	68,730	58,181
Assets held to maturity (HTM)	-	39
Assets measured using the fair value option (FVO)	205	221
Assets held for trading (HFT)	95,346	97,882
Impaired loans and advances (unwinding)	3,225	3,226
Hedges (hedge accounting)	173,459	172,914
Interest income attributable to other periods	199	150
Income from investments accounted for using the equity method	-2,521	-6,619
Income from investment property:	1,309	1,204
<i>rental income</i>	3,235	2,605
<i>depreciation</i>	-1,926	-1,401
Current lease income	25,260	13,782
Current origination and commitment fees	2,834	2,332
Total	592,781	569,974

7.2 INTEREST AND SIMILAR EXPENSE

7.2.a Interest and similar expense

EUR '000	2014	2013
Interest expense on:		
Liabilities to central banks	-85	-544
Deposits from banks	-15,344	-11,851
Deposits from customers	-28,665	-32,255
Debts evidenced by certificates	-209,578	-203,446
Subordinated capital	-3,449	-3,274
Hedges (hedge accounting)	-113,402	-105,646
Other interest expense	-94,870	-97,526
Total	-465,393	-454,542

7.2.b Interest and similar expense by IAS 39 measurement categories

EUR '000	2014	2013
Interest expense on:		
Financial liabilities measured at amortised cost (LAC)	-257,672	-251,945
Financial liabilities held for trading (HFT)	-94,319	-96,951
Hedges (hedge accounting)	-113,402	-105,646
Total	-465,393	-454,542

7.3 CREDIT PROVISIONS

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

EUR '000	2014	2013
Allocations to:	-30,373	-30,184
Individual impairment allowances	-27,601	-27,411
Collective impairment allowances	-2,512	-2,364
Other credit provisions	-260	-409
Reversals of:	17,766	18,237
Individual impairment allowances	15,154	13,899
Collective impairment allowances	2,110	2,546
Other credit provisions	502	1,792
Receipts from impaired assets	6,310	8,259
Direct write-offs	-420	-1,094
Total	-6,717	-4,781

7.4 NET FEE AND COMMISSION INCOME

EUR '000	2014	2013
Fee and commission income	16,882	16,305
Loans and advances	1,958	1,917
Securities and custody account business	4,352	3,997
Payment transactions	5,641	5,523
Foreign exchange, foreign notes and coins, and precious metals	276	420
Other services	3,904	3,704
Diversification	748	522
Other fee and commission income	3	222
Fee and commission expense	-2,903	-3,011
Loans and advances	-78	-82
Securities and custody account business	-1,268	-1,344
Payment transactions	-1,124	-1,173
Other services	-19	-20
Diversification	-415	-392
Total	13,979	13,294

7.5 NET TRADING INCOME

EUR '000	2014	2013
Interest rate transactions	-1,171	2,143
Foreign exchange transactions	-1,226	-3,220
Other transactions	582	143
Total	-1,815	-934

The loss on interest rate and foreign exchange transactions largely reflects the difference between the present value of customers' derivatives and the related hedges.

7.6 GENERAL ADMINISTRATIVE EXPENSES

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

EUR '000	2014	2013
Staff costs	-70,345	-67,418
Other administrative expenses	-48,846	-43,169
Depreciation, amortisation and impairment	-7,901	-5,901
Total	-127,092	-116,487

7.6.1 Staff costs

EUR '000	2014	2013
Wages and salaries	-54,296	-51,699
<i>of which phantom-share-based cash incentives*</i>	-607	-517
Social security costs	-11,341	-10,718
Cost of voluntary employee benefits	-1,385	-1,390
Retirement benefit costs	-1,741	-1,785
Termination benefit costs	-1,582	-1,826
<i>of which expenses for provident fund</i>	-600	-574
Total	-70,345	-67,418

*For information on share-based remuneration see 4.16 Other liabilities

	2014	2013
Average number of employees (incl. staff on parental leave)	910	898

EUR '000	2014	2013
Salaries of Management Board members	-907	-846
Supervisory Board members' expenses (non-employees)	-92	-82
Supervisory Board members' salaries	-439	-427
Remuneration of key management personnel (other than the members of the Management Board and Supervisory Board of the parent):	-11,416	-10,675
<i>Current remuneration</i>	-9,718	-9,000
<i>Short-term employee benefits</i>	-1,220	-1,291
<i>Post-employment benefits</i>	-401	-388
<i>Other long-term benefits</i>	-6	17
<i>Provision for termination benefits</i>	-71	-13
EUR '000	2014	2013
Termination benefit expenses incl. provident fund for:	-1,582	-1,826
Management Board	-28	-36
Key management personnel	-235	-225
Other employees	-1,319	-1,565
Pension expenses for:	-1,741	-1,785
Management Board	-62	-59
Key management personnel	-375	-368
Other employees (including former employees)	-1,304	-1,358

The "Supervisory board members' expenses" item forms part of "Other administrative expenses", but is shown in the supplementary information on staff costs in the interests of clarity.

In 1997 HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG negotiated a works agreement on the provision of retirement, invalidity and surviving dependants' pensions by a pension fund. HYPO NOE Leasing GmbH also concluded such an agreement in 2009.

In order to implement these agreements, pension fund contracts were made with Viktoria Volksbanken Pensionsskassen AG.

The contracts oblige the employer to contribute 2.7% of employees' eligible salaries (including administrative costs and insurance tax) to the fund. The percentages applicable to senior management personnel are 4%, 6% and 10%. The employer's contributions vest five years after payments begin. Eligibility for employer's contributions is conditional on five years' service; eligible prior experience time is counted. For 2014 the contributions amounted to EUR 865thsd (2013: EUR 809thsd).

Key management in the HYPO NOE Group comprises "identified staff" and "identified staff with less material impact".

7.6.2 Other administrative expenses

EUR '000	2014	2013
Premises	-6,130	-6,355
Office and communication expenses	-1,311	-1,379
IT expenses	-8,031	-7,627
Legal and consultancy costs	-6,683	-6,355
Advertising and entertainment costs	-5,937	-6,739
Cost of transfers of liability	-983	-1,352
Other administrative expenses	-19,771	-13,362
Total	-48,846	-43,169

EUR '000	2014	2013
The "Legal and consultancy costs" include the following fees of the auditors of the consolidated financial statements:		
Annual audit	-573	-610
Other auditing services	-135	-124
Tax advice	-131	-44
Other services	-174	-227

EUR '000	2014	2013
Sundry other administrative expenses:		
Financial stability contribution (bank tax)	-12,937	-6,309
Cost of compliance with company law	-1,100	-1,088
Training costs	-806	-1,066
Vehicle and fleet expenses	-1,041	-1,202
Insurance	-385	-381
Travel expenses	-431	-517
Cost of information procurement and payment transactions	-828	-1,037
Sundry other administrative expenses	-2,243	-1,761
Total	-19,771	-13,361

The amount of the financial stability contribution payable by the HYPO NOE Group increased substantially as a result of the amendments to the Stability Contribution Act that came into force on 1 April 2014. The change meant a higher charge based on unconsolidated net assets, while the levy based on derivatives in the trading book under the Banking Act (originally section 4 Stability Contribution Act) ceased to apply.

7.6.3 Depreciation, amortisation and impairment

EUR '000	2014	2013
Depreciation and amortisation	-6,088	-5,901
Intangible assets	-701	-735
Buildings used by Group companies	-1,804	-1,758
Equipment, fixtures and furnishings (including low value assets)	-3,583	-3,408
Impairment	-1,813	-
Intangible assets	-417	-
Land	-1,396	-
Total	-7,901	-5,901

Impairment losses consist of the partial impairment of goodwill and of impairment of property, plant and equipment (see also Note 8.13 Intangible assets and property, plant and equipment).

7.7 NET OTHER OPERATING INCOME

EUR '000	2014	2013
Other rental income	256	402
Gains/losses on	97	245
disposal of intangible assets, and property, plant and equipment	97	245
Net gains or losses on recognition and reversal of provisions	1,178	-4,332
Profit from acquisitions of companies at below fair value	273	-
Sundry other operating expenses/income	21,855	76,932
Sundry other operating income	31,382	87,582
Sundry other operating expenses	-9,527	-10,650
Total	23,659	73,247

In 2013 the penalty interest repaid of EUR 57,866thsd was included under other operating income.

"Sundry other operating expenses/income" includes a net gain of EUR 1,079thsd (2013: EUR 2,033thsd) on currency translation (see Note 7.12 Net gains and losses on financial assets and liabilities).

It also included EUR 7,402thsd (2013: EUR 6,436thsd) in administrative and intermediation fees.

7.8 NET GAINS OR LOSSES ON DISPOSAL OF CONSOLIDATED SUBSIDIARIES

No subsidiaries were deconsolidated in 2014.

EUR '000	2014	2013
Loans and advances to banks	-	7
Other assets	-	4,007
Total assets	-	4,014
Deposits from banks	-	4,025
Tax liabilities	-	23
Other liabilities	-	81
Total liabilities	-	4,129
Proceeds of disposal	-	26
+ Fair value of remaining interest held by the Group	-	9
- Assets disposed of	-	-4,014
+ Liabilities disposed of	-	4,129
Net gains or losses on disposal of consolidated subsidiaries	-	150
Net gains or losses recognised in profit or loss	-	150

EUR '000	2014	2013
Consideration received in cash and cash equivalents	-	26
Less cash and cash equivalents sold	-	-
Cash flows from the sale of subsidiaries	-	26

7.9 NET GAINS OR LOSSES ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

EUR '000		2014	2013
Income from financial assets		191	336
Gains on disposal	(7.12)	191	307
Write-ups		-	29
Expenses arising from financial assets		-65,149	-815
Losses on disposal	(7.12)	-848	-586
Depreciation and amortisation		-64,301	-229
Total		-64,958	-479

Depreciation and amortisation primarily reflects the recognition of high impairment provisions on Heta Asset Resolution AG bonds as a result of the debt repayment moratorium imposed by the FMA.

7.10 NET GAINS OR LOSSES ON FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

EUR '000	2014	2013
Net gains or losses on financial assets	44	50
Bonds	44	50
Total	44	50

7.11 NET GAINS OR LOSSES ON HEDGES

Gains or losses on the hedged items attributable to hedged risk and to remeasurement of hedging instruments to fair value (hedge accounting) are recognised under this item. In 2013, this item reflected the results of early termination of cash flow hedges.

EUR '000	2014	2013
Hedge accounting	-2,369	-9,155
Net gains or losses on hedged items	157,757	67,792
Net gains or losses on hedging instruments	-160,126	-78,835
Net gains or losses on cash flow hedges	-	1,888
Other derivative financial instruments (economic hedges)	-	172
Foreign exchange transactions	-	172
Total	-2,369	-8,983

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

7.12 NET GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES

EUR '000		2014	2013
Net realised gains or losses on financial assets and liabilities not measured at fair value through profit or loss		-894	4,898
Available-for-sale financial assets	(7.9)	-657	-279
Loans and receivables (inc. finance leases)	(7.13)	-7	4,308
Other		-230	869
Net gains or losses on financial assets and liabilities held for trading	(7.5)	-1,815	-933
Interest rate instruments and related derivatives		-1,172	2,143
Foreign exchange trading		-1,226	-3,220
Other (including hybrid derivatives)		583	144
Gains or losses on financial assets and liabilities designated as at fair value through profit or loss	(7.10)	44	50
Gains or losses on hedge accounting	(7.11)	-2,369	-8,983
Net gains on currency translation	(7.7)	1,079	2,033
Total		-3,954	-2,935

7.13 NET GAINS OR LOSSES ON OTHER FINANCIAL INVESTMENTS

EUR '000		2014	2013
Gains or losses on disposal of receivables and promissory notes		-7	4,308
Investment property		-1,923	43
Proceeds of disposals		576	3,616
Carrying amounts of disposals		-806	-2,747
Let investment property		-290	-753
Vacant investment property		-1,403	-73
of which impairment		-1,287	-
Net gains or losses on other financial investments		-	161
Other income from other financial assets		-	161
Total		-1,930	4,512

An impairment loss was recognised on investment property (see Note 8.11 Investment property). The gains on other financial instruments in 2013 were attributable to early repayment of unlisted bonds.

7.14 INCOME TAX EXPENSE

This item includes all taxes payable on profits for the reporting period.

EUR '000	2014	2013
Current income tax	65	-21,917
Deferred income tax	8,757	591
Total	8,822	-21,326

A reconciliation of the expense that would result from applying the standard rate of corporation tax to the actual reported tax expense is shown below.

EUR '000	2014	2013
Profit/loss before tax	-39,810	75,021
x income tax rate	25%	25%
= anticipated income tax expense	9,953	-18,755
Reductions in tax liability	-629	-1,705
Tax-free income from investments	188	-23
Other tax-free income	593	571
from investments accounted for using the equity method	-1,410	-2,253
Increases in tax liability	-470	-347
Non-deductible expenses	-470	-347
Tax effects of other differences	-31	-518
Adjustments to and non-recognition of deferred tax	-5	-
Previous years	-34	-370
Prepayments	-11	-7
Other adjustments	20	-141
Total	8,822	-21,326

Net deferred tax liabilities of EUR 17,143thsd (2013: EUR 4,534thsd) were recognised directly in equity.

EUR '000	2014	2013
Deferred tax recognised in other comprehensive income		
Items that will not be reclassified subsequently to profit or loss	120	-282
Actuarial gains and losses in accordance with IAS 19	120	-282
Items that may be reclassified subsequently to profit or loss	-17,263	-4,251
Available-for-sale (AFS) financial instruments	-17,278	-4,880
Cash flow hedge (effective portion)	-	625
Currency translation reserve	15	4

Note 8.14 Tax assets and Note 8.24 Tax liabilities provide a detailed analysis of the deferred tax assets and liabilities.

7.15 NON-CONTROLLING INTERESTS

EUR '000	2014	2013
FORIS Grundstückvermietungs Gesellschaft m.b.H.	1	-
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	-843	-
LITUS Grundstückvermietungs Gesellschaft m.b.H.	-87	-
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	-42	-59
Adoria Grundstückvermietungs Gesellschaft m.b.H.	63	-
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	46	-
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	41	-
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	312	-
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	63	7
Josef-Heinzl-Gasse 1 Immobilienentwicklung GmbH	16	12
Neustift-am-Walde 32 Immobilienentwicklung GmbH	9	8
Haymogasse 102 Immobilienentwicklung GmbH	33	-
Hauptplatz 18 Entwicklungs- und Verwertungs GmbH	38	14
Total	-350	-18

Details of changes in non-controlling interests are show in Note 3.2 Investments.

8. NOTES TO THE STATEMENT OF FINANCIAL POSITION

8.1 CASH AND BALANCES AT CENTRAL BANKS

“Cash and balances at central banks” comprises cash on hand and balances at central banks that are repayable on demand. The balances are stated at nominal value.

Narrative Note 4.1 contains a discussion of this item.

EUR '000	31 Dec. 2014	31 Dec. 2013
Cash on hand	14,316	13,964
Balances at central banks	84,709	42,645
Total	99,025	56,609

8.2 LOANS AND ADVANCES

The “Loans and advances to banks” (Note 8.3 Loans and advances to banks) and “Loans and advances to customers” (Note 8.4 Loans and advances to customers) items largely relate to loans extended, lease receivables, overnight money and time deposits, and unlisted securities.

See narrative Note 4.2 Tax assets and liabilities for a discussion of income tax.

8.3 LOANS AND ADVANCES TO BANKS

EUR '000	31 Dec. 2014	31 Dec. 2013
Domestic banks	244,571	194,909
Foreign banks		
CEE	757	31,145
Rest of the world	698,718	547,327
Total	944,046	773,381

8.4 LOANS AND ADVANCES TO CUSTOMERS

8.4.1 Customer group analysis

EUR '000	31 Dec. 2014	31 Dec. 2013
Public sector customers	5,449,024	5,375,767
Business customers	1,832,533	1,704,755
Housing developers	1,526,537	1,501,264
Retail customers	2,319,423	1,931,506
Professionals	66,549	77,282
Total	11,194,066	10,590,574

8.4.2 Geographical analysis

EUR '000	31 Dec. 2014	31 Dec. 2013
Domestic customers	9,910,611	9,124,498
Foreign customers		
CEE	509,806	578,802
Rest of the world	773,649	887,274
Total	11,194,066	10,590,574

8.5 RISK PROVISIONS AND CREDIT PROVISIONS

Loans and advances to customers included interest-free loans and advances of EUR 65,398thsd, of which the unsecured loans and advances of EUR 40,898thsd were impaired (2013: unsecured loans and advances of EUR 67,342thsd, of which EUR 46,764 impaired).

See Note 3.10 Risk provisions for an additional narrative explanation.

8.5.1 Analysis of risk provisions and credit risk provisions by customer groups

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

The "Other changes" column reflects customer reclassifications, e.g. from retail to business where customers enter self-employment, or vice versa (e.g. when self-employment ceases due to retirement).

EUR '000	As at 1 Jan. 2014	Exchange differences	Alloca- tions	Utilisa- tion	Rever- sals	Unwind- ing	Other changes	As at 31 Dec. 2014
Risk provisions for customers: individual impairment allowances	-106,361	-35	-27,601	11,270	15,154	3,225	983	-103,365
Public sector customers	-10,331	-	-268	-	-	73	5,865	-4,661
Business customers	-62,703	-35	-23,194	10,026	11,077	2,359	-4,801	-67,271
Housing developers	-	-	-83	-	-	4	-	-79
Retail customers	-31,222	-	-3,709	1,242	3,800	706	177	-29,007
Professionals	-2,105	-	-347	2	277	83	-257	-2,347
Risk provisions for customers: collective impairment allowances	-4,795	-	-2,512	-	2,110	-	-	-5,197
Subtotal: risk provisions for customers	-111,156	-35	-30,113	11,270	17,264	3,225	983	-108,562
Credit provisions	-4,690	-	-260	979	502	-	-	-3,469
Total	-115,846	-35	-30,373	12,249	17,766	3,225	983	-112,031

EUR '000	As at 1 Jan. 2013	Exchange differences	Alloca- tions	Utilisa- tion	Rever- sals	Unwind- ing	Other changes	As at 31 Dec. 2013
Risk provisions for customers: individual impairment allowances	-107,922	18	-27,411	12,728	13,899	3,226	-899	-106,361
Public sector customers	-7,357	-	-3,270	-	21	275	-	-10,331
Business customers	-64,854	18	-19,189	11,250	8,756	1,998	-682	-62,703
Housing developers	-14	-	-	-	-	-	13	-
Retail customers	-32,429	-	-4,879	1,152	4,756	861	-682	-31,222
Professionals	-3,269	-	-73	326	367	92	452	-2,105
Risk provisions for customers: collective impairment allowances	-4,977	-	-2,364	-	2,546	-	-	-4,795
Subtotal: risk provisions for customers	-112,899	18	-29,775	12,728	16,445	3,226	-899	-111,156
Credit provisions	-6,535	11	-409	450	1,792	1	-	-4,690
Total	-119,433	29	-30,184	13,178	18,238	3,226	-899	-115,846

The risk report which forms part of the operational and financial review contains information on rescheduled receivables, maturities and collaterals.

8.5.2 Geographical analysis of risk provisions

EUR '000	31 Dec. 2014	31 Dec. 2013
Domestic	-78,809	-96,419
Foreign		
CEE	-14,978	-7,751
Rest of the world	-14,775	-6,986
Total risk provisions	-108,562	-111,156

8.6 ASSETS HELD FOR TRADING

See narrative Note 4.3 Assets held for trading for a discussion of this item.

EUR '000	31 Dec. 2014	31 Dec. 2013
Positive fair value of derivative financial instruments (banking book)		
Interest rate derivatives	648,003	450,611
Foreign exchange derivatives	4,992	6,438
Other assets held for trading	-	916
Total	652,995	457,965

8.7 POSITIVE FAIR VALUE OF HEDGES (HEDGE ACCOUNTING)

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

See narrative Note 4.4 Positive and negative fair value of hedges (hedge accounting) for a discussion of this item.

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

EUR '000	31 Dec. 2014	31 Dec. 2013
Assets	3,591	14,115
Loans and advances to banks	1,565	-
Loans and advances to customers	1,184	11,657
Financial assets	842	2,458
Liabilities	660,236	363,824
Deposits from banks	2,208	2,863
Deposits from customers	46,284	52,794
Debts evidenced by certificates	611,744	308,167
Total	663,827	377,938

8.8 AVAILABLE-FOR-SALE FINANCIAL ASSETS

This item mainly relates to bonds and other fixed income securities.

It also includes AFS equities and other variable income securities, holdings in non-consolidated subsidiaries, and equity interests.

See Note 4.5 Available-for-sale (AFS) financial assets for a narrative explanation.

EUR '000	31 Dec. 2014	31 Dec. 2013
Other equity instruments	3,940	200
Bonds	2,237,566	1,797,546
Interests in non-consolidated subsidiaries (over 50%)	162	127
Interests in associates (20-50%)	477	490
Other investments	3,264	3,104
Total	2,245,409	1,801,467

8.9 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

See narrative Note 4.6 Financial assets designated as at fair value through profit or loss for a discussion of this item.

EUR '000	31 Dec. 2014	31 Dec. 2013
Bonds	4,244	4,200
Total	4,244	4,200

8.10 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

EUR '000	31 Dec. 2014	31 Dec. 2013
Banks	1,828	3,064
Non-banks	25,277	41,373
Total	27,105	44,437

Losses of EUR 174thsd (2013: EUR 300thsd) were not recognised through profit or loss; of this, EUR 109thsd related to the reporting period (2013: EUR 131thsd). None of the companies accounted for using the equity method as at 31 December 2014 - or at the end of the previous year - were listed.

The additional information required on investments subject to equity-method accounting can be found in Note 3.2.3 Associates and joint ventures

8.11 INVESTMENT PROPERTY

Land and buildings held to earn rental income, for capital appreciation or for a currently undetermined future use are reported under this item (see Note 3.9 Investment property).

Rental income in the period under review was EUR 3,235thsd (2013: EUR 2,605thsd).

EUR '000	31 Dec. 2014	31 Dec. 2013
Investment property	67,752	65,545

The fair value of investment properties as at 31 December 2014 was EUR 71,584thsd (31 Dec. 2013: EUR 71,501thsd). Additional information on this item is given under 10.3 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

The changes in investment property are shown in Note 8.12 Movements in financial assets.

8.12 MOVEMENTS IN FINANCIAL ASSETS

The available-for-sale financial assets in the statement of movements in financial assets comprise holdings in non-consolidated subsidiaries (holdings of over 50%), holdings in associates (20-50%) and other investments (less than 20%).

There was a reclassification of property from property, plant and equipment to investment property.

The impairment of investment property relates to a property in Vienna.

As in the previous year, the loss on investments accounted for using the equity method was chiefly attributable to the remeasurement of the EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft sub-group (detailed disclosures in Note 3.2.3 Associates and joint ventures).

The impairment of investments accounted for using the equity method in 2013 related to associates of HYPO NOE First Facility GmbH.

		Cost						
		As at 1 Jan. 2014	Changes in scope of consolidation	Additions	Subsequent acquisition costs	Disposals	Transfers	Other changes
EUR '000								
Available-for-sale financial assets	8.8	7,455	470	35	-	-1,000	408	-
Financial assets held to maturity		-	-	-	-	-	-	-
Investments accounted for using the equity method	8.10	16,563	-695	220	-	-1,207	-408	-
Investment property	8.11	72,233	-	3,449	-	-861	4,247	-11
Total financial investments		96,251	-225	3,704	-	-3,068	4,247	-11

		Cost						
		As at 1 Jan. 2013	Changes in scope of consolidation	Additions	Subsequent acquisition costs	Disposals	Transfers	Other changes
EUR '000								
Available-for-sale financial assets	8.8	7,748	-	2	-	-259	-	-
Financial assets held to maturity		10,009	-	-	-	-10,000	-	-9
Investments accounted for using the equity method	8.10	16,590	-	9	-	-36	-	-
Investment property	8.11	57,740	19,318	1,050	91	-6,059	92	-
Total financial investments		92,087	19,318	1,061	91	-16,354	92	-9

		Depreciation and adjustments (+/-) to investments accounted for using the equity method								Carrying amount	
Changes from measurement at fair value not through profit or loss	As at 31 Dec. 2014	As at 1 Jan. 2014	Changes in scope of consolidation	Depreciation and adjustments (+/-) to investments accounted for using the equity method	Impairments	Write-ups	Transfers	Disposals	As at 31 Dec. 2014	1 Jan. 2014	31 Dec. 2014
-4	7,364	-3,734	687	-	-418	4	-	-	-3,461	3,721	3,903
-	-	-	-	-	-	-	-	-	-	-	-
-	14,473	27,873	-7,409	-7,902	-55	125	-	-	12,632	44,436	27,105
-	79,057	-6,688	-	-1,953	-1,287	-	-1,432	55	-11,305	65,545	67,752
-4	100,894	17,451	-6,722	-9,855	-1,760	129	-1,432	55	-2,134	113,702	98,760

		Depreciation and adjustments (+/-) to investments accounted for using the equity method								Carrying amount	
Changes from measurement at fair value not through profit or loss	As at 31 Dec. 2013	As at 1 Jan. 2013	Changes in scope of consolidation	Depreciation and adjustments (+/-) to investments accounted for using the equity method	Impairments	Write-ups	Transfers	Disposals	As at 31 Dec. 2013	As at 1 Jan. 2013	31 Dec. 2013
-36	7,455	-3,505	-	-	-229	-	-	-	-3,734	4,243	3,721
-	-	-	-	-	-	-	-	-	-	10,009	-
-	16,563	36,924	-	-7,987	-1,083	-	-	18	27,873	53,514	44,436
-	72,233	-5,484	-	-1,428	-525	-	-	750	-6,688	52,256	65,545
-36	96,251	27,934	-	-9,415	-1,837	-	-	768	17,451	120,021	113,702

8.13 INTANGIBLE ASSETS, AND PROPERTY, PLANT AND EQUIPMENT

The intangible assets comprise purchased software and goodwill measured in accordance with IFRS 3 (see Note 3.1 Basis of consolidation).

Land and buildings, and equipment, fixtures and furnishings used by the HYPO NOE Group in the course of its own business activities are reported as property, plant and equipment.

For narrative comments, see Note 4.9 Intangible assets, and property, plant and equipment.

EUR '000	31 Dec. 2014	31 Dec. 2013
Intangible assets		
Software	924	1,327
Goodwill	428	845
Total intangible assets	1,352	2,172
Property, plant and equipment		
Land and buildings	68,342	73,092
IT equipment	439	537
Equipment, fixtures and furnishings	12,052	12,783
Other property, plant and equipment	80	47
Total property, plant and equipment	80,913	86,460

EUR '000	Cost						As at 31 Dec. 2014
	As at 1 Jan. 2014	Changes in scope of consolidation	Additions	Disposals	Transfers	Other changes	
Intangible assets							
Software	6,460	-	298	-120	-	-	6,638
Goodwill	877	-	-	-	-	-	877
Total intangible assets	7,337	-	298	-120	-	-	7,515
Property, plant and equipment							
Land and buildings	83,543	-	1,348	-588	-4,305	11	80,009
IT equipment	3,741	-	405	-204	-	-	3,942
Equipment, fixtures and furnishings	35,210	-	2,555	-1,107	58	-	36,716
Other property, plant and equipment	58	-	66	-19	-	-	105
Total property, plant and equipment	122,552	-	4,374	-1,918	-4,247	11	120,772

EUR '000	Cost						As at 31 Dec. 2013
	As at 1 Jan. 2013	Changes in scope of consolidation	Additions	Disposals	Transfers	Other changes	
Intangible assets							
Software	5,749	-	707	-3	-	7	6,460
Goodwill	877	-	-	-	-	-	877
Total intangible assets	6,626	-	707	-3	-	7	7,337
Property, plant and equipment							
Land and buildings	62,259	21,157	220	-	-92	-	83,543
IT equipment	4,214	-	233	-699	-	-7	3,741
Equipment, fixtures and furnishings	34,608	19	2,679	-2,096	-	-	35,210
Other property, plant and equipment	96	-	56	-94	-	-	58
Total property, plant and equipment	101,177	21,176	3,188	-2,889	-92	-7	122,552

The goodwill arising on the acquisition of HYPO NOE First Facility GmbH in 2012 was tested for impairment, applying the general Group rules. The forecasts provided by management were based on historical performance data, the current situation of the company and market developments, and were found to be reasonable. Provision for goodwill impairment of EUR 417thsd (2013: no provision) was found to be necessary.

HYPO NOE First Facility's goodwill was subjected to a sensitivity analysis positing a change in the discount rate and a decline in the operating profit.

The carrying amount of land as at 31 December 2014 was EUR 17,287thsd (2013: EUR 18,546thsd)

There was a reclassification of property from property, plant and equipment to investment property.

The impairment relates to land in St. Pölten used by the Group.

Depreciation and adjustments (+/-) to investments accounted for using the equity method						Carrying amount	
As at 1 Jan. 2014	Depreciation and amortisation	Impairments	Transfers	Disposals	As at 31 Dec. 2014	1 Jan. 2014	31 Dec. 2014
-5,133	-701	-	-	120	-5,714	1,327	924
-32	-	-417	-	-	-449	845	428
-5,165	-701	-417	-	120	-6,163	2,172	1,352
-10,451	-1,804	-1,396	1,490	494	-11,667	73,092	68,342
-3,204	-493	-	-	194	-3,503	537	439
-22,426	-3,053	-	-58	873	-24,664	12,784	12,052
-11	-26	-	-	12	-25	47	80
-36,092	-5,376	-1,396	1,432	1,573	-39,859	86,460	80,913

Depreciation and adjustments (+/-) to investments accounted for using the equity method						Carrying amount	
As at 1 Jan. 2013	Depreciation and amortisation	Impairments	Transfers	Disposals	As at 31 Dec. 2013	1 Jan. 2013	31 Dec. 2013
-4,400	-735	-	-	3	-5,133	1,349	1,327
-32	-	-	-	-	-32	845	845
-4,433	-735	-	-	3	-5,165	2,193	2,172
-8,694	-1,758	-	-	-	-10,451	53,565	73,092
-3,527	-378	-	-	699	-3,204	687	537
-21,391	-2,977	-	-	1,941	-22,426	13,217	12,783
-59	-46	-	-	94	-11	37	47
-33,670	-5,158	-	-	2,734	-36,092	67,507	86,460

8.14 TAX ASSETS

See Note 4.10 Tax assets and liabilities for a narrative examination of the income tax assets.

EUR '000	31 Dec. 2014	31 Dec. 2013
Current tax assets	10,856	-
Deferred tax assets	2,417	3,874
Total	13,273	3,874

Deferred tax assets were recognised in respect of the following items:

EUR '000	31 Dec. 2014	31 Dec. 2013
Loans and advances to customers	2,047	-
Risk provisions	45	182
Financial investments	99	77
Property, plant and equipment	22	21
Other assets	41	97
Debts evidenced by certificates	8,882	5,422
Liabilities held for trading	2	29
Provisions	1,477	1,641
Other liabilities	1,116	876
Subordinated capital	145	398
Tax loss carryforwards	4,052	1,882
Deferred tax assets before offsetting	17,929	10,626
less deferred tax liabilities	-15,512	-6,752
Reported net deferred tax assets	2,417	3,874

No deferred tax assets were recognised in respect of tax loss carryforwards of EUR 18,898thsd (2013: EUR 16,359thsd).

8.15 OTHER ASSETS

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

See Note 4.11 Other assets for a more detailed discussion of this item.

EUR '000	31 Dec. 2014	31 Dec. 2013
Accruals and deferrals	1,547	2,263
Other receivables and assets	36,985	54,017
<i>of which value added tax (VAT) and other tax credits (other than income tax)</i>	8,658	33,818
<i>of which property classified as inventory</i>	13,916	7,296
<i>of which trade receivables</i>	9,379	8,257
Total	38,532	56,280

The high total for value added tax (VAT) and other tax credits in 2013 resulted from the start of business activities of a company in the Leasing segment, with the consequent high amounts of recoverable input VAT. These amounts were repaid by the tax authorities at the beginning of January 2014.

The change in "Property classified as inventory" is largely due to the start of business activities of an acquired company, Haymogasse 102 Immobilienentwicklung GmbH, and a newly formed company, Stettnerweg 11-15 Liegenschaftsentwicklungs GmbH.

8.16 NON-CURRENT ASSETS HELD FOR SALE (IFRS 5)

EUR '000	31 Dec. 2014	31 Dec. 2013
Non-current assets held for sale (IFRS 5) (accounted for using the equity method in 2013)	2,983	-
Total	2,983	-

HYPO Capital Management AG, previously accounted for using the equity method, is classified as a non-current asset held for sale on the basis of the exercise of a put option which as at 31 December 2014 had not yet been closed. The value of the put option, EUR 583thsd, is recognised in profit and loss in Note 7.5 Net trading income, and the deferred tax of EUR 146thsd in Note 7.14 Income tax expense. The disposal is expected to take place in the first quarter of 2015.

For more details, see Note 4.12 Non-current assets held for sale (IFRS 5).

8.17 DEPOSITS

Deposits from banks and customers, including debts evidenced by certificates, are carried at amortised cost (Note 8.18 Deposits from banks, Note 8.19 Deposits from customers and Note 8.20 Debts evidenced by certificates).

For more details of these liabilities, see Note 4.13 Deposits from banks and customers, and debts evidenced by certificates.

8.18 DEPOSITS FROM BANKS

8.18.1 Geographical analysis

EUR '000	31 Dec. 2014	31 Dec. 2013
Domestic banks	884,506	796,438
Foreign banks		
CEE	78,903	79,366
Rest of the world	1,664,321	1,273,894
Total	2,627,730	2,149,698

The deposits from banks include repurchase agreements entered into by the Bank as a transferor.

8.18.2 Repurchase agreements entered into as a transferor

The repurchase agreements were of the type described by AG51(a) IAS 39, in that the assets sold under them were loaned. The Bank, as the transferor, retained substantially all the risks and rewards of ownership.

These transactions were largely tri-party repos and collateralised loans from the ECB and the Oesterreichische Nationalbank (Austrian National Bank).

A tri-party repo is a repurchase agreement between two commercial banks, the seller (transferor) and buyer (transferee), under which the collateral (securities) is delivered to a tri-party agent which also receives the cash and transfers it to the seller. During the term of a tri-party repo, legal title to the securities concerned is transferred from the transferor to the transferee. The economic ownership (cash flows, risks and opportunities) remains with the transferor.

In the case of collateralised loans from the ECB and OeNB, the collateral (securities or credit claims) is transferred from the commercial banks to the central bank. The commercial banks receive liquid funds in return, in the form of central bank money. The collateral remains their property.

As of 31 December 2014 the carrying amount of the securities transferred was EUR 1,208,582thsd (31 Dec. 2013: EUR 951,667thsd).

EUR '000	31 Dec. 2014	31 Dec. 2013
Liabilities to banks under repo agreements	770,000	685,000

8.19 DEPOSITS FROM CUSTOMERS

8.19.1 Customer group analysis

EUR '000	31 Dec. 2014	31 Dec. 2013
Savings deposits	854,071	823,641
Demand and time deposits	1,450,985	1,345,302
Public sector customers	214,697	183,354
Business customers	848,615	860,006
Housing developers	40,263	18,545
Retail customers	309,162	250,284
Professionals	38,248	33,113
Total	2,305,056	2,168,943

8.19.2 Geographical analysis

EUR '000	31 Dec. 2014	31 Dec. 2013
Domestic customers	1,746,874	1,457,057
Foreign customers		
CEE	14,984	5,283
Rest of the world	543,198	706,603
Total	2,305,056	2,168,943

The deposits from customers include *Mündelgeld* savings deposits (Austrian-style trustee savings accounts); an analysis is shown below.

EUR '000	Trustee savings accounts	Guaranteed by the state government	Requiring coverage	Cover assets	Surplus coverage
31 Dec. 2014	4,531	314	4,217	5,635	1,418
31 Dec. 2013	3,954	1,095	2,858	5,000	2,142

8.20 DEBT EVIDENCED BY CERTIFICATES

EUR '000	31 Dec. 2014	31 Dec. 2013
Covered and municipal bonds	3,836,026	3,561,946
Other bonds	4,717,027	4,601,091
Profit-sharing certificates	258	327
Total	8,553,311	8,163,364

Debt evidenced by certificates included new issues, floated during the reporting period, of EUR 1,084,583thsd.

8.21 LIABILITIES HELD FOR TRADING

The negative fair value of derivatives that do not qualify for hedge accounting is reported under this item. These items are recognised at fair value, while realised gains and losses and measurement gains and losses are reported through profit and loss as part of the net trading income (see Note 7.5 Net trading income for a detailed analysis).

For more details, see Note 4.14 Liabilities held for trading.

EUR '000	31 Dec. 2014	31 Dec. 2013
Negative fair value of derivative financial instruments (banking book)		
Interest rate derivatives	581,775	379,274
Foreign exchange derivatives	9,365	9,585
Other liabilities held for trading	-	916
Total	591,140	389,775

8.22 NEGATIVE FAIR VALUE OF HEDGES (HEDGE ACCOUNTING)

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

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

EUR '000	31 Dec. 2014	31 Dec. 2013
Assets	862,200	380,308
Loans and advances to customers	689,351	312,840
Available-for-sale financial assets	172,849	67,468
Liabilities	15,667	42,795
Deposits from banks	387	77
Deposits from customers	427	452
Debts evidenced by certificates	14,853	42,266
Total	877,867	423,103

8.23 PROVISIONS

The following items are reported under "Provisions":

- ▣ Long-term provisions for pensions and similar obligations; and
- ▣ Other provisions.

For more details, see Note 4.15 Provisions.

EUR '000	31 Dec. 2014	31 Dec. 2013
Employee benefit provisions	38,342	38,039
Provisions for pensions	25,172	24,807
Provisions for termination benefits	11,553	11,678
Provisions for jubilee benefits	1,617	1,554
Credit provisions	3,469	4,690
Other provisions	7,480	7,632
Total	49,291	50,362

8.23.1 Movements in provisions

Provisions are liabilities of uncertain timing or amount. Provisions are recognised when there is a present obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation.

The “Other provisions” are measured on the basis of estimates by independent experts, of the Bank’s experience and of discounted cash flow methods. The carrying amounts reflect best estimates of the expenditure required to settle the obligations.

EUR '000	As at 1 Jan. 2014	Exchange differ- ences	Alloca- tions	Utilisa- tion	Reversals	Discount un- winding effect	As at 31 Dec. 2014
Employee benefit provisions	38,040	-	795	-2,127	-	1,634	38,342
Provisions for pensions	24,808	-	45	-1,669	-	1,988	25,172
Provisions for termination benefits	11,678	-	609	-340	-	-394	11,553
Provisions for jubilee benefits	1,554	-	141	-118	-	40	1,617
Credit provisions	4,690	-	260	-979	-502	-	3,469
Other provisions	7,632	-	849	-191	-810	-	7,480
Total	50,362	-	1,904	-3,297	-1,312	1,634	49,291

“Other provisions” include litigation costs, including EUR 6,979thsd (2013: EUR 6,837thsd) in dispute. Generally, provisions are recognised for legal proceedings for which the outcome or any potential losses can be reliably predicted. In such cases, the provisions are recognised at a level deemed appropriate in the circumstances, in accordance with the applicable accounting principles. The provisions against legal risks from pending proceedings connected with derivatives and credit restructuring as at the end of 2013 were unchanged at 31 December 2014. A decision is expected within the next twelve months.

EUR '000	As at 1 Jan. 2013	Exchange differ- ences	Alloca- tions	Utilisa- tion	Reversals	Discount unwinding effect	As at 31 Dec. 2013
Employee benefit provisions	40,051	-	911	-2,696	-	-227	38,039
Provisions for pensions	25,527	-	54	-1,647	-	873	24,807
Provisions for termination benefits	12,721	-	686	-983	-	-746	11,678
Provisions for jubilee benefits	1,803	-	171	-67	-	-354	1,554
Credit provisions	6,535	-11	409	-450	-1,792	-	4,690
Other provisions	1,163	-	6,891	-74	-348	-	7,632
Total	47,748	-11	8,211	-3,220	-2,140	-227	50,362

8.23.2 Disclosures on employee benefits

Defined benefit obligation (DBO) is the present value of the benefit entitlements earned by employees up to the end of the reporting period.

Current service cost (CSC) shows the increase in the benefit obligation resulting from employees' service during the reporting period.

Interest cost (INT) is the effect on the DBO of the interest contribution, determined by the discount rate.

EUR '000	Provisions for pensions	Provisions for termination benefits	Provisions for jubilee benefits	Total
Present value of DBO at 31 Dec. 2012	25,527	12,721	1,803	40,051
Service cost	54	686	171	911
Interest cost	822	436	64	1,322
Payments	-1,647	-983	-67	-2,697
Actuarial gains and losses recognised in profit or loss	-	-	-418	-418
Actuarial gains and losses not recognised in profit or loss	52	-1,181	-	-1,129
Present value of DBO at 31 Dec. 2013	24,807	11,678	1,554	38,039
Service cost	45	609	141	795
Interest cost	746	369	51	1,166
Payments	-1,669	-340	-118	-2,127
Actuarial gains and losses recognised in profit or loss	-	-	-11	-11
Actuarial gains and losses not recognised in profit or loss	1,243	-763	-	480
Present value of DBO at 31 Dec. 2014	25,172	11,553	1,617	38,342

The average duration of the pension obligation is 14.5 years, that of the termination benefit obligation is 10.8 years, and the weighted average duration of both obligations is 13.3 years.

Assumptions underlying employee benefit calculations

The first table shows the present value of the DBO in respect of pensions, termination benefits and jubilee benefits as at 31 December 2014, and the service cost and interest cost, as well as the assumptions (discount rate, salary increases and pension increases) on which the calculations are based. The amounts for members of the Supervisory and Management Boards and for key management are also shown.

The other tables present sensitivity analyses which show how changes in some parameters (the discount rate, salary increases, and increases in pensions and life expectancy) would affect the DBO, CSC and interest cost (INT) recognised.

The first two calculations show the sensitivity to a change in the discount rate (+0.5%/-0.5%) with the remaining parameters unchanged. The others show the effects of the following assumptions: salary increases or reductions of 0.25%, pension increases or reductions of 0.25%, and a rise or fall of one year in life expectancy, while the remaining parameters are unchanged.

The last line of the table estimates DBO if the parameters remain unchanged from last year's.

EUR '000	Provisions for pensions	Provisions for termination benefits	Provisions for jubilee benefits	Total
Carrying amounts as at 31 Dec. 2014				
Discount rate 2.0%, salary increase 2.5%, pension increase 2.5%				
DBO	25,172	11,553	1,617	38,343
Current service cost (2015 forecast), current service cost (CSC)	46	582	143	772
Interest cost (2015 forecast), interest cost (INT)	504	243	35	782
<i>of which Supervisory and Management boards</i>				
DBO	648	1,039	38	1,725
Service cost (2015 forecast)	17	13	1	31
Interest cost (2015 forecast)	13	21	1	35
<i>key management staff</i>				
DBO	1,013	1,275	137	2,426
Service cost (2015 forecast)	27	81	14	122
Interest cost (2015 forecast)	21	27	3	51

Provisions for pensions, EUR '000	DBO	CSC	INT
Carrying amounts as at 31 Dec. 2014: +0.5% discount rate			
Discount rate 2.5%, salary increase 2.5%, pension increase 2.0%	23,886	43	598
Carrying amounts as at 31 Dec. 2014: -0.5% discount rate			
Discount rate 1.5%, salary increase 2.5%, pension increase 2.0%	26,580	51	399
Carrying amounts as at 31 Dec. 2014: 0.25% salary increase			
Discount rate 2.0%, salary increase 2.75%, pension increase 2.0%	25,205	47	505
Carrying amounts as at 31 Dec. 2014: 0.25% salary increase			
Discount rate 2.0%, salary increase 2.25%, pension increase 2.0%	25,140	46	504
Carrying amounts as at 31 Dec. 2014: 0.25% pension increase			
Discount rate 2.0%, salary increase 2.5%, pension increase 2.25%	25,781	46	517
Carrying amounts as at 31 Dec. 2014: 0.25% pension increase			
Discount rate 2.0%, salary increase 2.5%, pension increase 1.75%	24,589	46	493
Carrying amounts as at 31 Dec. 2014: +1 year life expectancy			
Discount rate 2.0%, salary increase 2.5%, pension increase 2.0%	26,343	46	528
Carrying amounts as at 31 Dec. 2014: 1 year life expectancy			
Discount rate 2.0%, salary increase 2.5%, pension increase 2.0%	24,037	46	482
Carrying amounts as at 31 Dec. 2014: previous year's discount rate			
Discount rate 3.0%, salary increase 3.5%, pension increase 2.5%	23,758		
Provisions for termination benefits, EUR '000	DBO	CSC	INT
Carrying amounts as at 31 Dec. 2014: +0.5% discount rate			
Discount rate 2.5%, salary increase 2.5%, pension increase 2.0%	10,997	551	289
Carrying amounts as at 31 Dec. 2014: -0.5% discount rate			
Discount rate 1.5%, salary increase 2.5%, pension increase 2.0%	12,157	616	192
Carrying amounts as at 31 Dec. 2014: 0.25% salary increase			
Discount rate 2.0%, salary increase 2.75%, pension increase 2.0%	11,883	600	250
Carrying amounts as at 31 Dec. 2014: 0.25% salary increase			
Discount rate 2.0%, salary increase 2.25%, pension increase 2.0%	11,236	565	236
Carrying amounts as at 31 Dec. 2014: previous year's discount rate			
Discount rate 3.0%, salary increase 3.5%, pension increase 2.5%	11,693		

The HYPO NOE Group does not have any plan assets.

8.24 TAX LIABILITIES

See narrative Note 4.10 Tax assets and liabilities for a discussion of income tax.

EUR '000	31 Dec. 2014	31 Dec. 2013
Current tax liabilities	10,753	12,454
Deferred tax liabilities	30,651	21,175
Total	41,404	33,629

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

Deferred tax liabilities were recognised in respect of the following statement of financial position items:

EUR '000	31 Dec. 2014	31 Dec. 2013
Loans and advances to customers	196,182	91,313
Risk provisions	1,131	1,014
Assets held for trading	152,161	101,019
Positive fair value of hedges (hedge accounting)	162,983	90,908
Financial investments	47,753	14,998
Other assets	3,334	3,289
Provisions	3,695	2,350
Deferred tax liabilities before offsetting	567,239	304,890
Less deferred tax assets	-536,588	-283,715
Reported net deferred tax liabilities	30,651	21,175

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

8.25 OTHER LIABILITIES

See narrative Note 4.16 Other liabilities for comments on this item.

EUR '000	31 Dec. 2014	31 Dec. 2013
Accruals and deferrals	13,724	8,332
Sundry other liabilities	90,652	57,629
<i>of which trade payables</i>	24,771	19,141
<i>of which outstanding invoices</i>	36,752	10,924
<i>of which VAT and other tax liabilities (other than income tax)</i>	5,520	6,389
<i>of which legal and consultancy costs</i>	2,916	1,997
<i>of which phantom-share-based cash incentives</i>	1,606	942
Total	104,376	65,960

8.26 SUBORDINATED CAPITAL

This item includes both subordinated and supplementary capital;
more details are provided in Note 4.17 Subordinated capital.

EUR '000	31 Dec. 2014	31 Dec. 2013
Subordinated capital	206,059	210,512
<i>of which subordinated loans</i>	1,453	-

8.27 EQUITY

See Note 4.18 Equity for details of equity (including non-controlling interests).

A summary of equity items is shown below; more detailed information is presented in the consolidated statement of changes in equity on page 115.

EUR '000	31 Dec. 2014	31 Dec. 2013
Share capital	51,981	51,981
Capital reserves	191,824	191,824
<i>of which appropriated reserve</i>	94,624	94,624
<i>of which unappropriated reserve</i>	97,200	97,200
Revaluation surplus	31,495	-19,975
Retained earnings	287,055	329,424
Parent shareholders' equity	562,355	553,254
Non-controlling interests	8,371	1,146
Total	570,726	554,400

8.28 CONSOLIDATED CAPITAL RESOURCES AND REGULATORY CAPITAL ADEQUACY REQUIREMENTS

Regulation (EU) No 575/2013 (Capital Requirements Regulations, CRR) and the Capital Requirements Directive IV (CRD IV), which came into effect in 2014, require the calculation of figures for consolidated equity and the consolidated regulatory capital adequacy requirements in accordance with IFRS, as well as with the regulatory scope of consolidation.

The significant effects on total eligible core capital are primarily the result of changes in the regulatory scope of consolidation, which does not correspond to the scope of consolidation in accordance with IFRS and also differs from the previous banking group as defined by section 30 Austrian Banking Act. The accounting standards and regulations (2014: IFRS; 2013: UGB) and the transitional provisions also affect the calculation of eligible capital in a variety of ways and to a varying degree. These effects include regulatory changes as well as additions to the scope of consolidation in the current financial year (see Note 3.1 Basis of consolidation).

The first-time application of the regulatory credit value adjustment (CVA), amendments to the regulations on deductions with regard to interests in credit institutions and financial institutions, and the adaptation of the definition of default in the standardised approach for the measurement of credit risk in line with the regulations for the internal ratings-based (IRB) approach all had a negative effect on the risk-weighted assessment base. However, the reduction in the haircut from 40% to 20% when applying the fair value approach to residential properties pledged as collateral, and the introduction of the deduction for credit risk on exposures to small and medium-sized enterprises (SMEs; see Art. 501 CRR) had a positive impact on the assessment base.

The capital resources of the HYPO NOE Group as at 31 December 2014, calculated in accordance with the CRR and the CRD IV, and the capital resources as at 31 December 2013, calculated in accordance with the Basel II regulations, are broken down as follows:

EUR '000	CRR/CRD IV 31 Dec. 2014	BASEL II* 31 Dec. 2013
Share capital, incl. premiums from 2014	136,546	51,981
Reserves, differences and non-controlling interests	408,441	520,602
Prudential filter - adjustments based on the requirements for prudential measurement	-5,057	-
Other adjustments to hard core capital	-31,485	-
Intangible assets	-742	-1,104
Hard core capital	507,704	-
Additional core capital	-	-
Core capital (tier 1 capital)	507,704	571,478
Deductions related to holdings pursuant to Art. 36 and Art. 89 CRR	-	-
Deductions pursuant to sections 23(13) and 29(1-2) Banking Act	-	-2,068
Eligible core capital	507,704	569,410
Undisclosed reserves (grandfathering)	-	5,000
Eligible subordinated debt issued by the Group's parent	81,742	90,000
Eligible subordinated debt issued by subsidiaries (incl. grandfathering)	25,312	30,000
Supplementary capital (tier 2 capital)	107,053	125,000
Deductions related to holdings pursuant to Art. 36 and Art. 89 CRR	-	-
Deductions pursuant to sections 23(13) and 29(1-2) Banking Act	-	-2,068
Eligible supplementary capital (after deductions)	107,053	122,932
Total eligible core capital	614,757	692,342
Capital requirement	331,171	332,665
Surplus capital	283,586	359,677
Coverage ratio (%)	185.63%	208.12%
Core capital ratio (Basel II) on risk-weighted assessment basis for credit risk	-	14.71%
Core capital ratio (CRR/CRD IV) on total capital adequacy requirements basis	12.26%	-
Equity ratio (Basel II) on risk-weighted assessment basis for credit risk	-	17.89%
Equity ratio (CRR/CRD IV) on total capital adequacy requirements basis	14.85%	-

Movements in the risk-weighted assessment base and the resultant capital requirements were as follows:

EUR '000	CRR/CRD IV 31 Dec. 2014	BASEL II* 31 Dec. 2013
Risk-weighted assessment base for credit risk	3,701,558	3,870,824
of which 8% minimum capital requirement	296,125	309,666
Capital requirements for open currency positions	-	-
Capital requirement for operational risk	22,986	22,999
Capital requirement for CVA	12,059	-
Total capital requirement	331,171	332,665

*The comparative figures for the year ended 31 December 2013 were not adapted to the current structure and methodology, and correspond to the published figures.

9. SEGMENT INFORMATION

The detailed assignment of companies to segments is shown in Note 3.2 Investments, and segment reporting is also discussed in Note 5. Segment information

The four segments, which are based on the structure of the Group's business activities, and the reconciliation of consolidated profit are as follows:

Gruppe Bank

This segment aggregates the income and expense items related to relationships with large customers - chiefly state and local government clients (Public Finance, Real Estate and Treasury business).

Landesbank

As in the previous reporting period, these sub-group statements are for two subsidiaries, and contain the retail and business customer operations of HYPO NOE Landesbank AG, which focuses on housing finance and funding for large non-profit housing association building projects, and the earnings contributions of HYPO NOE Versicherungsservice GmbH from its insurance brokerage business.

Leasing

This segment groups together the subsidiaries that operate in the leasing business (see Note 3.8 Lease accounting). These are IFRS subgroup financial statements for 46 (2013: 38) consolidated subsidiaries.

Other

This segment provides information on a sub-group with 26 subsidiaries (2013: 24) which are neither leasing companies nor banks.

Consolidation

This segment is used to provide information on consolidation adjustments.



9.1 BUSINESS SEGMENT INFORMATION

9.1.1 Segment profit or loss before tax

The internal segmental reporting ends with "Loss/profit for the year before tax". "Income tax expense" and "Non-controlling interests", in the Total column, reconcile the segmental analysis with the items in the consolidated financial statements. The presentation in the notes reflects internal reporting.

2014, EUR '000	Gruppe Bank	Landesbank	Leasing	Other	Consolidation	Total
Interest and similar income	533,840	64,115	26,164	2,007	-33,345	592,781
<i>of which income from investments accounted for using the equity method</i>	-2,311	-230	-643	663	-	-2,521
Interest and similar expense	-449,219	-24,924	-20,403	-2,302	31,455	-465,393
Credit provisions	-8,576	1,882	-	-23	-	-6,717
Net interest income after risk provisions	76,045	41,073	5,761	-318	-1,890	120,671
Net fee and commission income	3,132	10,895	-31	-20	3	13,979
Net trading income	-1,859	44	-	-	-	-1,815
General administrative expenses	-68,710	-48,313	-4,716	-19,724	14,371	-127,092
Net other operating income	13,476	2,459	4,495	15,789	-12,560	23,659
Net gains or losses on disposal of consolidated subsidiaries	-	-	-	-	-	-
Net gains or losses on financial assets	-55,491	-9,483	6	60	-6	-64,914
Net gains or losses on hedges	-2,499	130	-	-	-	-2,369
Net gains or losses on other financial investments	-7	-	-294	179	-1,808	-1,930
Loss/profit for the year before tax	-35,913	-3,194	5,221	-4,034	-1,890	-39,810
Income tax expense						8,822
Loss for the year after tax						-30,988
Non-controlling interests						-350
Loss attributable to owners of the parent						-31,338

Gruppe Bank

The Gruppe Bank segment reported a significant loss before tax, chiefly due to recognition of considerable impairment losses in relation to HETA bonds in 2014. Earnings were also influenced by the rise in net interest income, the low cost of risk in the lending business and the sharp increase in the financial stability contribution ("bank tax"). The net loss on investments accounted for using the equity method was mainly a result of the negative valuation of the non-profit EWU subgroup. It should also be noted that in the previous year, the positive result reported under net other operating income included a significant one-off effect from repayment of the interest penalty imposed on the Group in relation to the Augustus Funding Limited case, and the net loss on hedges reflected higher expense due to the application of a different market-standard method, OIS discounting, for pricing OTC derivatives.

Landesbank

In contrast to 2013, the Landesbank segment reported a loss in the reporting period, despite higher income from its core business (net interest income and net fee and commission income). This was primarily due to impairment losses recognised on a HETA bond.

Leasing

In 2014 the Leasing segment acquired the majority of shares in seven municipal leasing companies, acquired a leasing company and assumed the related management responsibilities. As a result, the segment's business model maintained its focus on providing project-based real estate lease finance to the public sector (for details see 3.1 Basis of consolidation).

The following factors had a significant impact on the year-on-year change in performance:

- ▣ the inclusion of eight new companies in consolidation;
- ▣ the deconsolidation of non-material leasing companies;
- ▣ typical earnings for a leasing business, arising from:
 - handovers (due to the handover of several completed projects in 2014, interest rate margins achieved during the construction phase, e.g. relating to the St. Pölten, Mistelbach and Baden-Mödling state hospitals, were recognised in the reporting period), and
 - final settlement of real estate leasing contracts.

New data processing software, which allows for automated processing of supplier invoices for construction projects, was introduced in 2014. In future, the software will be used to process all incoming invoices.

Other

Year-on-year changes were attributable to:

- ▣ the addition of project companies and the related start-up losses.

(For details see Note 3.1 Basis of consolidation.)

Impairment losses on property, plant and equipment amounting to EUR 1,396thsd were recognised at real estate companies within the segment as a result of annual impairment tests, as were impairment losses on investment property amounting to EUR 1,287thsd. Impairment losses of EUR 417thsd on HYPO NOE First Facility GmbH, a subsidiary acquired in 2012, were also recognised in the Other segment.

Altogether these effects resulted in a decline in earnings year on year.

Backhausen GmbH, an investment accounted for using the equity method, was disposed of (see Note 3.2.3 Associates and joint ventures).

Consolidation

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

2013, EUR '000	Gruppe Bank	Landesbank	Leasing	Other	Consolidation	Total
Interest and similar income	517,874	63,404	14,972	1,133	-27,408	569,974
<i>of which income from investments accounted for using the equity method</i>	-6,491	111	-112	-127	-	-6,619
Interest and similar expense	-440,725	-25,097	-11,807	-1,741	24,828	-454,542
Credit provisions	-9,284	4,523	-	-20	-	-4,781
Net interest income after risk provisions	67,865	42,830	3,165	-628	-2,580	110,652
Net fee and commission income	4,445	8,878	-31	-4	5	13,294
Net trading income	-1,014	81	-	-	-	-934
General administrative expenses	-60,779	-46,862	-4,143	-18,064	13,360	-116,487
Net other operating income	64,206	1,610	3,976	16,616	-13,161	73,247
Net gains or losses on disposal of consolidated subsidiaries	-	-	-	150	-	150
Net gains or losses on financial assets	-757	319	-20	29	-	-429
Net gains or losses on hedges	-10,832	1,848	-	-	-	-8,983
Net gains or losses on other financial investments	4,308	-12	-34	455	-205	4,512
Loss/profit for the year before tax	67,443	8,692	2,913	-1,446	-2,581	75,021
Income tax expense						-21,326
Profit for the year after tax						53,695
Non-controlling interests						-18
Profit attributable to owners of the parent						53,677

9.1.2 Segment assets and liabilities

Although HYPO NOE Landesbank has a profit and loss transfer agreement with HYPO NOE Gruppe Bank AG, the deferred tax arising from temporary differences is attributed to the Landesbank segment.

31 Dec. 2014 (EUR '000)	Gruppe Bank	Landesbank	Leasing	Other	Consolidation	Total
Assets						
Cash and balances at central banks	71,305	27,713	-	7	-	99,025
Loans and advances to banks	1,352,360	71,945	79,473	10,012	-569,744	944,046
Loans and advances to customers	9,021,937	2,043,470	2,007,847	1,496	-1,880,684	11,194,066
Risk provisions	-46,317	-61,409	-790	-45	-1	-108,562
Assets held for trading	652,995	59	-	-	-59	652,995
Positive fair value of hedges (hedge accounting)	684,262	38,019	-	-	-58,454	663,827
Available-for-sale financial assets	2,215,789	349,401	7,308	181	-327,270	2,245,409
Financial assets designated as at fair value through profit or loss	4,244	-	-	-	-	4,244
Investments accounted for using the equity method	22,851	-	2,920	1,334	-	27,105
Investment property	-	-	7,033	60,719	-	67,752
Intangible assets	650	54	38	610	-	1,352
Property, plant and equipment	6,693	7,646	636	65,938	-	80,913
Tax assets	10,841	1,507	288	637	-	13,273
Other assets	12,355	4,308	48,587	19,382	-43,116	41,515
Total assets	14,009,965	2,482,713	2,153,340	160,271	-2,879,328	15,926,960
Equity and liabilities						
Deposits from banks	2,513,322	422,138	1,928,877	125,107	-2,361,714	2,627,730
Deposits from customers	993,992	1,382,772	17,539	1,008	-90,255	2,305,056
Debts evidenced by certificates	8,237,732	471,488	258	-	-156,167	8,553,311
Liabilities held for trading	591,191	8	-	-	-59	591,140
Negative fair value of hedges (hedge accounting)	903,993	32,328	-	-	-58,454	877,867
Provisions	36,544	11,064	564	1,119	-	49,291
Tax liabilities	20,948	-195	18,086	2,565	-	41,404
Other liabilities	26,958	11,894	59,637	6,010	-123	104,376
Subordinated capital	193,910	50,696	2,907	-	-41,453	206,059
Equity (incl. non-controlling interests)	491,375	100,520	125,472	24,462	-171,103	570,726
Equity attributable to owners of the parent	491,375	100,520	117,582	23,981	-171,103	562,355
Non-controlling interests	-	-	7,890	481	-	8,371
Total equity and liabilities	14,009,965	2,482,713	2,153,340	160,271	-2,879,328	15,926,960

31 Dec. 2013 (EUR '000)	Gruppe Bank	Landesbank	Leasing	Other	Consolidation	Total
Assets						
Cash and balances at central banks	30,015	26,588	-	5	-	56,609
Loans and advances to banks	1,192,731	56,027	65,817	9,816	-551,010	773,381
Loans and advances to customers	8,709,437	1,960,373	1,549,795	482	-1,629,514	10,590,574
Risk provisions	-41,924	-68,362	-790	-79	-	-111,156
Assets held for trading	457,965	123	-	-	-123	457,965
Positive fair value of hedges (hedge accounting)	368,430	26,496	-	-	-16,988	377,938
Available-for-sale financial assets	1,891,491	321,781	7,336	217	-419,358	1,801,467
Financial assets designated as at fair value through profit or loss	4,200	-	-	-	-	4,200
Financial assets held to maturity	-	-	-	-	-	-
Investments accounted for using the equity method	28,655	1,386	11,340	3,056	-	44,437
Investment property	-	-	8,115	57,430	-	65,545
Intangible assets	949	62	93	1,068	-	2,172
Property, plant and equipment	7,598	7,613	637	70,612	-	86,460
Tax assets	-	2,807	556	511	-	3,874
Other assets	9,585	3,638	74,908	11,297	-43,148	56,280
Total assets	12,659,132	2,338,533	1,717,807	154,416	-2,660,142	14,209,746
Equity and liabilities						
Deposits from banks	2,096,002	478,297	1,558,211	125,185	-2,107,998	2,149,698
Deposits from customers	994,496	1,249,464	504	-	-75,522	2,168,943
Debts evidenced by certificates	7,985,784	433,957	327	-	-256,705	8,163,364
Liabilities held for trading	389,781	118	-	-	-123	389,775
Negative fair value of hedges (hedge accounting)	435,291	4,800	-	-	-16,988	423,103
Provisions	37,799	11,002	520	1,041	-	50,362
Tax liabilities	17,025	-	14,336	2,274	-6	33,629
Other liabilities	22,275	11,862	26,017	6,022	-215	65,960
Subordinated capital	198,703	51,809	-	-	-40,000	210,512
Equity (incl. non-controlling interests)	481,975	97,224	117,892	19,893	-162,585	554,400
Equity attributable to owners of the parent	481,975	97,224	117,275	19,364	-162,585	553,254
Non-controlling interests	-	-	617	529	-	1,146
Total equity and liabilities	12,659,132	2,338,533	1,717,807	154,416	-2,660,142	14,209,746

9.2 GEOGRAPHICAL INFORMATION

The table below breaks down the main balance sheet items into domestic and foreign business.

EUR '000	31 Dec. 2014		31 Dec. 2013	
	Domestic	Foreign	Domestic	Foreign
Loans and advances to banks	244,571	699,475	194,909	578,472
Loans and advances to customers	9,910,611	1,283,455	9,124,498	1,466,076
Available-for-sale financial assets	676,476	1,568,933	652,651	1,148,816
Financial assets designated as at fair value through profit or loss	4,244	-	4,200	-
Deposits from banks	884,506	1,743,224	796,438	1,353,260
Deposits from customers	1,746,874	558,182	1,457,057	711,886
Debts evidenced by certificates	2,994,451	5,558,860	2,984,868	5,178,495

In this breakdown, debts evidenced by certificates that relate to listed securities are presented by country of issue.

10. SUPPLEMENTARY INFORMATION

10.1 ANALYSIS OF ASSETS BY MATURITIES

EUR '000	31 Dec. 2014	31 Dec. 2013
Loans and advances to banks		
Repayable on demand	74,750	78,081
Up to 3 months	737,080	531,884
3 months to 1 year	119	30,519
From 1 to 5 years	81,922	82,428
Over 5 years	50,175	50,468
Total	944,046	773,381
Loans and advances to customers		
Repayable on demand	127,235	163,362
Up to 3 months	308,207	260,304
3 months to 1 year	851,550	797,795
From 1 to 5 years	2,908,035	3,025,959
Over 5 years	6,999,039	6,343,154
Total	11,194,066	10,590,574
Assets held for trading		
Repayable on demand	-	-
Up to 3 months	214	159
3 months to 1 year	110	-
From 1 to 5 years	27,789	27,482
Over 5 years	624,882	430,324
Total	652,995	457,965
Financial assets (held to maturity, available for sale or designated as at fair value through profit or loss)		
Repayable on demand or no fixed term	60,243	53,086
Up to 3 months	46,469	167,649
3 months to 1 year	151,750	168,850
From 1 to 5 years	1,018,248	805,929
Over 5 years	972,943	610,153
Total	2,249,653	1,805,667

EUR '000	31 Dec. 2014	31 Dec. 2013
Positive fair value of derivatives (hedge accounting)		
Repayable on demand	-	-
Up to 3 months	3	15
3 months to 1 year	4,982	11,883
From 1 to 5 years	250,054	260,962
Over 5 years	408,788	105,078
Total	663,827	377,938
Other assets		
Repayable on demand or no fixed term	19,562	6,025
Up to 3 months	10,603	9,638
3 months to 1 year	857	32,674
From 1 to 5 years	6,442	6,262
Over 5 years	1,068	1,681
Total	38,532	56,280

10.2 ANALYSIS OF LIABILITIES BY MATURITIES

EUR '000	31 Dec. 2014	31 Dec. 2013
Deposits from banks		
Repayable on demand or no fixed term	33,481	59,612
Up to 3 months	1,066,570	889,911
3 months to 1 year	208,980	139,446
From 1 to 5 years	753,322	695,969
Over 5 years	565,377	364,760
Total	2,627,730	2,149,698
Deposits from customers		
Repayable on demand or no fixed term	815,849	665,334
Up to 3 months	247,987	149,375
3 months to 1 year	595,198	491,882
From 1 to 5 years	582,622	804,944
Over 5 years	63,400	57,408
Total	2,305,056	2,168,943

EUR '000	31 Dec. 2014	31 Dec. 2013
Debts evidenced by certificates		
Repayable on demand or no fixed term	586	587
Up to 3 months	235,807	251,735
3 months to 1 year	265,549	661,441
From 1 to 5 years	4,310,064	4,048,827
Over 5 years	3,741,305	3,200,774
Total	8,553,311	8,163,364
Liabilities held for trading		
Repayable on demand	-	-
Up to 3 months	1,311	902
3 months to 1 year	166	16
From 1 to 5 years	21,481	27,605
Over 5 years	568,182	361,253
Total	591,140	389,775
Negative fair value of derivatives (hedge accounting)		
Repayable on demand	-	-
Up to 3 months	68	268
3 months to 1 year	6,465	1,026
From 1 to 5 years	69,370	51,159
Over 5 years	801,964	370,650
Total	877,867	423,103
Other liabilities		
Repayable on demand or no fixed term	14,749	13,767
Up to 3 months	17,151	12,778
3 months to 1 year	29,401	17,150
From 1 to 5 years	36,004	19,334
Over 5 years	7,071	2,932
Total	104,376	65,960
Subordinated capital		
3 months to 1 year	-	-
From 1 to 5 years	206,059	210,512
Over 5 years	-	-
Total	206,059	210,512

10.3 FAIR VALUE DISCLOSURES (IFRS 7 AND IFRS 13)

Disclosures regarding the nature and extent of the risks associated with financial instruments, additional sensitivity analyses and other disclosures form part of the risk report contained in the operational and financial review.

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

10.3.1 Fair value

Fair value is the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction.

EUR '000	31 Dec. 2014		31 Dec. 2013	
	Fair value	Carrying amount	Fair value	Carrying amount
Assets				
Loans and advances to banks	939,533	944,046	766,768	773,381
Loans and advances to customers ¹	11,254,946	11,090,701	10,517,539	10,484,213
Assets held for trading	652,995	652,995	457,965	457,965
Positive fair value of hedges	663,827	663,827	377,938	377,938
Available-for-sale financial assets	2,245,409	2,245,409	1,801,467	1,801,467
Financial assets designated as at fair value through profit or loss	4,244	4,244	4,200	4,200
Investments accounted for using the equity method	27,105	27,105	44,437	44,437
Investment property	71,584	67,752	71,501	65,545
Sundry other assets incl. non-current assets held for sale (IFRS 5)	41,478	41,515	56,280	56,280
Total assets	15,901,121	15,737,594	14,098,095	14,065,426
Liabilities				
Deposits from banks	2,628,621	2,627,730	2,119,682	2,149,698
Deposits from customers	2,309,895	2,305,056	2,153,336	2,168,943
Debts evidenced by certificates	8,757,310	8,553,311	8,231,523	8,163,364
Liabilities held for trading	591,140	591,140	389,775	389,775
Negative fair value of hedges	877,867	877,867	423,103	423,103
Other liabilities	104,338	104,376	65,975	65,960
Subordinated capital	209,938	206,059	207,078	210,512
Total liabilities	15,479,109	15,265,539	13,590,472	13,571,355

¹ Carrying value of loans and advances to customers (individually impaired)

Property, plant and equipment is measured at cost. The fair value is only stated when it differs materially from the carrying amount.

10.3.2 Fair value hierarchy disclosures

IFRS 13 applies to the categories of financial instruments established by IAS 39, as well as those recognised in accordance with other standards, and unrecognised instruments. Under IFRS 13 these financial instruments must be grouped into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of the instruments concerned.

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

Level 1: Quoted prices in active markets

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

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

Level 2: Valuation techniques based on observable inputs

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

Measurement is based on directly or indirectly observable inputs for similar assets, whereby an income approach was applied to determine the discounted value of all future payments at a specified measurement date (present value method). The interest rate curves directly observable on money and capital markets, and upward valuation adjustments for similar assets directly observable on the capital market were employed as pricing parameters.

Level 3: Valuation techniques not based on observable inputs

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

Measurement is based on directly observable and on unobservable input factors. Assets and liabilities are allocated to Level 3 owing to the material significance of unobservable input factors for measurement. With the exception of certain short-term transactions and amounts repayable on demand, an income approach was applied to determine the discounted value of all future payments at a specified measurement date (present value method). The interest rate curves directly observable on money and capital markets, and upward valuation adjustments based on internal, unobservable pricing models were employed as pricing parameters. Where the risk associated with future payments is taken into account by means of reasonable discounts, risk-free discount rates commensurate with the currencies and maturities of the bonds are applied (i.e. without upward valuation adjustments). In the case of certain short-term transactions and amounts repayable on demand, such as overdraft facilities, deposits with banks, current and savings account deposits, and other current liabilities, the carrying amount represents a reasonable estimate of fair value.

The Level 3 methodology for equity holdings (a list of AFS investments of over 20% can be found in Note 3.2 Investments) is described in the section on "Available-for-sale (AFS) financial assets" under Note 3.4 Financial assets.

Customer swaps are measured using an internal model based on the DCF method, taking account of the current interest rate and basis spread curves. Suitable models are used in the measurement of embedded options. Credit risk and counterparty credit risk (debt value adjustment and credit value adjustment) are taken into consideration when calculating the fair value of all unsecured customer derivatives. However, since issuance by customers is at

best minimal and it is thus not possible to determine credit spreads on the basis of quoted prices, the credit spreads for instruments with matching maturities are calculated using CDS index curves in line with the customer's credit rating and the sector in which the respective counterparty operates.

Measurement of investment property at cost is performed by professional assessors (income approach). Level 3 classifications are based on unobservable market data such as the multiplier (reciprocal value of the risk-weighted interest rate) for similar assets.

Property classified as inventory, which is reported at acquisition or construction cost under "Other assets", was classified as Level 3 since the fair values determined by a comparative value approach, which used unobservable market data from comparable market transactions such as gains on disposal. The carrying amount is assumed to be a reasonable estimate of fair value for the remaining other reported assets.

In the case of short-term loans and advances, as well as deposits from customers, the short time to maturity involved means that the carrying amount is likewise a reasonable estimate of fair value.

31 Dec. 2014 (EUR '000)	Total fair value	Fair value measurement		
		Level 1	Level 2	Level 3
Assets				
Loans and advances to banks	939,533	-	935,300	4,233
Loans and advances to customers	11,254,946	-	46,514	11,208,432
Assets held for trading	652,995	-	45,123	607,872
Positive fair value of hedges	663,827	-	663,827	-
Available-for-sale financial assets	2,245,409	1,785,061	197,643	262,706
Financial assets designated as at fair value through profit or loss	4,244	4,244	-	-
Investments accounted for using the equity method	27,105	-	-	27,105
Investment property	71,584	-	-	71,584
Sundry other assets incl. non-current assets held for sale (IFRS 5)	41,478	-	-	41,478
Total assets	15,901,122	1,789,305	1,888,407	12,223,410
Liabilities				
Deposits from banks	2,628,621	-	2,507,030	121,591
Deposits from customers	2,309,895	-	-	2,309,895
Debts evidenced by certificates	8,757,310	3,807,924	4,949,128	258
Liabilities held for trading	591,140	-	559,040	32,100
Negative fair value of hedges	877,867	-	877,867	-
Other liabilities	104,338	-	104	104,233
Subordinated capital	209,938	85,205	123,280	1,453
Total liabilities	15,479,108	3,893,129	9,016,449	2,569,530

Detailed information on Level 3 financial assets measured at fair value is provided in Note 10.3.3 Fair value hierarchy: Level 3 disclosures.

31 Dec. 2014 (EUR '000)	Out of level 1		Out of Level 2	
	into level 2	into level 3	into level 1	into level 3
Assets				
Available-for-sale financial assets	1,854	22,423	10,500	145,508
Total assets	1,854	22,423	10,500	145,508

The transfer of assets measured at fair value out of Level 1 and into Level 2, and vice versa, at the end of the reporting period concerns available-for-sale financial assets and is due to quoted prices in active markets either no longer being available, or becoming available, for a small number of securities positions during the reporting period. The transfer of available-for-sale financial assets out of Level 1 or Level 2 and into Level 3 resulted from observable market data becoming unavailable and the use of unobservable input factors.

31 Dec. 2013 (EUR '000)	Total fair value	Fair value measurement		
		Level 1	Level 2	Level 3
Assets				
Loans and advances to banks	766,768	-	766,768	-
Loans and advances to customers	10,517,539	-	42,935	10,474,604
Assets held for trading	457,965	-	14,969	442,996
Positive fair value of hedges	377,938	-	377,938	-
Available-for-sale financial assets	1,801,467	1,328,271	389,143	84,053
Financial assets designated as at fair value through profit or loss	4,200	4,200	-	-
Investments accounted for using the equity method	44,437	-	-	44,437
Investment property	71,501	-	-	71,501
Sundry other assets incl. non-current assets held for sale (IFRS 5)	56,280	-	-	56,280
Total assets	14,098,095	1,332,471	1,591,753	11,173,871
Liabilities				
Deposits from banks	2,119,682	-	2,119,682	-
Deposits from customers	2,153,336	-	-	2,153,336
Debts evidenced by certificates	8,231,523	4,055,767	4,175,429	327
Liabilities held for trading	389,775	-	388,860	916
Negative fair value of hedges	423,103	-	423,103	-
Other liabilities	65,975	-	-	65,975
Subordinated capital	207,078	84,368	122,710	-
Total liabilities	13,590,473	4,140,135	7,229,784	2,220,554

10.3.3 Fair value hierarchy: Level 3 disclosures

EUR '000	As at 1 Jan. 2014	Gains or losses		Pur- chases	Settle- ments	Trans- fers into/ out of Level 3	Reclas- sifica- tion	As at 31 Dec. 2014	Gains/losses rec- ognised in profit and loss for assets held as at 31 Dec. 2014
		in profit or loss	in other compre- hensive income						
Assets									
Assets held for trading	442,996	164,876	-	-	-	-	-	607,872	181,103
Available-for- sale financial assets	84,053	-54,072	67,650	35	-4,455	167,930	1,565	262,706	-44,409
Sundry other assets (incl. non-current assets held for sale, IFRS 5)	-	583	-	-	-	-	2,400	2,983	821
Total assets	527,049	111,387	67,650	35	-4,455	167,930	3,965	873,560	137,515
Liabilities									
Liabilities held for trading	916	31,185	-	-	-	-	-	32,100	-40,195
Total liabilities	916	31,185	-	-	-	-	-	32,100	-40,195

Material gains/losses on Level 3 assets, namely gains of EUR 181,103thsd (2013: losses of EUR 108,945thsd) on assets held for trading and losses of EUR 40,195thsd (2013: losses of EUR 272thsd) on liabilities held for trading are reported under Note 7.5 Net trading income.

EUR '000	As at 1 Jan. 2013	Gains or losses		Pur- chases	Settle- ments	Transfers into/ out of Level 3	As at 31 Dec. 2013	Gains/losses recognised in profit and loss for assets held as at 31 Dec. 2013
		in profit or loss	in other compre- hensive income					
Assets								
Assets held for trading	589,488	-146,492	-	-	-	-	442,996	-108,945
Available-for-sale financial assets	7,328	-383	87	2	-2,634	79,652	84,053	-232
Total assets	596,816	-146,875	87	2	-2,634	79,652	527,049	-109,177
Liabilities								
Liabilities held for trading	5,433	-4,517	-	-	-	-	916	-272
Total liabilities	5,433	-4,517	-	-	-	-	916	-272

10.3.4 Level 3 sensitivity analysis

The following disclosures are intended to show the potential consequences of the relative uncertainty inherent in determining the fair value of financial instruments for which measurement is based on unobservable parameters. The sensitivity analysis for derivatives takes into account credit spreads in the determination of the credit value adjustment (CVA) or debit valuation adjustment (DVA); for securities, changes in upward valuation adjustments based on the risk-free yield curve, and discounts on future payments are considered. Appropriate values which reflect the prevailing market conditions and the uncertainty involved in calculating measurement inputs as at the end of the reporting period were selected when determining the unobservable parameters. Based on this, a bandwidth of 10 basis points (bp) for credit spreads and upward valuation adjustments, and of 100 bp for discounted future payments, was used in the analysis presented in the table below.

The table shows the impact of changes in material unobservable input parameters on the fair value of Level 3 financial instruments. In practice, it is highly unlikely that all of the unobservable measurement parameters will lie at either extreme of the chosen bandwidth simultaneously, meaning that the estimates in the table exceed the actual element of uncertainty when calculating fair value as at the end of the reporting period. It should also be noted that the figures presented below do not represent a forecast or indication of future changes in fair value.

31 Dec. 2014 (EUR '000)	Positive changes in fair value	Negative changes in fair value
Derivatives	-	-2,657
Securities	-	-2,732
Total	-	-5,389

10.3.5 OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

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

	Financial assets/ liabilities (gross)	Reported amounts offset (gross) (-)	Financial assets reported (net)	Effect of master netting agreements (-)	Collateral in the form of financial instruments (-)	Net amount
				not offset		
31 Dec. 2014 (EUR '000)	(a)	(b)	(c)=(a)+(b)	(d)(i), (d)(ii)	(d)(ii)	(e)=(c)+(d)
Assets						
Loans and advances to customers	11,194,075	-9	11,194,066	-	-	11,194,066
Assets held for trading	652,995	-	652,995	-28,560	-68	624,367
Positive fair value of hedges	663,827	-	663,827	-457,360	-94,481	111,986
Total assets	12,510,897	-9	12,510,888	-485,920	-94,549	11,930,419
Liabilities						
Deposits from customers	2,305,065	-9	2,305,056	-	-	2,305,056
Liabilities held for trading	591,140	-	591,140	-28,560	-	562,580
Negative fair value of hedges	877,867	-	877,867	-457,360	-	420,507
Total liabilities	3,774,072	-9	3,774,063	-485,920	-	3,288,143

	Financial assets/ liabilities (gross)	Reported amounts offset (gross) (-)	Financial assets reported (net)	Effect of master netting agreements (-) not offset	Collateral in the form of financial instruments (-)	Net amount
31 Dec. 2013 (EUR '000)	(a)	(b)	(c)=(a)+(b)	(d)(i), (d)(ii)	(d)(ii)	(e)=(c)+(d)
Assets						
Loans and advances to customers	10,590,618	-44	10,590,574	-	-	10,590,574
Assets held for trading	457,965	-	457,965	-3,110	-	454,855
Positive fair value of hedges	377,938	-	377,938	-229,784	-63,672	84,482
Total assets	11,426,521	-44	11,426,477	-232,894	-63,672	11,129,911
Liabilities						
Deposits from customers	2,168,987	-44	2,168,943	-	-	2,168,943
Liabilities held for trading	389,775	-	389,775	-3,110	-	386,665
Negative fair value of hedges	423,103	-	423,103	-229,784	-	193,319
Total liabilities	2,981,865	-44	2,981,821	-232,894	-	2,748,927

10.4 DERIVATIVES

All of the derivative financial instruments are hedges of assets and liabilities, or customer derivatives.

Most hedging activities were related to interest rate and exchange risk in respect of own issues and securities, and promissory notes including certificates of deposit. Interest rate and cross currency swaps were used to hedge these instruments from the time of designation through to the maturity of underlying transaction in question. Customer derivatives and related hedges are classified as held for trading.

Currency swaps and forwards are used as economic hedges for currency positions.

Accepted, industry-standard valuation models are employed. The present value of linear derivatives (e.g. interest rate swaps, cross currency swaps, FX forwards and forward rate agreements) is calculated by discounting the replicating cash flows (the DCF method). OTC currency and interest rate options are measured using widespread option pricing models such as the Black Scholes or Hull White models.

The following table has been adapted and the previous year's figures adjusted accordingly.

EUR '000	31 Dec. 2014			31 Dec. 2013		
	Nominal value	Fair value		Nominal value	Fair value	
		Positive	Negative		Positive	Negative
Derivatives held for trading						
Interest rate	6,211,514	648,003	581,775	5,902,457	452,579	376,050
Foreign currencies and gold	138,067	4,992	9,365	152,949	5,415	8,547
Total	6,349,581	652,995	591,140	6,055,406	457,994	384,597
Fair value hedges						
Interest rate	11,829,382	659,179	864,577	11,632,835	372,224	423,130
Equity	-	-	-	2,001	243	-
Foreign currencies and gold	264,686	4,647	13,290	161,339	5,442	5,151
Total	12,094,068	663,826	877,867	11,796,175	377,909	428,281

10.5 LEASING DISCLOSURES

Finance lease disclosures (with the Group as lessor)

EUR '000	31 Dec. 2014	31 Dec. 2013
Gross investment	1,849,446	1,245,497
Minimum lease payments	1,710,926	1,153,026
Up to 1 year	125,753	84,208
From 1 to 5 years	434,952	291,358
Over 5 years	1,153,026	777,460
Unguaranteed residual value	138,520	92,471
Unearned finance income	-258,422	-156,025
Up to 1 year	-24,143	-14,818
From 1 to 5 years	-82,182	-50,711
Over 5 years	-152,097	-90,496
Net investment	1,591,024	1,089,472

Net investment in finance leases is stated under Note 8.4 Loans and advances to customers. Note 3.8 above provides a description of the accounting policies applied to this item.

The Lower Austrian state government and Lower Austrian local authorities account for approximately 98% (2013: approx. 97%) of the finance leases written.

The rest of the lessees are business customers, other public agencies and associations.

As in the previous year, about 95% of the lease assets in question were property; the remainder is accounted for by equipment, often directly related to the real estate financed by the leases.

Most of the leased properties are hospitals, care homes, office buildings and schools, while the equipment largely relates to furnishings treated as separate assets, and to medical equipment.

No impairments were recognised for outstanding minimum lease payments.

EUR '000	31 Dec. 2014	31 Dec. 2013
Minimum lease payments	1,710,926	1,153,026
Unearned finance income	-258,422	-156,025
Net present value of minimum lease payments	1,452,504	997,001
Unguaranteed residual value	138,520	92,471
Net investment	1,591,024	1,089,472

Operating lease disclosures (with the Group as lessor)

EUR '000	31 Dec. 2014	31 Dec. 2013
Future minimum lease payments on non-cancellable leases	3,044	3,458
Up to 1 year	323	332
From 1 to 5 years	1,293	1,328
Over 5 years	1,428	1,798

10.6 ANALYSIS OF ASSETS AND LIABILITIES BY IAS 39 MEASUREMENT CATEGORIES

31 Dec. 2014 (EUR '000)	Loans and receivables (LAR)	Liabilities measured at amortised cost (LAC)	Held for trading (HFT)	Designated as at fair value through profit or loss (FVTPL)	Available for sale (AFS)	Fair value hedges	Financial assets/liabil- ities at cost (at amortised cost)	Total
Cash and balances at central banks	-	-	-	-	-	-	99,025	99,025
Loans and advances to banks	944,046	-	-	-	-	-	-	944,046
Loans and advances to customers	11,194,066	-	-	-	-	-	-	11,194,066
Risk provisions	-108,562	-	-	-	-	-	-	-108,562
Assets held for trading	-	-	652,995	-	-	-	-	652,995
Positive fair value of hedges	-	-	-	-	-	663,827	-	663,827
Available-for-sale financial assets	-	-	-	-	2,245,409	-	-	2,245,409
Financial assets designated as at fair value through profit or loss	-	-	-	4,244	-	-	-	4,244
Investments accounted for using the equity method	-	-	-	-	-	-	27,105	27,105
Investment property	-	-	-	-	-	-	67,752	67,752
Other financial assets ¹	36,985	-	-	-	-	-	-	36,985
Total financial assets	12,066,535	-	652,995	4,244	2,245,409	663,827	193,882	15,826,892
Deposits from banks	-	2,627,730	-	-	-	-	-	2,627,730
Deposits from customers	-	2,305,056	-	-	-	-	-	2,305,056
Debts evidenced by certificates	-	8,553,311	-	-	-	-	-	8,553,311
Liabilities held for trading	-	-	591,140	-	-	-	-	591,140
Negative fair value of hedges	-	-	-	-	-	877,867	-	877,867
Subordinated capital	-	206,059	-	-	-	-	-	206,059
Other financial liabilities ¹	-	90,652	-	-	-	-	-	90,652
Total financial liabilities	-	13,782,808	591,140	-	-	877,867	-	15,251,815

31 Dec. 2013 (EUR '000)	Loans and receivables (LAR)	Liabilities measured at amortised cost (LAC)	Held for trading (HFT)	Designated as at fair value through profit or loss (FVTPL)	Available for sale (AFS)	Fair value hedges	Financial assets/liabil- ities at cost (at amortised cost)	Total
Cash and balances at central banks	-	-	-	-	-	-	56,609	56,609
Loans and advances to banks	773,381	-	-	-	-	-	-	773,381
Loans and advances to customers	10,590,574	-	-	-	-	-	-	10,590,574
Risk provisions	-111,156	-	-	-	-	-	-	-111,156
Assets held for trading	-	-	457,965	-	-	-	-	457,965
Positive fair value of hedges	-	-	-	-	-	377,938	-	377,938
Available-for-sale financial assets	-	-	-	-	1,801,467	-	-	1,801,467
Financial assets designated as at fair value through profit or loss	-	-	-	4,200	-	-	-	4,200
Investments accounted for using the equity method	-	-	-	-	-	-	44,437	44,437
Investment property	-	-	-	-	-	-	65,545	65,545
Other financial assets ¹	54,017	-	-	-	-	-	-	54,017
Total financial assets	11,306,816	-	457,965	4,200	1,801,467	377,938	166,591	14,114,977
Deposits from banks	-	2,149,698	-	-	-	-	-	2,149,698
Deposits from customers	-	2,168,943	-	-	-	-	-	2,168,943
Debts evidenced by certificates	-	8,163,364	-	-	-	-	-	8,163,364
Liabilities held for trading	-	-	389,775	-	-	-	-	389,775
Negative fair value of hedges	-	-	-	-	-	423,103	-	423,103
Subordinated capital	-	210,512	-	-	-	-	-	210,512
Other financial liabilities ¹	-	57,629	-	-	-	-	-	57,629
Total financial liabilities	-	12,750,146	389,775	-	-	423,103	-	13,563,024

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

10.7 DISCLOSURES ON RELATED-PARTY RELATIONSHIPS

The structure of the following table has been adapted to conform to IFRS 12, which is mandatory in the EU for financial years beginning on or after 1 January 2014, and figures from the previous year have also been presented accordingly for the purpose of comparison.

31 Dec. 2014 (EUR '000)	Investors with significant influence over the Group's parent	Non-consolidated subsidiaries (greater than 50%)	Investments accounted for using the equity method	Joint ventures in which the Company is a joint venturer	Associates and other related parties	Key management*
Loans and advances to banks	-	-	-	-	-	-
Loans and advances to customers	2,778,973	100,472	221,547	2,771	16,549	4,339
<i>of which lease receivables</i>	1,765,216	-	-	-	-	-
Equity instruments (shareholdings, etc.)	-	162	28,292	1,828	477	-
Positive fair value of derivatives	92,774	-	-	-	-	-
Other assets	254	-	-	-	-	-
Deposits from banks	-	-	-	964	-	-
Deposits from customers	30,802	595	15,751	23	6,292	4,742
Other liabilities	59	-	14	200	-	-
Guarantees provided by the Group	-	-	8,900	-	-	14
Other obligations incl. unused credit lines	597,318	7,718	9,421	20,596	33,982	852
Guarantees received by the Group	2,834,905	-	-	-	-	-
Provisions for doubtful debts	-	-	-12	-	-	-10

31 Dec. 2013 (EUR '000)	Investors with significant influence over the Group's parent	Non-consolidated subsidiaries (greater than 50%)	Investments accounted for using the equity method	Joint ventures in which the Company is a joint venturer	Associates and other related parties	Key management*
Loans and advances to banks	-	-	759	-	-	-
Loans and advances to customers	2,405,913	97,200	219,630	156,560	478,924	3,099
<i>of which lease receivables</i>	1,326,891	-	-	-	-	-
Equity instruments (shareholdings, etc.)	-	127	33,803	10,634	490	-
Positive fair value of derivatives	58,442	-	-	-	-	-
Other assets	-	-	-	-	-	-
Deposits from banks	-	-	391	-	-	-
Deposits from customers	26,539	1,793	12,385	2,043	1,895	4,937
Other liabilities	-	-	-	-	-	-
Guarantees provided by the Group	-	-	162	-	-	14
Other obligations incl. unused credit lines	655,627	3,401	20,587	271,571	-	-
Guarantees received by the Group	2,778,878	-	-	-	-	-
Provisions for doubtful debts	-	-	-	-	-	-

*Includes loans, advances and guarantees of EUR 2,059thsd extended to the Management Board and of EUR 117thsd extended to the Supervisory Board, as at 31 Dec. 2014, concluded on arm's length terms.

During the period under review, EUR 5thsd (2013: EUR 17thsd) was recognised as expenses in respect of bad or doubtful debts due from related parties.

The transfer prices charged to each other by HYPO NOE Gruppe AG and related parties are at arm's length levels. The non-consolidated subsidiaries and investments accounted for using the equity method are set out in Note 3.2 Investments.

The Lower Austrian state government holds a direct interest of 70.49% in HYPO NOE Gruppe Bank AG via NÖ Landes-Beteiligungsholding GmbH, and an indirect interest of 29.51% via NÖ BET GmbH. On account of its holding, the Lower Austrian state government exercises significant influence over the Group's parent, as shown in the table above.

The state government guarantees of loans and advances extended to third parties by HYPO NOE Gruppe Bank AG (see table above) were all concluded on arm's length terms. Use is made of the exemption from disclosure requirements under paragraphs 18 and 25 IAS 24.

Relationships with non-consolidated subsidiaries and associates (holdings in excess of 20%)

The Chairman of the Management Board, Peter Harold, is a member of the supervisory board of NÖ Kulturwirtschaft GesmbH, St. Pölten.

Members of key management are chief executives at the following companies:

CULINA Grundstücksvermietungs Gesellschaft m.b.H., FACILITAS Grundstückvermietungs Gesellschaft m.b.H., Castellum Schallaburg Grundstückvermietungs Gesellschaft m.b.H., NÖ. HYPO LEASING - Sparkasse Region St. Pölten Grundstückvermietungs Gesellschaft m.b.H., UNDA Grundstückvermietungs Gesellschaft m.b.H., VIA DOMINORUM Grundstückverwertungs Gesellschaft m.b.H., WPS-Wirtschaftspark Sieghartskirchen Gesellschaft m.b.H., Wilax Wien-Laxenburg NÖ Veranstaltungen Gesellschaft mbH, NÖ Kulturwirtschaft GesmbH and Wohnpark Schrems Liegenschaftsverwertungs Gesellschaft m.b.H. - all domiciled in St. Pölten - as well as the following companies domiciled in Vienna: TRABITUS Grundstückvermietungs Gesellschaft m.b.H., Purge Grundstücksverwaltungs-Gesellschaft m.b.H., N.Ö. Kommunalgebäudeleasing Gesellschaft m.b.H., NÖ-KL Kommunalgebäudeleasing Gesellschaft m.b.H., Quirinal Grundstücksverwaltungs Gesellschaft m.b.H. and KASERNEN Projektentwicklungs- und Beteiligungs GmbH.

Members of key management are authorised signatories at CULINA Grundstücksvermietungs Gesellschaft m.b.H. and NÖ. HYPO LEASING - Sparkasse Region St. Pölten Grundstückvermietungs Gesellschaft m.b.H. (both domiciled in St. Pölten).

Members of key management hold office at NÖ Raiffeisen Kommunalprojekte Service Gesellschaft m.b.H. & NÖ.HYPO Leasinggesellschaft m.b.H. - Strahlentherapie OG, St. Pölten.

A member of the Supervisory Board chairs the supervisory board of NÖ Kulturwirtschaft GesmbH, St. Pölten.

Relationships with entities accounted for using the equity method

The Chairman of the Management Board, Peter Harold, is a member of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

The other member of the Management Board, Nikolai de Arnoldi, is chairman of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

Members of key management hold office on the management boards of Niederösterreichische Vorsorgekasse AG and the management and supervisory boards of EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft, both domiciled in St. Pölten.

Members of key management are chief executives at the following companies:

Palatin Grundstückverwaltungs Gesellschaft m.b.H., NÖ. Landeshauptstadt - Planungsgesellschaft m.b.H., Franz-Glaser-Gasse 28 Immobilienentwicklung GmbH (all domiciled in St. Pölten), as well as Viminal Grundstückverwaltungs Gesellschaft m.b.H. and Hart & Haring Liegenschaftsentwicklungs GmbH, domiciled in Vienna.

Members of key management are authorised signatories at the following companies:

Hotel- und Sportstätten-Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG and Palatin Grundstückverwaltungs Gesellschaft m.b.H. (both domiciled in St. Pölten), and Viminal Grundstückverwaltungs Gesellschaft m.b.H., Vienna.

Members of key management hold office at NÖ. HYPO Leasing and Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG, St. Pölten.

One member of the Supervisory Board is deputy chairman of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

Relationships with parent companies

The deputy chairman of the Supervisory Board chairs, and another member of the Supervisory Board is deputy chairman of the supervisory board of NÖ Landes-Beteiligungsholding GmbH, St. Pölten.

A supervisory commissioner is the chief executive of NÖ BET GmbH and of NÖ Landes-Beteiligungsholding GmbH, both domiciled in St. Pölten.

Relationships with subsidiaries of the parent companies and companies owned by the Lower Austrian state government

Members of key management are chief executives of NÖ Landesimmobiliengesellschaft m.b.H., NÖ. Landeshauptstadt - Planungsgesellschaft m.b.H and Land Niederösterreich Immobilienverwaltungsgesellschaft m.b.H., all domiciled in St. Pölten.

The chairman of the Supervisory Board is the chairman of the supervisory board of EVN AG, Maria Enzersdorf.

A member of the Supervisory Board is the chairman of the supervisory boards of EBG MedAustron GmbH, Wiener Neustadt, and ecoplus.Niederösterreichs Wirtschaftsagentur GmbH, St. Pölten, as well as deputy chairman of the supervisory board of N.vest Unternehmensfinanzierungen des Landes Niederösterreich GmbH, St. Pölten and RIZ Niederösterreichs Gründeragentur Ges.m.b.H., Wiener Neustadt.

A supervisory commissioner is the chief executive of NÖ Holding GmbH and NÖ Immobilien Holding GmbH - both domiciled in St. Pölten - and chairman of the supervisory board of Land Niederösterreich Finanz- und Beteiligungsmangement GmbH, St. Pölten, as well as deputy chairman of the supervisory boards of EBG MedAustron GmbH, Wiener Neustadt and tecnet equity NÖ Technologiebeteiligungs-Invest GmbH, St. Pölten, and a member of the supervisory board of EVN AG, Maria Enzersdorf.

Key management in the HYPO NOE Group comprises "identified staff" and "identified staff with less material impact".

10.8 SUPPLEMENTARY DISCLOSURES PURSUANT TO THE AUSTRIAN BUSINESS CODE (UGB) AND THE AUSTRIAN BANKING ACT (BWG)

Joint and several liability for Pfandbriefstelle issues

Under section 2(1) Pfandbriefstelle Act, as member banks of Pfandbriefstelle der österreichischen Landes-Hypothek-banken, HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG are jointly and severally liable, together with the other members, for all the liabilities of Pfandbriefstelle. This liability is the same for all the member banks listed in section 1(2) of Pfandbriefstelle's articles of association and their universal successors. Under section 2(2) Pfandbriefstelle Act, the members' guarantors (the respective state governments) are likewise jointly and severally liable for all liabilities incurred up to 2 April 2003, and for all liabilities incurred between 2 April 2003 and 1 April 2007 where the maturities do not extend beyond 30 September 2017. According to Pfandbriefstelle's statutory audit report, the guarantors' liabilities as at year-end 2014 were EUR 5,538,652thsd (31 Dec. 2013: EUR 6,169,969thsd). This is approximately equal to the total liabilities of Pfandbriefstelle as at 31 December 2014. Taking into account the funds raised by Pfandbriefstelle and lent on to HYPO NOE Gruppe Bank AG, which totalled EUR 558,499thsd at the end of the reporting period (31 Dec. 2013: EUR 563,826thsd), this yields an amount of EUR 4,980,153thsd (31 Dec. 2013: EUR 5,606,143thsd) which must be disclosed pursuant to section 237(8a) Austrian Business Code. It should be noted in this context that as of 15 January 2015 the operating activities of Pfandbriefstelle were taken over by Pfandbriefbank (Österreich) AG with retroactive effect from 31 December 2013. Pfandbriefstelle is currently the sole shareholder in Pfandbriefbank (Österreich) AG.

On 1 March 2015 the FMA issued a notice imposing a moratorium on debt repayments by HETA until 31 May 2016. This led to increased risk. In line with HYPO NOE Gruppe Bank AG's liability pursuant to section 2(1) Pfandbriefstelle Act in conjunction with section 92(9) Banking Act, the Management Board resolved to finance one-eighth of the obligations of Pfandbriefbank (Österreich) AG relating to the outstanding state-government-backed HETA debt instruments affected by the aforementioned moratorium imposed by notice by the FMA. The State of Lower Austria agreed to guarantee this financing, in fulfilment of its joint and several liability as a guarantor in the meaning of section 2(2) Pfandbriefstelle Act in conjunction with section 92(9) Banking Act. For further details in respect of this agreement see Note 3.10 Risk provisions.

Contingent liability of the state of Lower Austria

Under section 1356 Austrian Civil Code, the state of Lower Austria is liable, as the deficiency guarantor, for all the liabilities incurred by HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG up to and including 2 April 2003. Liabilities incurred between 3 April 2003 and 1 April 2007 are covered by the state government guarantee unless their maturities extend beyond 30 September 2017. The guarantee does not cover liabilities incurred after 1 April 2007 or falling due after 30 September 2017. As at 31 December 2014 state government guarantees of issues, deposits and other liabilities such as subordinated and supplementary capital totalled:

- EUR 4,596,944thsd (2013: EUR 5,026,350thsd) for HYPO NOE Gruppe Bank AG, and
- EUR 257,367thsd (2013: EUR 289,184thsd) for HYPO NOE Landesbank AG,
- resulting in a combined total of EUR 4,854,311thsd (2013: EUR 5,315,534thsd) for both banks.

EUR '000	31 Dec. 2014	31 Dec. 2013
Securities admitted to trading (assets)		
no unlisted securities were held	Listed	Listed
Bonds and other fixed-income securities	1,421,504	1,502,605
Shares and other variable-income securities	4,082	-

EUR '000	31 Dec. 2014	31 Dec. 2013
Negotiable securities assigned to fixed assets		
Bonds and other fixed-income securities	1,179,153	1,123,145
Shares and other variable-income securities	4,082	-

EUR '000	31 Dec. 2014	31 Dec. 2013
Assets pledged as collateral		
Cover pool for covered bonds and public sector covered bonds (debts evidenced by certificates)	5,587,460	4,576,997
of which covering loans	5,402,955	4,394,641
of which securities	174,506	172,356
of which cash	10,000	10,000
Marketable collateral (securities) delivered to the collateral custody account with the OeNB (for deposits from banks)*	174,023	412,152
Non-marketable collateral (loans) transferred to the OeNB (for deposits from banks)*	761,457	477,369
*of which OeNB tenders	500,001	575,057
Securities pledged to the EIB (for deposits from banks)	147,691	209,103
Collateral delivered (cash) (for derivatives)	608,080	531,740

	31 Dec. 2014	31 Dec. 2013
After-tax return on assets (ratio of profit for the year to total assets)	-0.2%	0.4%

Supplementary disclosures pursuant to the Austrian Business Code

The HYPO NOE Group's rental and lease commitments amount to EUR 1,732thsd in 2015 (2014: EUR 1,611thsd) and EUR 8,700thsd in total during the 2015-2019 financial years.

Supplementary disclosures pursuant to the Austrian Banking Act

Foreign-currency assets amounting to EUR 1,629,736thsd (2013: EUR 1,747,264thsd) and foreign-currency liabilities amounting to EUR 1,768,032thsd (2013: EUR 1,805,921thsd) are included in the total assets of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG pursuant to the Austrian Banking Act.

In 2014 expenses arising from subordinated debt totalled EUR 3,176thsd (2013: 2,948thsd).

Receivables falling due within one year from bonds and other fixed-income securities amounted to EUR 90,993thsd (2013: EUR 163,336thsd), and those from bonds issued to EUR 531,732thsd (2013: EUR 667,333thsd).

10.9 TRUST TRANSACTIONS

In accordance with IFRS, trust transactions entered into by the HYPO NOE Group in its own name but for the account of third parties are not shown in the statement of financial position. Any commissions are reported under "Net fee and commission income" in the comprehensive income statement (Note 7.4, "Other fee and commission income" and "Other fee and commission expense").

No trust transactions were reported in the statement of financial position as at 31 December 2014 or 31 December 2013.

10.10 CONTINGENT LIABILITIES AND CREDIT RISK

10.10.1 Contingent liabilities

EUR '000	31 Dec. 2014	31 Dec. 2013
Acceptances and endorsements	109	327
Liabilities arising from guarantees and provision of collateral	141,731	182,221

10.10.2 Credit risk

EUR '000	31 Dec. 2014	31 Dec. 2013
Unutilised facilities	1,223,716	1,515,671

10.11 MORTGAGE BANKING IN ACCORDANCE WITH THE PFANDBRIEFGESETZ (COVERED BOND ACT)

31 Dec. 2014 (EUR '000)	Coverage required for debts evidenced by certificates	Coverage of:		Surplus coverage
		loans	financial instruments	
Covered bonds	641,896	1,343,311	22,880	724,295
Public sector covered bonds	2,860,653	4,059,644	161,626	1,360,617
Total	3,502,549	5,402,955	184,506	2,084,912

31 Dec. 2013 (EUR '000)	Coverage required for debts evidenced by certificates	Coverage of:		Surplus coverage
		loans	financial instruments	
Covered bonds	57,591	1,265,162	10,000	1,217,571
Public sector covered bonds	3,457,295	4,306,117	172,356	1,021,178
Total	3,514,886	5,571,279	182,356	2,238,749

10.12 EVENTS AFTER THE REPORTING PERIOD

On 15 January 2015, the Swiss National Bank unexpectedly decided to remove the floor of CHF 1.20 to the euro. This prompted detailed analysis on the part of HYPO NOE Group. If the expert forecasts (median exchange rate of CHF 1.05 to the euro over the next 12 months) published by Reuters on 5 February 2015 prove correct, the EUR-denominated value of foreign currency loans bearing CHF foreign exchange risk for HYPO NOE Group borrowers would increase from EUR 1.218bn - based on the ECB's EUR/CHF reference rate as at 31 December 2014 - to EUR 1.394bn - based on the expert forecast of the EUR/CHF exchange rate published on 5 February 2015.

As at 31 December 2014, the rating structure of foreign currency loans bearing CHF foreign exchange risk for HYPO NOE Group borrowers and the equivalent EUR values were as follows:

investment grade	EUR 916m
non-investment grade	EUR 262m
default	EUR 40m

Due to the strict limits on foreign currency exposure, the HYPO NOE Group does not have any significant open foreign exchange risk positions. Any potential impairment losses would mainly affect the Landesbank segment, although these cannot be estimated owing to the broad fluctuation margin of future exchange rates and uncertainty surrounding customer behaviour. The retail portfolio accounted for 8.6% of the assets of the Landesbank segment. A range of proactive measures aimed at reducing foreign exchange risk in this portfolio have already been taken.

In its recommendation of 28 January 2015, the ECB drew attention to the need for conservative dividend distribution policies, with the aim of strengthening credit institutions' equity base. In the course of its equity planning process for the 2015-2019 period, the HYPO NOE Group will thoroughly and conscientiously implement all of the proposed measures in order to fully meet the relevant statutory capital adequacy requirements.

On 1 March 2015 the FMA issued a notice imposing a moratorium on debt repayments by HETA until 31 May 2016. This led to increased risk. With regard to the holding of EUR 225m in HETA bonds backed by state governments, the Management Board allocated a risk provision of EUR 63.9m, recognised in profit or loss. In line with the Group's liability pursuant to section 2(1) Pfandbriefstelle Act in conjunction with section 92(9) Banking Act, the Management Board also resolved to finance one-eighth of the obligations of Pfandbriefbank (Österreich) AG relating to the outstanding state-government-backed HETA debt instruments affected by the aforementioned moratorium imposed by notice by the FMA. The State of Lower Austria agreed to guarantee this financing, in fulfilment of its joint and several liability as a guarantor in the meaning of section 2(2) Pfandbriefstelle Act in conjunction with section 92(9) Banking Act. For further details on this agreement see Note 3.10 Risk provisions.

In view of the moratorium imposed on HETA, rating agency Standard & Poor's (S&P) left its assessment of the probability of public support for government-related entities (GREs) unchanged, meaning that HYPO NOE Gruppe Bank AG retained its solid A rating with a stable outlook. According to S&P, this outlook reflects its view that the federal government will not place any restrictions on the federal states' support for institutions in their ownership.

On 10 March 2015 rating agency Moody's announced that the covered bond programmes of the state mortgage banks it monitors - including HYPO NOE Gruppe Bank AG - would be placed under review for downgrade in light of the FMA moratorium on HETA.

10.13 GOVERNING BODIES OF HYPO NOE GRUPPE BANK AG

The following persons were members of the Management and Supervisory boards during the reporting period:

Management Board

- Peter Harold, Chairman of the Management Board
- Nikolai de Arnoldi, Member of the Management Board

Supervisory Board

- Burkhard Hofer, Chairman of the Supervisory Board
- Michael Lentsch, Deputy Chairman
- Klaus Schneeberger
- Karl Schlögl
- Karl Sonnweber
- Engelbert J. Dockner
- Hubert Schultes
- Elisabeth Stadler (since 2 April 2014)

Delegated by the Works Council

- Hermann Haitzer
- Peter Böhm
- Franz Gyöngyösi
- Claudia Mikes

State commissioners

- Hans Georg Kramer, CFP, Federal Ministry of Finance
- Franz Ternyak, Federal Accounting Agency

Supervisory commissioners

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

St. Pölten, 2 April 2015

The Management Board



Peter Harold
Chairman of the Management Board



Nikolai de Arnoldi
Member of the Management Board

DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES

We hereby confirm that to the best of our knowledge the consolidated financial statements of HYPO NOE Gruppe Bank AG give a true and fair view of the Company's assets, finances and earnings to the maximum extent possible, in conformity with the relevant accounting standards; that the operational and financial review presents the course of the Company's business, and its results and financial condition in such a manner as to give a true and fair view of the Company's assets, finances and earnings, and that that review describes the principal risks and uncertainties to which the Company is exposed.

St. Pölten, 2 April 2015

The Management Board



Peter Harold

Chairman of the Management Board

Responsible for:

Sales & Treasury, Participations & Public Services,
Group Organisation, IT & Facility Management,
Group Real Estate Business, Unit Group ALM &
Strategic Planning, Unit Group Rating & Investor Advisory,
Group Marketing & PR, Group Human Resources,
General Secretariat & Group Compliance, Audit,
Executive Board Affairs & Group Sustainability



Nikolai de Arnoldi

Member of the Management Board

Responsible for:

Group Credit Risk Coordination,
Group Finance & Strategic Risk Management,
Ombudsman, Unit Group Tax Advisory,
Unit Group Intensive Care Mgmt,
Group Credit Services, Group Treasury Services,
Group Payment Administration &
Custodian Bank Services, Group Legal

AUDITORS' REPORT

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Hypo NOE Gruppe Bank AG, St. Pölten for the year ended 31. December 2014. These consolidated financial statements comprise the consolidated statement of financial position as at 31. December 2014, the statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, as well as the notes thereto.

Management's Responsibility for the consolidated annual financial statements and for the accounting system

The company's management is responsible for the accounting system and fair presentation of these consolidated annual financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes designing, implementing and maintaining an internal control system, where relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibilities, and description of the nature and scope of the statutory audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the laws and regulations applicable in Austria, as well as the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines, and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the auditor's assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a sound basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. Based on the results of our audit, in our opinion the consolidated financial statements to the maximum possible extent conform to the legal regulations, and give a true and fair view of the Group's financial position as at 31 December 2014, and of its financial performance and cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRSs) applicable in the EU.

Matter of Emphasis

Without qualifying our opinion, we refer to the disclosures made by the management board in the notes of the consolidated financial statements (3. Accounting and Measurement Policies, 3.10 Provision for Risks) and in the consolidated management report (Risk Report - current risk profile; Events after the reporting date) relating to the impact of the imposed suspension of payments on HETA ASSET RESOLUTION AG as stated in the notification released by the Austrian Financial Market Authority as of 1. March 2015, and the impact on the securities of HETA ASSET RESOLUTION AG held by the group and the existing joint and several liability of the group pertaining to the collective issuing body, Pfandbriefstelle der österreichischen Landeshypothekenbanken/Pfandbriefbank AG, and the related uncertainties thereof.

Opinion on the Group operational and financial review

Pursuant to statutory provisions, the Group operational and financial review is to be audited as to whether it is consistent with the consolidated financial statements and as to whether any additional disclosures it contains are not misleading with respect to the Group's position. The auditor's report must also contain a statement as to whether the Group operational and financial review is consistent with the consolidated financial statements and whether the disclosures pursuant to section 243a(2) UGB (Austrian Business Code) are appropriate.

In our opinion the Group operational and financial review is consistent with the consolidated financial statements. The disclosures pursuant to section 243a(2) Austrian Business Code are appropriate.

Vienna, 9 April 2015

Deloitte Audit Wirtschaftsprüfungs GmbH

ppa. Mag. Wolfgang Wurm m.p.

Certified public accountant

Dr. Nikolaus Müller m.p.

Certified public accountant

The consolidated financial statements bearing our audit opinion may only be published or transmitted in the version certified by us. This audit opinion relates exclusively to the complete German-language consolidated financial statements, and operational and financial review. The provisions of section 281(2) Austrian Business Code apply to other versions.

REPORT OF THE SUPERVISORY BOARD

In 2014 the Supervisory Board discharged the duties incumbent upon it by virtue of the law and the articles of association, and was kept regularly informed by the Management Board on the course of business and the state of the Bank's affairs.

The accounts and records, and the **annual financial statements, as well as the operational and financial review** to the extent that it discusses the financial statements, have been audited by the independent auditors, Deloitte Audit Wirtschaftsprüfungs GmbH. As the audit gave rise to no objections and the statutory requirements were fully complied with, the auditors issued an unqualified audit certificate. The Supervisory Board concurred with the audit findings, is in agreement with the annual financial statements for the year ended 31 December 2014 and the operational and financial review, including the dividend recommendation, submitted to it by the Management Board, and hereby approves the 2014 annual financial statements in accordance with section 96(4) *Aktiengesetz* (Austrian Companies Act).

The auditors Deloitte Audit Wirtschaftsprüfungs GmbH audited the **2014 consolidated financial statements** for compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board, which are applicable in the EU, and the Group operational and financial review for compliance with the Austrian Business Code. The audit gave rise to no objections and the auditors found that the statutory requirements had been fully complied with. In the opinion of the auditors, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2013, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs) applicable in the EU. The auditors confirmed that the Group operational and financial review is consistent with the consolidated financial statements, such that the statutory requirements for exemption from the obligation to prepare consolidated financial statements according to Austrian law are fulfilled, and issued an unqualified audit certificate. The Supervisory Board concurred with the audit findings.

St. Pölten, 17 April 2015

The Supervisory Board



Burkhard Hofer

Chairman

LIST OF ABBREVIATIONS

AFS:	available for sale	IFRS:	International Financial Reporting Standard
ALCO:	Asset Liability Committee	INT:	interest cost
ALM:	Asset Liability Management	ICS:	internal control and risk management system
GDP:	gross domestic product	IPRE:	income-producing real estate
BIRG:	Bank Intervention and Restructuring Act	IMF:	International Monetary Fund
BWG:	Banking Act	KfW:	Kreditanstalt für Wiederaufbau
CDS:	credit default swap	SMEs:	small and medium-sized enterprises
CEE:	Central and Eastern Europe	LCR:	liquidity coverage ratio
CEO:	chief executive officer	LGD:	loss given default
CFO:	chief financial officer	LIP:	loss identification period
CRD IV:	Capital Requirements Directive IV	NPA:	non-performing asset
CRO:	chief risk officer	NPL:	non-performing loan
CRR I:	Capital Requirements Regulation I	NSFR:	net stable funding ratio
CSC:	current service cost	OECD:	Organisation for Economic Cooperation and Development
CVA/DVA:	credit/debt valuation adjustment	OeNB:	Austrian National Bank
DBO:	defined benefit obligation	OffV:	Austrian Financial Market Authority Disclosure Order
EBA:	European Banking Authority	OIS discounting:	overnight index swap discounting
EBRD:	European Bank for Reconstruction and Development	OMT:	outright monetary transaction
IT:	information technology	OpRisk:	operational risk
EIB:	European Investment Bank	OTC derivatives:	over-the-counter derivatives
EIU:	Economist Intelligence Unit	OTC options:	over-the-counter options
EMIR:	European Market Infrastructure Regulation	PD:	probability of default
ESI:	economic sentiment indicator	PIIGS:	Portugal, Ireland, Italy, Greece, Spain
ECB:	European Central Bank	RICO:	Risk Management Committee
FATCA:	Foreign Account Tax Compliance Act	S&P:	Standard & Poor's
FMA:	Austrian Financial Market Authority	UGB:	Austrian Business Code
FTE:	full-time equivalent	UK:	United Kingdom
FX:	foreign exchange	USA:	United States of America
GDP:	gross domestic product	WEG:	Austrian Condominium Act
HC:	head count	WIFO:	Austrian Institute of Economic Research
IAS:	International Accounting Standard	YoY:	year on year
ICAAP:	internal capital adequacy assessment process		

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